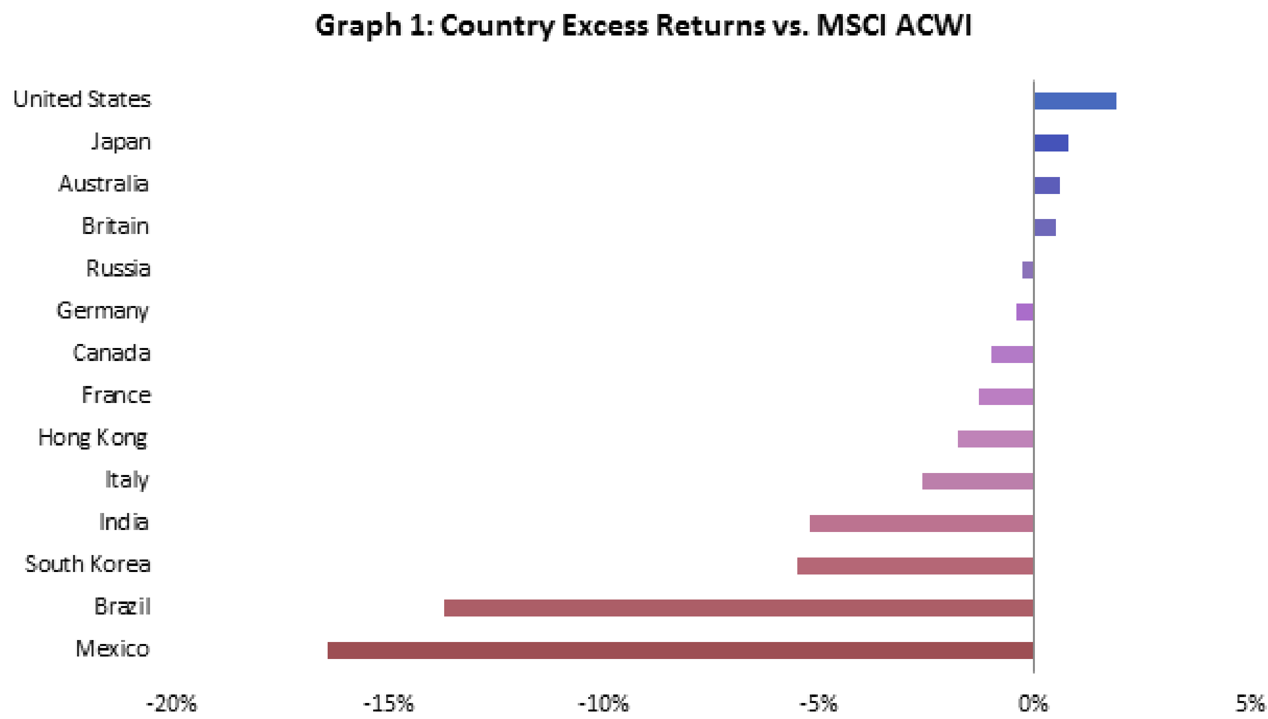
Winners and Losers: Post-Election Market Environment

By Manifold Partners, subadvisor to the American Independence Multi-Manager International Fund

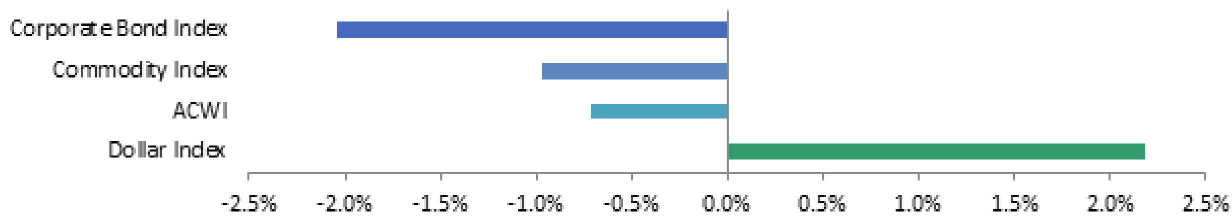
Global markets wasted little time reacting to the surprising results of the U.S. Presidential Election. As it became increasingly clear that Republican Donald Trump was the winner, U.S. index futures sold off sharply late Tuesday night and into Wednesday morning. By the open of trading Wednesday, nearly all losses had been recovered and stocks opened higher, beginning an impressive two-day rally. Other developed markets have had smaller reactions, both positive and negative.



Source: MSCI; for the period from 11/9/16 to 11/14/16

Market gyrations aside, there are clear winners and losers in the eyes of investors in these early days. Bond yields soared as investors perceived Trump's economic plan for infrastructure build-out and lower taxes as a source of both economic growth and inflationary pressure. The U.S. Dollar rallied strongly on higher bond yields, while rate-sensitive and defensive economic sectors underperformed the global stock indices.

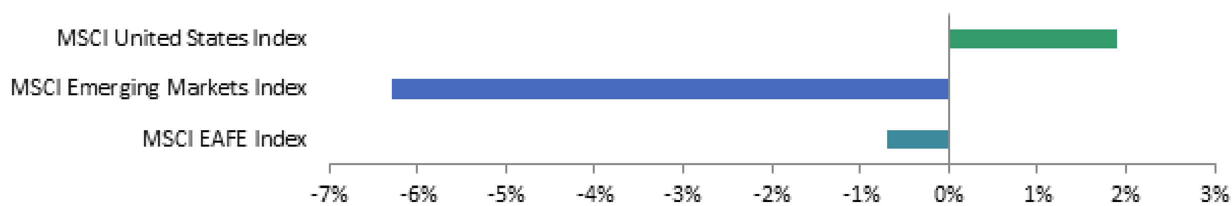
Graph 2: Asset Class Returns



Sources: S&P GSCI, Bloomberg, MSCI; for the period from 11/9/16 to 11/14/16

Emerging markets debt and equity indices have paid a strong early price from a combination of higher U.S. rates, fears of protectionist trade policies, and concerns of tougher U.S. immigration policies. While developed market indices have shown relative calm in the aggregate, individual sectors have responded strongly to perceptions of benefitting or suffering from policies proposed by President-Elect Trump.

