



Special report

We expected a narrowly contested US presidential race

Not many could have predicted Donald Trump winning the US presidential race. We did however expect a narrowly contested race between Trump and Hillary Clinton. Although we expect that portfolio performance could be volatile over the short term, long-term return objectives still take premise over short-term variances in asset prices.

BACKGROUND TO THE ELECTIONS

Becoming President of the United States requires winning 270 of the 538 Electoral College votes allocated among the 50 states based on relative population. At 11h00 our time when Trump gave his acceptance speech he was leading Clinton with 290 electoral votes against 218. At the time of writing three states (Michigan, Minnesota and New Hampshire) and one congressional district in Nebraska still needed to finalise their votes.

Defining the exact outcomes on the economic landscape for any election is a challenge. Recent events on the domestic front and abroad have shown how brutal politics can be. And what effects these shifts can have on currencies and economies. The outcome of this US presidential election is material, because it influences investor sentiment and future public policy.

US ELECTION KEY NUMBERS

218 959 000	Total number of Americans eligible to vote
66.82%	Percentage of Americans registered to vote
57.61%	Percentage of Americans who voted in the 2012 Presidential election
270	Number of votes (each state has certain number of electoral votes) the presidential candidate needs to win the election

WHAT A TRUMP ADMINISTRATION COULD LOOK LIKE

Donald Trump is the first man to take the White House without having previously held public office or served at a high level in the military. His election would be without precedent, which makes it difficult to predict what a Trump administration would look like. He has offered some hints, however. He's mentioned that 2008 Republican vice-presidential nominee Sarah Palin would have a place in his presidential cabinet and billionaire financier Carl Icahn is a possible treasury secretary. Trump has recently toned down his comments by saying: "When I'm president, I'm a different person." He added: "When you are running the country, it's a different dialogue that goes. And we can do that easily."

That's been music to the ears of some Republican insiders, who have suggested that a Trump administration may be open to overtures from the party establishment he has often spurned.

Top priorities:

- Halting illegal immigration
- Improving border security
- Policing trade with China

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BEYOND THE POLITICAL BANTER, WHERE DOES TRUMP STAND ON ECONOMIC POLICY ISSUES

In their countless interviews and speeches before voters, those who sought to replace Barack Obama gave glimpses and outlines of what their top economic priorities in office would be and who they would appoint to help them turn those ideas into reality.

Trade: He rejects free trade and backs tariffs to protect American industry from what he calls unfair competition. Some economists warn his threats of tariffs could hurt American industries that depend on international supply chains, and potentially kick off a trade war that dents economic growth.

Taxes: He proposed a plan to slash tax rates and push millions of households off the income tax rolls with a proposed tax cut that would be nearly triple the size of the Bush tax cuts of 2001 and 2003. That plan would have reduced US tax collections by more than \$9 trillion over a decade. Trump's new plan includes a 15% business tax rate and repeal of the estate tax. He would set the top individual tax rate at 33%, down from today's 39.6%.

Debt: Trump has made a number of contradictory statements on the public debt. In March, he said that unleashing stronger economic growth would allow the US to begin paying off the national debt, something that no budget analysts deem possible right now. In subsequent interviews he said he might try to renegotiate the national debt. He reversed course days later in an interview with The Wall Street Journal, where he said he wouldn't do anything to alter the terms of that debt, which he called 'absolutely sacred'.

Fed: Trump told CNBC he was 'not an enemy' of the Fed and doesn't think Janet Yellen is doing a bad job. On monetary policy, he said Yellen 'should have raised' interest rates and suggested she hadn't for political reasons. He later switched his stance and called himself 'a low-interest rate person unless inflation rears its ugly head'.

