It's the investment process, stupid!

It did come as a surprise to us and many other people that Donald Trump won the presidential election in USA. Initially markets reacted negatively, especially in Asia. However, by the time the European markets opened Trump had made his acceptance speech and calmed the nerves with his very toned down rhetoric. At the end of the day European and US indices finished the day up and the US$ was down only slightly against Sterling and the Euro.

What implications does this have for our portfolio, the TB Saracen Global Income & Growth Fund? Do be honest, not a lot. We are very bottom up driven stock pickers. Our process leads us to invest in market leaders that can grow top line, earnings and dividends and will experience a revaluation over the medium term. While we are not driven by top down macro we do expect the global economy to grow at low rates for the next few years. We are not concerned about a global recession.

Going into the election we had the most cyclically positioned portfolio in decades. We started selling bond proxies in the staples space about 18 months ago as we believe these shares are too expensive for the growth they offer. We also expected bond yields to rise, regardless of who would win the oval office. This theme has started to pay off and we expect it to gain momentum in the coming months.

On the other side the fund is pretty fully weighted in financials, healthcare and industrials. Financials is almost a pair trade to the staples theme as rising bond yields will help the fundamentals of banks and insurance companies. Banks have been largely recapitalised, have less leverage and bigger capital buffers than they had in the last 10 years and are out of favour with investors. We believe at current valuations these shares are attractive investment opportunities for us.

Our exposure to healthcare has been increasing since the start of the year. Pharmaceutical shares have not reacted like other defensives bond proxies. The main reason was the concern over a Hillary Clinton presidency and a consequent crack down on drug pricing. However, we were less worried about a potential political intervention as Clinton would have not had the support from the Senate or the House of Representatives. We felt that healthcare stocks had been overly penalised. Again, our holdings are fundamentally solid companies, with strong pipelines and attractive valuations. We would have expected a positive contribution to our performance over the medium term even with a Clinton presidency.

Industrials will benefit from increased infrastructure spending, which was a policy for both candidates and should happen not just in the US but also in Europe.

Saracen Fund Managers has a very rigorous process in place. We have a long-term investment horizon and forecast out 5 years, which helps us identify things that the market is not looking at today. Our analysis is bottom up and we try to see through the noise. As was the case with Brexit it is important to stick with your process and not panic. We believe our portfolio is full of fundamentally strong and attractively valued investments that will deliver regardless who is running the largest economy in the world. We only slightly tweaked our portfolio in the aftermath of Brexit and we are not intending to change it now after the US election. The point of having a process is to stick to it. This has proved to be a profitable approach for us. It also helps our clients to structure their portfolios and have visibility in any market condition.

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