THE TRUMP EFFECT: FUNDS THAT WON IN THE WAKE OF US ELECTION SHOCK

Following Donald Trump's shock victory in the US election, we look at some of the funds that managed to ride the wave and outperform in the immediate aftermath


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On 9 November, the world entered a state of shock (warranted or not) as it became clear Donald Trump was going to win the US presidential election. Campaigning on a ticket of high infrastructure spending and low tax, his victory has brought about some significant changes to financial markets.

CONTRARIAN CONQUEST

So which funds made the most of the immediate aftermath of this most divisive of candidate's victory? We have identified the top five performing funds between 8 and 9 November in the UK All Companies sector and the UK Equity Income sector.

Speaking to some of the managers of these funds has revealed what enabled them to outperform on the day. That process has shed light on how the financial world has altered in the wake of this unexpected victory and how an 'enormous change in the market' may be afoot.

John Innes manages the RWC UK Focus fund, whose B GBP share class returned 1.87% on the day. His tone, though, was not triumphalist. 'We weren't necessarily positioned for a Trump win,' he said. 'We try to avoid big macro calls of a binary nature.'

RWC's UK equity mantra is 'Contrarian at birth, momentum during life'. The RWC website said: 'Our approach is biased towards investing in companies in less favoured areas of the market, but where we deem fundamental dynamics are improving.'

This contrarian approach certainly bore fruit on 9 November. Innes said his team had targeted companies with big pension fund deficits, such as BAE Systems, GKN and IAG, that had been de-rated on the back of low bond yields.

Innes added: 'Trump's history is of boom and bust, of borrowing lots of money. The market has thought US bonds are not the place to be. And his policies are very inflationary.'

PERFECT MIX

Inflationary expectations can lead bond prices to fall (and, conversely, yields to rise). This is because investors need to be compensated for the fact the bonds (and their coupons) will be worth less in real terms in the future.

Innes pointed out fund holdings such as Barclays benefited from the steepening yield curve. Quite simply, rising rates enable banks to make more money and get more of a spread between their lending and borrowing.

Innes' fund also holds builders CRH and Balfour Beatty, which should benefit from increased infrastructure spend. He also had very little exposure to utilities and consumer staples, bond proxies that declined along with bonds themselve

GOLD RUSH

Ian Williams manages the Elite Charteris Premium Income fund, whose R Income share class topped the UK Equity Income sector on the day. He puts this down to his exposure to commodities shares: 'Our equity fund had a big weighting in base and precious metals stocks.'

Williams' explanation for the rise in commodities stocks chimes with Innes' comments. 'Usually, bonds go down when commodities go up,' said Williams. 'It's a sign deflation is coming to an end and the inflation cycle is starting, which benefits commodities and hits bonds.'

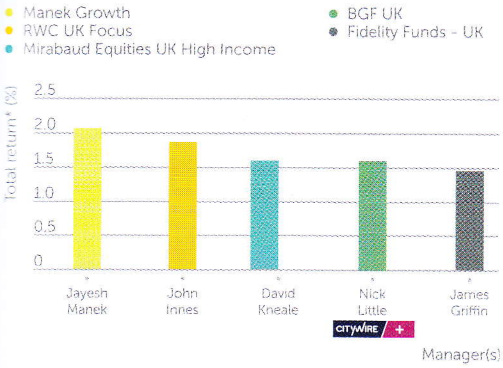
Williams said he expected such a scenario regardless of whoever won the race to the White House. 'Trump was the catalyst of this, not the cause he said. 'A lot of this was happening before Trump and I thought it would happen even if Clinton got in

BANKING BOOST

Ian Butler's JP Morgan UK Strategic Equity Income fund benefited from being overweight industrials 'which would benefit from increased infrastructure spend'. Holding Barclays, HSBC and Lloyds also boosted his fund's performance on the day. He said 'We are overweight one of the most contrarian sectors in the market: banks.'

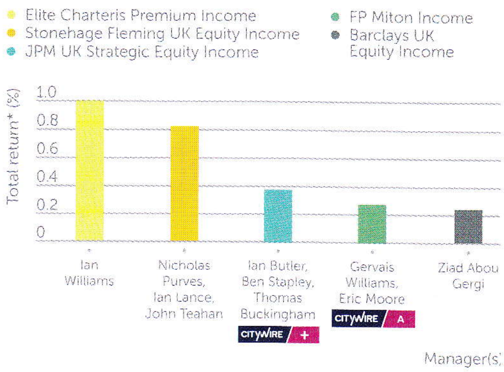
Innes pointed out the Trump win had been interpreted by the markets as reflationary and moving from monetary to fiscal stimulus. 'This had led to a real change in the leadership of the marke from the expensive consumer staples companies to the financials and more cyclically oriented companies,' he said. 'What has happened might just be an enormous change in the market.'

TOP PERFORMERS IN THE UK ALL COMPANIES SECTOR
Source: Citywire



*Performance in GBP for 9 November 2016.

TOP PERFORMERS IN THE UK EQUITY INCOME SECTOR
Source: Citywire



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