IMPLICATIONS OF THE ELECTION

PSG Wealth research team view

	BEAR CASE 15% Landslide victory for one candidate followed by aggressive policy change	BASE CASE 70% A balanced election with slow-paced reform	BULL CASE 15% A balanced election followed by bilateral support for constructive reform
IMMEDIATE	<ul style="list-style-type: none"> Uncertainty increases Market volatility increases US bond yields shoot up Weakness in the USD 	<ul style="list-style-type: none"> No material policy changes Some market volatility Bond yields down and gold prices increase as investors take risk-off approach USD strengthens as capital flows to perceived safe-haven assets 	<ul style="list-style-type: none"> No material policy changes Uncertainty subsides No extreme market volatility Bond yields relatively stable USD strengthens as uncertainty subsides
NEAR TERM	<ul style="list-style-type: none"> Protracted period of material policy reform Market volatility remains high Consumer and investor sentiment under pressure Weaker dollar persists 	<ul style="list-style-type: none"> Consumer and investor sentiment improves as uncertainty dissipates further Well-debated reforms with slow implementation 	<ul style="list-style-type: none"> Leadership surprises to the upside Consumer and investor sentiment improves USD strengthens
LONG TERM	<ul style="list-style-type: none"> Ruling party increasingly accountable to deliver results Monetary policy action overshadows political debate and reform 	<ul style="list-style-type: none"> Political landscape remain competitive Ruling party increasingly accountable to deliver results Some challenges are overcome, others not Everything considered, conditions in the US improve Monetary policy action overshadows political debate and reform 	<ul style="list-style-type: none"> Less controversy in the political landscape Monetary policy action overshadows political debate and reform

Source: PSG Wealth research team

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WE EXPECTED A NARROWLY CONTESTED RACE

Preliminary results indicated a highly contested election between Clinton and Trump. The voting yesterday seemed to align to this expectation, especially when Clinton was ahead. However, states then began to declare for Trump one after the other. Our base case predicted a 70% probability of a narrowly contested election. In the short-term we do not expect any material policy changes, although we do expect some volatility in the markets. We further think that the US dollar could strengthen and bond yields could drop as investors seek perceived safe-haven assets. While investors have been sceptical, especially after Brexit, the successful conclusion of this election should take some uncertainty off the table.

In the near term we expect consumer and investor sentiment to improve as the focus shifts from a political debate to valuations. Also, given a balanced house of representatives, we expect well-debated reforms followed by a slow implementation of any policy changes.

The US remains a robust and well-diversified economy which has survived various trials. In the long term the majority of challenges could be overcome as the concept of democracy plays out in the Congress. We also believe that monetary policy action will overshadow political debate and reform in the near to long term.

As the focus on the political landscape dissipates, sentiment will improve leading to less uncertainty in markets. An improved US market will spill over to the

rest of the world and emerging markets like South Africa. Improved sentiment on US markets will be universally beneficial. As uncertainty is moved off the table, we expect investment demand to increase.

We will keep a close eye on any policy changes, especially around corporate taxation. If these are cut it could only bode well for after-tax earnings and equity returns.

As we stated earlier, it is a challenge to define the exact outcomes on the economic landscape for any election, especially with regards to each candidates' ability or inclinations to fulfil their promises. However, in the US the Congress plays their part - no matter how committed a candidate might be to their respective manifestos, it will be up to the Congress to decide the end result. In the days and weeks after the election, Trump will start to assemble a cabinet and start crafting a more thorough policy agenda. According to the US constitution, the new president is formally inaugurated on 20 January of the year following the election.

BOTTOM LINE

Investors can be assured that our PSG Wealth products are actively managed and adjusted to benefit from prevailing market conditions. Our managers manage well-diversified portfolios in order to protect investors from unwarranted risk. This does not mean that portfolio performance will not be volatile over the short term, but it means that long-term return objectives take precedence over short-term variances in asset prices.



