POINT OF VIEW SERIES

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Donald Trump Elected President of the United States

NOVEMBER 2016

On the heels of Brexit, Donald Trump's election to the presidency of the U.S. marks the second significant populist outcry through the ballot box. Although we are concerned about Mr. Trump's rhetoric on free trade and other policies, we believe that some of the positions expressed during the campaign may ultimately benefit U.S. economic growth. The immediate pronounced downward move across risk assets, however, denotes justifiable uncertainty, as do now diminished expectations that the Federal Reserve (Fed) will raise rates in December. The weeks and months ahead will be critical to determine and analyze policy priorities as an administration is assembled and lines of communication with Congress are established.

Flight to Quality Dominates Overnight Trading

In the near term, policy uncertainty will weigh on risk assets, including U.S. equities, high-yield corporate credit, and even investment-grade corporates. Perhaps most acutely impacted will be emerging market stocks, currencies and sovereign debt. However, the post-election flight to quality will benefit U.S. Treasurys, as evidenced by yields compressing during overnight trading. We expect the U.S. dollar to come under near-term pressure, while the Japanese yen and even the euro will benefit as investors seek safe-haven currencies.

A Trump Administration May Foster Growth

Despite the immediate market reaction, we believe risk assets may soon recover. With a divisive election season over, formulating policy now turns to the art of the possible. As the Republican Party will control both houses of Congress, a Trump administration should have fewer roadblocks to passing legislation. We expect priorities will be infrastructure spending and tax cuts. Both may serve as a hand-off from accommodative monetary policy to the much-desired fiscal expansion that central bankers have long advocated for. An expansion of federal spending may provide sufficient support for the economy, allowing them to move toward rate normalization.

The outlook for select equity sectors may also be positive. The increased infrastructure spending promised by Mr. Trump will benefit the industrials sector. We are also moderately bullish on the financials sector, and anticipate that regulations in the sector could loosen at the margins. The energy sector could also outperform as Mr. Trump appears to be a greater advocate for U.S. energy exploration than was Secretary Clinton. We also believe that the outlook for the health care sector is more positive than it would be in the event of Secretary Clinton being elected, and that there is a low probability for sweeping changes in drug pricing legislation.

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- In the near term, policy uncertainty will weigh on risk assets, including U.S. equities, high-yield corporate credit, and even investment-grade corporates. Perhaps most acutely impacted will be emerging market assets.
- We believe risk assets may soon recover. Increased infrastructure spending will benefit the industrials sector, and we are also moderately bullish on the financials sector.

Additionally, we do not believe that Mr. Trump's campaign promise to abolish the Affordable Care Act will be feasible.

Over the longer term, the stimulative fiscal initiatives of a Trump administration, along with growth that may be delivered from other policies, may lead to economic expansion conducive to equities. While an increase in fiscal spending could help accelerate growth, it would also exacerbate the already challenged U.S. fiscal position and limit the decline in Treasury yields. Accompanying such growth may be an increase in inflation that could put upward pressure on yields. However, given the interest rate differentials among developed markets, we believe such an upward move in Treasury yields would be capped as foreign capital continues to flow into higher-yielding U.S. securities.

While these are our initial thoughts, the Janus Fundamental Fixed Income and Growth Equities teams will closely monitor political developments over the coming months. Historically, incoming administrations enjoy a so-called "honeymoon period" after inauguration, and often the first year in office proves to be the most effective. As this process unfolds, our investment professionals will continuously examine developments and determine how the economy, sectors and individual companies will be impacted by a shifting landscape; we remain true to active management and our focus on company fundamentals. During this period our investment teams will provide additional Points of View, keeping our clients and the broader investing public apprised of how we plan to navigate America's new policy landscape.

Which U.S. sectors might outperform or underperform, in the three months after the election?

	Outperform	Underperform
Health Care	50%	50%
Discretionary	45%	**55%**
Staples	**60%**	40%
Financials	**55%**	45%
Real estate	50%	50%
Utilities	30%	**70%**
Materials	**68%**	32%
Industrials	**65%**	35%
Energy	**58%**	42%
I.T.	**70%**	30%
Telecommunications	32%	**68%**

From 11/9/16 to 2/8/17, % of people voting
Source: Janus Capital Internal Survey 10/16

What could the markets do on November 9th and where could they be six months later?

	11/9/16	5/10/17
Equity Markets		
Asia	↓ Down	— Flat
Europe	↓ Down	— Flat
U.S.	↓ Down	↓ Down
EM	↓ Down	↓ Down
Currency Markets		
EUR/USD	↑ Up	↓ Down
JPY/USD	↑ Up	↓ Down
Fixed Income Markets (Yield)		
Japan	— Flat	— Flat
Australia/Canada	— Flat	— Flat
Europe	— Flat	— Flat
U.S.	↓ Down	↓ Down
EM	↑ Up	↓ Down
Commodities		
Crude	↓ Down	↑ Up
Gold	↑ Up	↑ Up

Source: Janus Capital Internal Survey 10/16

C-1116-5760 11-30-2017 666-15-44279 11-16