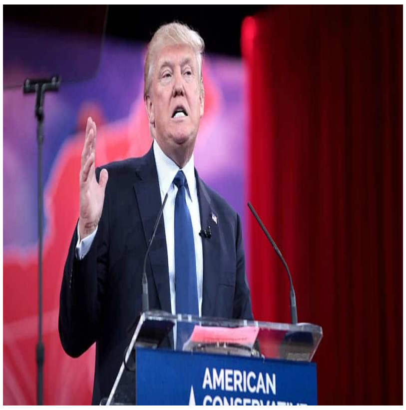

Will Shares Outperform Property, Bonds, and Cash After Trump's Victory?

Description

Although national elections hold great importance for every country in the world, Donald Trump's election victory affects us all. The US economy is the largest in the world and the old saying that when the US sneezes, the world catches a cold still rings true. As such, Trump's impact on the US economy will have an effect on investors across the globe.

Since the election, global stock markets have been relatively buoyant. The crash which was meant to take place if Trump won has not happened and it seems to be a case of 'business as usual' for most economies. However, the reality is that Trump has not yet taken office and so it is unsurprising that stock markets have been relatively stable.

Once he takes office, though, share prices are likely to become increasingly volatile in the short run. In fact, a stock market correction or period of gradual decline would not be a major surprise, since Trump could turn his back on years of free trade agreements. For example, in the election campaign Trump promised to get tough on China, to rebalance free trade agreements and even impose tariffs on imported goods to help protect US jobs. All of these policies could lead to uncertainty surrounding the outlook for global GDP growth and lead to share price declines over the coming months.

However, such a situation could prove to be an excellent buying opportunity for long term investors. It could be a good time to buy companies with strong balance sheets and a competitive advantage over their peers while they trade at discounted valuations. Certainly, volatility may be high but share price fluctuations are unlikely to be a concern for long term investors.

Trump's policies could also lead to higher inflation in the US. His intention to tax less and spend more could help to reverse the global deflationary cycle which has been a key feature of the world economy since the credit crunch. This could make shares even more appealing compared to cash and bonds, since shares offer a superior inflation hedge. As such, shares could have a higher real return than cash or bonds during a Trump Presidency.

Similarly, property may begin to lack appeal if, as expected, Trump's economic policies revitalise the US and world economies. Property has been seen as a reliable, defensive asset in recent years, as investors have adopted a somewhat cautious mentality. However, if Trump is able to stimulate the US economy through higher spending in particular then it could lead to a sustained and powerful bull market in global equities which makes the return on property seem disappointing in comparison.

As such, shares seem to be a superior investment than property, as well as bonds and cash. Clearly, share prices across the world could be volatile in the short run as Trump begins his process of major change for the US economy. However, over the medium to long term a higher risk appetite among investors plus a revitalised US economy could mean that the returns on shares easily beat those of cash, property and bonds.

CATEGORY

1. Investing

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