The Lady and the Trump

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There is a strong argument to be made in investment for focusing on fundamentals and looking through short-term political noise. We therefore believe that investors should generally take a medium-to-long-term time horizon when putting their money in the markets.

However, in an environment where policymakers continue to dictate asset prices, managing volatility in portfolios has become more important, meaning short-term risks can sometimes take precedent.

One such risk currently generating prominent headlines is the 2016 US presidential election. Unlike in previous years, the outcome of this election could prove to be a significant market event.

However, positioning portfolios to protect against potential volatility is extremely difficult. While Hilary Clinton has a voting track record that can be assessed and verified, the same cannot be said of Donald Trump – and this creates uncertainty. In Trump's own words: "I'm totally flexible on very, very many issues. All policy proposals are just flexible suggestions."

The only asset class that has exhibited a strong correlation with a Trump victory has, perhaps unsurprisingly, been the Mexican peso, which has fallen as Trump's odds of becoming President have grown. Although Clinton has accelerated in the polls since September, this is a two-horse race, and the outcome could be decided by results in a handful of swing states.

With this in mind, investors may wish to take profits in equity markets that have performed particularly strongly. US equity market valuations, in particular, look expensive, having delivered returns of over 60% to sterling investors over the past three years. This may therefore be an opportunity to switch into other regional markets. On the other hand, US equities can be more defensive than other equity markets during periods of volatility.