Managers Anticipate Brighter Future Under Trump

Stockholm (HedgeNordic) – Following unexpected market rallies and prospective key appointments seen as favourable to the industry after Donald J. Trump's election victory, hedge fund managers are warming to the president-elect and betting that his some of his proposed policies, such as promised spending on infrastructure, may sustain stock market gains in the longer run.

Abandoning the caution that, as HedgeNordic reported, led many managers to err on the side of Mrs Clinton prior to the election (in fundraising terms, at least), nearly three-quarters of fund managers polled by Preqin since the election expect lower corporate tax rates to provide a big boost to the markets, with half seeing their U.S.-based assets also receiving a lift.

Spirits are also lifted by the presence of former and current hedge fund managers on and around Mr. Trump's transition team, including the prospect of Steven Mnuchin, a former hedge fund manager and partner at Goldman Sachs, as a leading candidate for secretary of the Treasury. Other figures in Mr Trump's orbit include famed managers Anthony Scaramucci, John Paulson, Rebekah Mercer and Carl Icahn. "Donald is so much better for our economy long term than Hillary would have been," Mr Icahn reportedly gushed.

Expected interest rate hikes from the Federal Reserve are not seen to hurt the anticipated recovery. "The earnings impact of a Trump presidency will outweigh the increase in interest rates," says Steven Einhorn, vice chairman of Omega Advisors with $4 billion in AUM, who also expects the S&P 500 Index to rise between 6 and 8% next year in a, by his account, conservative estimate.

Hedge funds have scrambled to buy financial and health care stocks, with bank stocks, biotech and health insurers gaining considerably since election day. As previously reported by HedgeNordic, Nordic funds are among them, with Norway's Sector Asset Management rearranging portfolios to bet on bank, energy and materials stocks in anticipation of fiscal stimulus, and the Rhenman healthcare equity fund seeking to capitalize on hospital stocks where it disagrees with valuations.

Infrastructure spending on America's failing bridges and tunnels is expected to provide among the strongest boosts. For example, Bloomberg reports that hedge funds have stopped shorting Danish cement firm FLSmidth & Co. A/S amid investors bracing for a construction boom following Mr Trump's election. Short interest in the Danish firm, which makes mining equipment and cement production lines fell to 3.1%, 6% down from before Mr Trump's election and the lowest level of short interest since 2009. Bets against FLSmidth represented about 23% of shares outstanding as recently as September 2015, marking a remarkable reversal of fortune for the company.

And while Mr Trump has promised to abolish the tax treatment of so-called "carried interest" loophole, which applies to many managers and which is treated as capital-gains income, therefore rendering it eligible for a substantially lower tax rate by comparison to the top individual tax rate, his conflicting plan to reduce the tax rate on individuals who receive income from business partnerships, a category many managers fall into, also sets minds at ease. In addition, industry experts foresee such changes to affect mainly large, long-term private equity funds than hedge funds as a whole.

There are clouds on the horizon, however. Managers are also aware, for example, that a trade war with China and/or Mexico could hurt the U.S. in markets they invest in. And Francois Perrin, PM of

East Capital, foresees a “Trump environmental paradox” if, as Mr Trump has promised, the U.S. withdraws from the Paris agreement on climate change, which could lead to the necessity of substantial allocations to China in global environmental portfolios with US and European environmental players weakened in the next cycle.

Mr Trump has demonstrated a disingenuous ability to change his mind on a swathe of policy issues without suffering mortal political effects (thus far), both during the campaign and during his transition period, so how he will actually govern and how markets will react in the longer run remains to be seen. For the time being, however, many managers and markets have reacted far more positively than they themselves anticipated they would.

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