Graph 3: Global Stock Returns

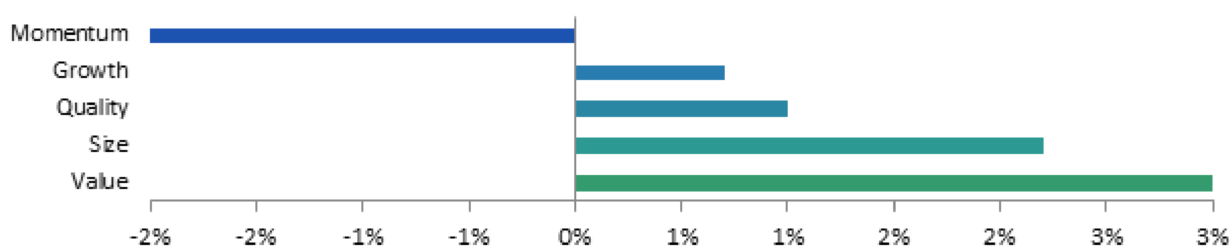


Source: MSCI; for the period from 11/9/16 to 11/14/16

Financial stocks were the leaders on talk of deregulating the sector, and hopes of improved earnings on higher interest rates and spreads. Health Care had a strong, positive reaction initially on expectations of deregulation and perhaps repeal of the Affordable Care Act, but has since pared gains. Technology has been the lone growth-oriented sector to not participate in the rally, based on apparent concerns of trade and immigration policies.

Consistent with sector rotation, Style risk factors have also experienced sharp rotation as Size (small companies) and Value have experienced strong returns at the expense of Momentum.

Graph 4: Style Factor Excess Returns vs. MSCI U.S.



Source: MSCI; for the period from 11/9/16 to 11/14/16

In contrast to several years of low volatility, central bank easing, and high correlation across stocks and sectors, we expect a "noisy" environment as markets and sectors adjust to new uncertainties. This combination of danger and opportunity will likely create a rich environment for active managers to differentiate themselves relative to benchmarks and peers.

Please see index definitions at the end of this article.

Benchmark Definitions

The **Bloomberg Global Investment Grade Corporate Bond Index** is a rules-based market-value-weighted index engineered to measure the investment-grade, fixed rate, global corporate bond market. Eligible denominations include: USD, GBP, CHF, EUR, NOK, SEK, AUD, CAD and JPY. To be included in the index, a security must have a minimum par amount of USD 250 million, GBP 200 million, CHF 100 million, EUR 250 million, NOK 500 million, SEK 500 million, AUD 200 million, CAD 100 million, JPY 20,000 million and have a maturity of greater than 1 year at rebalancing.*

The **MSCI All Country World Index (MSCI ACWI)** is a free, float-adjusted market capitalization weighted index that is designed to measure the equity market performance of 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries. The index covers approximately 85% of the global investable equity opportunity set.*

The **MSCI Australia Index** is designed to measure the performance of the large and mid cap segments of the Australia market. With 72 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Australia.*

The **MSCI Brazil Index** is designed to measure the performance of the large and mid cap segments of the Brazilian market. With 60 constituents, the index covers about 85% of the Brazilian equity universe.*

The **MSCI Canada Index** is designed to measure the performance of the large and mid cap segments of the Canada market.*

The **MSCI EAFE Index** is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.*

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of 23 emerging market countries.*

The **MSCI France Index** is designed to measure the performance of the large and mid cap segments of the French market. With 74 constituents, the index covers about 85% of the equity universe in France.*

The **MSCI Germany Index** is designed to measure the performance of the large and mid cap segments of the German market. With 55 constituents, the index covers about 85% of the equity universe in Germany.*

The **MSCI Hong Kong Index** is designed to measure the performance of the large and mid cap segments of the Hong Kong market. With 44 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of the Hong Kong equity universe.*

The **MSCI India Index** is designed to measure the performance of the large and mid cap segments of the Indian market. With 74 constituents, the index covers approximately 85% of the Indian equity universe.*

The **MSCI Italy Index** is designed to measure the performance of the large and mid cap segments of the Italian market. With 24 constituents, the index covers about 85% of the equity universe in Italy.*

The **MSCI Japan Index** is designed to measure the performance of the large and mid cap segments of the Japanese market. With 318 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.*

The **MSCI [South] Korea Index** is designed to measure the performance of the large and mid cap segments of the South Korean market. With 107 constituents, the index covers about 85% of the Korean equity universe.*

The **MSCI Mexico Index** is designed to measure the performance of the large and mid cap segments of the Mexican market. With 27 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Mexico.*

The **MSCI Russia Index** is designed to measure the performance of the large and mid cap segments of the Russian market. With 21 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Russia.*

The **MSCI United Kingdom [Britain] Index** is designed to measure the performance of the large and mid cap segments of the UK market. With 112 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.*

The **MSCI USA Index** is designed to measure the performance of the large and mid cap segments of the US market. With 617 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.*

The **S&P GSCI® Commodity Index** is recognized as a leading measure of general price movements and inflation in the world economy. The index — representing market beta — is world-production weighted. It is designed to be investable by including the most liquid commodity futures, and provides diversification with low correlations to other asset classes.*

The **U.S. Dollar Index (DXY)** is a measure of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.*

*Indices do not incur fees and expenses and are not available for purchase.

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