Sun Life GLOBAL Investments

INSTITUTIONAL

TRUMP TAKES THE WHITE HOUSE *– MARKETS FALL*

SADIQ S. ADATIA
Opinions as of November 9, 2016

MARKET UPDATE

Markets hate uncertainty and tumbled after Donald Trump was elected president following a divisive campaign that left behind a divided country and a trail of questions.

The billionaire Republican candidate offered Americans a clear choice: stick largely to the status quo with rival Hillary Clinton or accept what many people see as his radical agenda, including massive tax cuts, tearing up trade agreements and building a wall along the U.S./Mexico border.

TRUMP AND THE MARKETS

Trump's economic agenda rests primarily on reducing taxes on the working and middle class and cutting the corporate tax rate from 35% to 15%. Trump hopes his tax cuts trigger a tidal wave of investment, leading to 25 million jobs over 8 years and boosting annual economic growth to the 4% range.

In an attempt to further trigger growth, he has promised to ramp up energy production and remove a number of environmental and consumer protection regulations.

While the market would embrace a more robust economy and lower taxes, by some estimates Trump's plan would dramatically reduce government tax revenues, possibly adding almost $5 trillion to the U.S deficit over the next decade. But Trump has argued that the increased economic activity generated by his combination of tax cuts and deregulation would generate enough new tax revenue to compensate.

Only time will tell if Trump's plan will work, in the meantime "uncertainty" will be the watchword in the coming weeks.

WHERE DO MARKETS HEAD FROM HERE?

The S&P 500 has been on one of its longest rallies in history. And that leaves little room for error as Trump rolls out his controversial agenda, which may lead to increased market volatility over the short term.

Trump's decision to politicize his relationship with U.S. Federal Reserve Chair Janet Yellen during the campaign could also be a market flash point. He accused Yellen of continuing the Fed's low interest rate policies simply to raise President Barrack Obama's popularity. But the Fed has been driving the recovery of the U.S. economy since the financial crisis, and Trump's approach will be closely followed by the market.

As the new administration settles into the White House, the outlook for Europe remains uncertain with negotiations surrounding Britain's withdrawal from the European Union continuing. And a series of upcoming general elections

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in the Netherlands, France and Germany could see anti-EU forces come to the fore. All this will continue to fuel a volatile and difficult environment for investors in European equities.

Trump's election could be both positive and negative for Canada in a year when the S&P/TSX Composite Index has been a top performer. If his proposed $500-billion infrastructure program boosts U.S. growth, it may also help the Canadian economy and equity market, reducing pressure on the Bank of Canada to cut interest rates. But Trump has also vowed to renegotiate the North American Free Trade Agreement. If trade with the U.S. slowed by just 10%, it would dramatically reduce Canada's economic output, causing the country's already large current account deficit to widen significantly.

ADAPTING TO THE NEW REALITY IN THE SUN LIFE GRANITE SUITE OF FUNDS

The U.S. election was just the latest contentious event markets have had to absorb this year. In June, we anticipated that the British decision to leave the EU would send markets into a nosedive. And in the months leading up to the referendum we adopted a defensive strategy, reducing equity weightings in the Sun Life Granite suite of funds.

Now we have a new president moving into the White House, while the S&P 500 hovers near record highs. We think the turmoil we saw in the run-up to the election will now be replaced by a noisy debate over how Trump intends to implement his agenda.

In the meantime, we will play defence as we re-consider our overweight position in U.S. equities in the portfolios. At the same time, given the uncertainty in Europe and lack of economic progress in Japan, we continue to be neutral to underweight in international and global equities.

So clearly there is a great deal of uncertainty in the world which will soon come back into focus. But our tactical approach allows us to quickly adapt our portfolios to changing economic and market forces.

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