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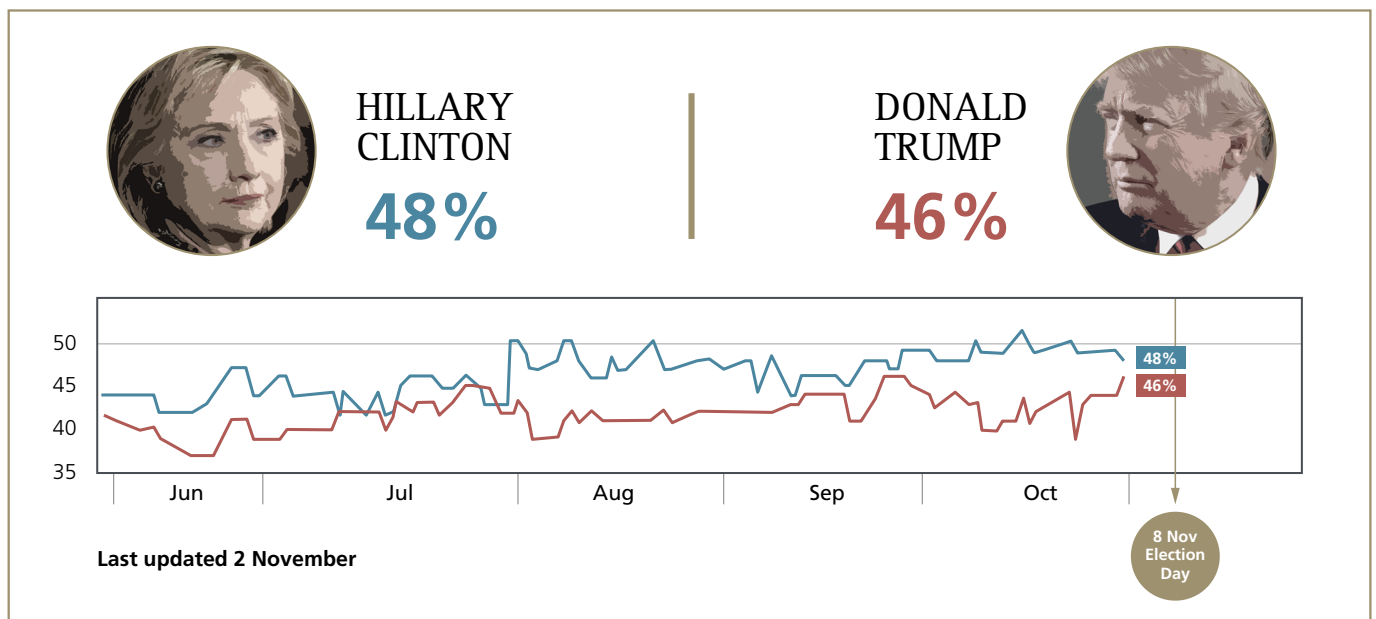
THE PRESIDENTIAL ELECTION PROCESS

Technically, to run for president of the US, you only need to be 'a natural born' US citizen, at least 35 years old, and have been a resident for 14 years. Nearly every president since 1933 has been a governor, senator or five-star military general.

FIRST THE CANDIDATES FOR EACH PARTY IS ELECTED

Starting from February, a series of elections were held in every state and overseas territory to determine who becomes each party's official presidential candidate. Democrat Hillary Clinton and Republican Donald Trump were the clear winners in 2016 and were officially nominated at their party's conventions in July. They are said to be two of the most unpopular candidates in modern American history. According to an October poll by the think tank, Real Clear Politics, Trump's unfavourability rating stood at 60%, while Clinton's was at 53%.

US election 2016: Who was ahead of the polls?*



*The BBC poll of polls looked at the five most recent national polls and takes the median value, i.e., the value between the two figures that are higher and two figures that are lower.

