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Keeping investments steady through 2017 political tremors

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2016 proved to be a difficult and challenging, but ultimately rewarding year for investors. Most investors will have been satisfied with a double digit return in a year which brought the vote to Brexit and the seemingly unlikely election of Donald Trump as the new President of the United States. So far, we have seen a continuation of strong markets into 2017.

However, as we move further into the New Year, we should be prepared for bouts of volatility and we anticipate that politics are likely to be a major distraction/focus of attention throughout 2017. The calendar is littered with European national elections, set against a backdrop of rising populism and anti-establishment feeling. We'll return to those later.

The year, commenced with the US presidential inauguration in January setting in place the foundation stone for the Trump era. As he settles into the presidential position, the hope is that Trump will have his eye on improving the US economic position, rather than on raising barriers.

During the run-up to the election Trump made two points clear - that he would put America first and that he had big plans to boost infrastructure spending. The markets have reacted to his stance on infrastructure and the positive impact this could have for the US in terms of potential growth and increased fiscal spending.

When it comes to barriers, the Mexico/U.S border wall promise isn't the only thing Trump is known for. If he makes good on his protectionist rhetoric, his policies could have a major bearing on the economies of places like China, Korea and Mexico. Trump does not need to secure congressional approval to act on his pledge of ripping up international trade deals including the North American Free Trade Agreement or to raise tariffs charged on imported goods from Mexico and China. Many commentators are predicting trade wars in the months ahead but how the situation will play out in reality remains to be seen.

Back in the UK, now that MPs have agreed to the Brexit timetable, Article 50 is still set to be triggered by the end of March. Towards the end of 2016, we saw EU member states reiterating their rigid stance on UK withdrawal – giving an indication of a bumpy road ahead. The government will need to satisfy the demands of both the EU and UK parliament as negotiations advance, no doubt paving the way for delayed progress and protracted bargaining.

So far, the economic fall-out from the referendum result has been minimal, confounding those who feared a significant downturn in the aftermath of the vote to leave and leading the Bank of England to admit to its own 'Michael Fish moment' in regards to its warning of a 'technical recession'. The economy has performed well, with consumer spending in particular, remaining robust. Time will tell whether the Bank of England's decision to cut interest rates in the summer was prudent or unnecessary. The most immediate consequence of the referendum decision has been the sharp fall in the value of the pound, which, while aiding the cause of exporters, will push up the costs of imported goods and materials. As a result, the rate of inflation is likely to move higher over the next twelve months with a dampening effect on consumer spending and, consequently, economic growth.

Elsewhere, on the European political scene, we have the Dutch election in March, coming as the far-right Party for Freedom (PVV) leads the ruling liberal party in the polls. The French election follows in May, which might result in a win for hard talking reformist Francois Fillon who took the conservative ticket by a landslide or even Marine LePen, president of the far-right Front National party and self-proclaimed 'anti-establishment' candidate. Both outcomes would throw the EU into a new era of uncertainty, to differing extents.

We also have Germany going to the polls in the autumn, as ultra-nationalism continues to gain traction and, even at this early stage, fears of Russian interference and manipulation abound.

All of these developments are likely to impact upon currencies and bond markets, and we could see a further division of fortunes in dollar vs euro zones. Sterling is stuck in the middle meaning it may be vulnerable to bouts of weakness.

If the US economy does progress under Trump, the environment will likely be a good one for equity investors. Equities need some earnings growth to drive levels higher without stretching valuations, but we need to be mindful that this asset class is probably under-owned and valuations could go higher near term as investors re-engage after a very long term bull-run in bond markets.

As ever, we remain poised to support clients through continuing market uncertainty and geo-political upheaval, as Brexit negotiations progress, Trump takes to office and the outcomes of the various European elections transpire. In-depth market analysis plays an essential role here, ensuring that, no matter how the global economy shifts, opportunities can be identified and exploited.

By ensuring our clients have diversified and flexible portfolios in place and by always keeping our sights on their long-term investment goals, we will stand them in good stead for any twists and turns that may lie-ahead.

Investors should remember that the value of investments, and the income from them, can go down as well as up. Investors may not recover what they invest. Past performance is no guarantee of future results.