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FQ INSIGHT:

From the Desk of Jeppe Ladekarl - The Sun Will Rise Tomorrow

November 09, 2016

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The American voters have spoken and we now (mostly) know the outcome of the Presidential, the Senate and Congressional elections. The result was a clean Republican sweep with a Republican president and majorities in both the House and the Senate, giving the US a single-party government for the first time since 2010. Normally, that kind of clean sweep comes with increased certainty as the plans laid forward by the winning side during the campaign can be implemented with little resistance from the other side. But this was no normal election. We know very little about the actual policy proposals of President-Elect Trump, and have little history to go by as a guide. This is the first time the American voters have elected a presidential candidate that has neither held elected office or military posts in the past. In addition, we have a presidential candidate with little developed relationship with the Republican leaders in Congress, much less Congress as a whole. This relationship – or rather lack of relationship - lowers the prospects for wholesale policy or legislative changes ever making it to Trump's desk for signature. All in all, with a president that in many ways bears little resemblance to other elected Republicans, we may actually face a period with more domestic policy-making gridlock than most seem to expect right now.

With that backdrop, and using a variant of an admittedly tired expression, the only thing we can be certain of is that we are facing a period of heightened policy and economic uncertainty – uncertainty that will stay with us past the January 20th Inauguration Day. On that point, we agree with most of the commentary that you have likely already read too much of today; however, whether this uncertainty will translate into heightened market volatility in the short to medium term is not a given. Looking at the aspects of economic policy that are more likely to face early changes than others (including inter alia, trade policy, fiscal policy - both income and expenditure, Fed leadership, and deregulation in a number of areas), there is no clear aggregate directionality on the impact on macro outcomes (growth, inflation, rates, etc.) that we can point to with certainty. Of course, changes will come, as we would also have expected in the case of a Clinton win; however, the US system through its checks and balances favors incrementalism when it comes to domestic policy, and we have no reason to believe this time is going to be different.

Any change in political leadership, particularly in one of the major world economies, warrants careful and ongoing evaluation of the potential impact on the efficacy of our investment models and the risk we are taking in the portfolios, and this leadership change is no different in that

Past performance is no guarantee of future results. Potential for profit is accompanied by possibility of loss.

regard. However, given this particular outcome, the potential for geopolitical disruptions is higher than we would have expected in the case of a Clinton win – so that particular area is one we are going to watch even more carefully.

Our currency portfolio had seen less opportunity than normal ahead of the election, and as such, we had been running risk at below-target levels. The overnight impact was, for that reason, muted. In addition, the portfolio's aggregate positioning was not tied to the outcome of the election. Holding long positions in the New Zealand dollar, the US dollar and the euro against short positions in the Japanese yen and Swedish krona meant that the outright exposure to a risk event that would come from holding a more carry-oriented portfolio (either long or short) was limited. The long positions in both the USD and the EUR limited the exposure to a US-centered (either positive or negative) risk shock. As a consequence of this well-diversified set of positions, the portfolio returns, intra-day, swung between moderately down to slightly up, ending slightly down at the beginning of trading in New York.

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