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TRUMP'S ELECTION VICTORY CAUSES A STIR

- Share prices overshadowed by Trump and Renzi
- High expectations – but still no hard facts
- Trump's sparkle not enough to dazzle investors

The US election result of Tuesday, 8th November 2016 could mark a sea change in global politics. Contrary to what most commentators had predicted, Donald Trump's election victory delivered a boost, rather than a blow to share prices. Even though hardly any of Trump's concrete political measures are clear yet, market players seem to be fairly certain that he will succeed in stimulating economic growth, containing deflationary tendencies and revitalising consumption. This combination is music to investors' ears. If such a scenario is mixed with positive investor sentiment, it should set the stage for share prices to rise, and this is precisely what has happened. It is hardly surprising that the US stock market managed to benefit the most from investors' growing risk appetite in the wake of the US elections. The S&P 500 advanced 3.40% in local currency terms. The Swiss stock market was also fairly buoyant, finishing the month with a gain of 0.5%. By contrast, the EuroStoxx 50 comprising the Eurozone's leading companies did manage to recover from its previous lows, but still retreated 0.4% over the course of the month. Investors' willingness to buy shares was undermined by the horror scenarios of a "No" vote in Italy's forthcoming referendum on constitutional reform and the consequences for Italy's banks, which are already struggling.

One man's joy is another man's sorrow. The much-feared reflation trend in the USA triggered by the president-elect's planned fiscal and protectionist measures fuelled a sell-off in bond markets. Depending on the country in question, yields rose by as much as 0.75%, triggering a sharp fall in prices particularly for bonds with long terms to maturity. High-yield bonds and debt instruments issued by borrowers in emerging markets also came under pressure. Trump's surprise victory sent massive shock waves through currency markets as well. While the Greenback benefited from the expected increase in US interest rates, the Euro also suffered from the threat posed by events in Italy. The Swiss franc consequently lost ground against the US dollar, but gained almost 1% against the Euro.

HIGH EXPECTATIONS – BUT STILL NO HARD FACTS

Donald Trump's campaign slogan was "Make America great again". This envisages a programme to stimulate economic growth, create more jobs and counter globalisation trends. A country with such a large domestic economy as America's can certainly afford to take such a step, but in the longer run a policy geared towards greater protectionism is unlikely to produce purely positive effects. On top of that, the details of how these plans will actually be implemented are still fairly hazy. Nevertheless, Trump has succeeded in fuelling positive expectations: more jobs, higher wages, lower taxes, rising consumer spending and investments are the key ingredients that are supposed to increase the prosperity of American citizens. This programme will result in a significant amount of reflation. All this bodes well for stock markets. Irrespective of the promises of the new US administration, our fundamental model for managing asset allocation, which objectively analyses the development of effective economic data at regular intervals, also comes to a positive conclusion regarding equity investments. For the moment at least, the generous liquidity provided by central banks is the most important driver for financial markets. It remains to be seen whether Trump's announcements will be confirmed and other components in our model will take the lead.

Monetary environment: The subindicator stands at a very solid, high level and continues to signal an attractive environment for equities. Although the indicator was not entirely immune to the global rise in bond yields, central banks maintained their highly accommodative stance overall.

Industry: Mixed signals are leaving the indicator stuck in negative territory. The cyclical component of the gross domestic product is thus still failing to give equities any support. After some initial glimmers of hope, indicators from the USA slipped back again. On the other hand, industry seems to be edging out of its slump in Europe.

Consumption: Just a month ago, consumer spending figures were still very weak in the emerging markets, but there are now signs of recovery. By contrast, US consumer spending fell back a little. Sales figures for the Thanksgiving weekend, which are not yet reported in the official statistics, are encouraging, however. On balance, consumption is one of the subindicators that supports the investment case for equities.

Valuation: Generally speaking, the US quarterly figures came in much better than expected. But the improvement in corporate earnings only partly compensated the increase in share prices. As a result, the valuation has now risen to its highest level for the past two years. Viewed purely from a valuation perspective, equity markets are not attractive at present.

Trump's sparkle not enough to dazzle investors

At the end of November, our Risk Appetite indicator climbed its highest level since the end of 2012. Investor sentiment, which was already fairly upbeat in the run-up to the US elections, improved even further after Donald Trump's victory. One month ago, all five subindicators already provided a "buy" signal for equity markets. Apart from the Market Breadth component, this trend has become even more pronounced. The Market Breadth component has declined since the elections, as defensive sectors in particular only benefited marginally from the Trump effect and suffered from substantial rotation into cyclical stocks. This negative

Risk Appetite indicator: buy signal from all five risk components

	Number of Indicators	Current Signal	1 Week	1 Month	3 Months
MONEY FLOW	31	Buy	↗	↗	↗
SURPRISE EFFECT	17	Buy	↗	↗	↘
MARKET BREADTH	24	Buy	↗	↘	↘
HEDGING DEMAND	7	Buy	↘	↗	↗
MARKET RISK	37	Buy	↗	↗	↗
OVERBOUGHT / OVERSOLD		Neutral			
RISK APPETITE INDICATOR	**116**	**BUY**	↗	↗	↗

momentum eased off again in the final trading days of November, however. Even if the share price rally is based to a large extent on future hopes, there are still no signs of euphoria overall. The regional differences in investor sentiment are unusually large. While the Trump effect is in full force in the USA, the risk appetite of European investors is being spoiled by concerns about the Italian referendum. The anticipation of many potentially negative developments in European stock markets therefore contrasts with the premature acclaim for Donald Trump's future policies echoed in the performance of US stock markets.

Your Contact at Amplia & Co. AG

Mikael Rosenius
Claridenstrasse 34
CH-8022 Zurich
Tel. +41 44 286 17 41
mikael.rosenius@amplia-co.com

Jennifer Erdin
Claridenstrasse 34
CH-8022 Zurich
Tel. +41 44 286 17 42
jenny.erdin@amplia-co.com