Source: BBC poll of poll

ABOUT 218 MILLION OUT OF 320 MILLION AMERICANS ARE ELIGIBLE TO VOTE

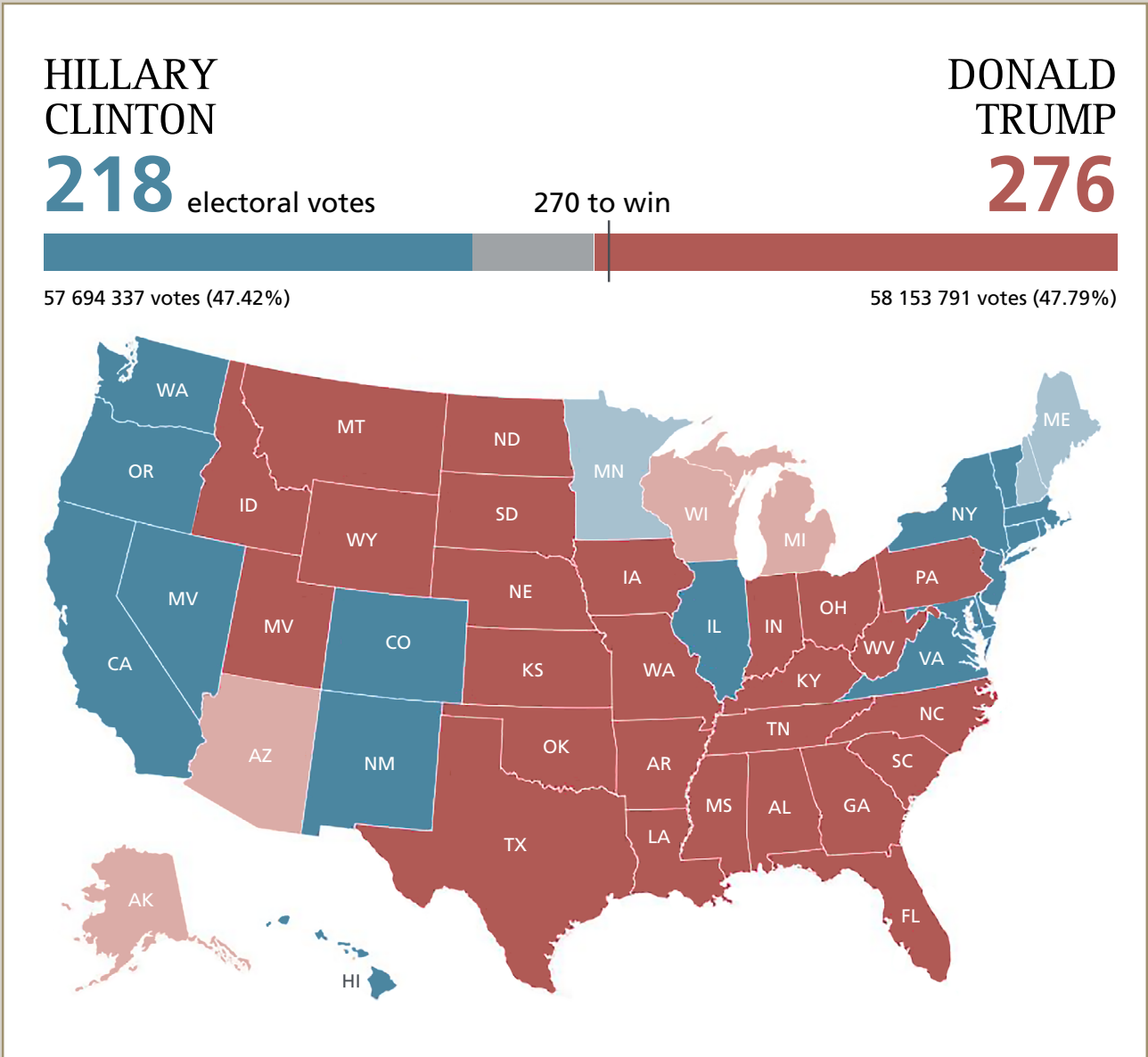
Just over 66% of these were registered to vote on 8 November. The candidate with the most votes in each state becomes the candidate which that state supports for president. Then it is all down to a system called the Electoral College, a group of people who choose the winner - 538 of them, in fact. Just half of them - 270 - are needed to elect a president. But not all states are equal - California, for example, has more than 10 times the population of Connecticut, so they don't get an equal say.

Each state has a certain number of these 'electors' based on their population in the most recent census. When citizens vote for their preferred candidate, they're actually voting for the electors, some of whom are pledged to one candidate, some for another. In almost every state (except Nebraska and Maine), the winner takes all - so the person who wins the most electors in New York, for example, will get all 29 of New York's electoral votes. In the race to get to the magic number - 270 - it's the swing states that often matter most.

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The map below shows what the voting looked like earlier this morning.



*As at 8h30 on 9 November 2016

Source: Real Clear Politics