Nordic hedge fund managers comment on US election

Stockholm (HedgeNordic) – The American people have spoken and voted Donald Trump into the White House as their 45th President (elect). This decision came as a surprise, overturning earlier predictions which had Senator Clinton on the books as a safe bet. There you go!

HedgeNordic invited Nordic hedge fund managers to submit views and comments on the US election and its outcome and possible consequences. We did not specify or narrow down and therefor have a mix of general thoughts and opinions on the outcome, more specific to trading strategies, portfolio, performance, markets and positioning. Here´s what they had to say:

Miikka Hautamaki – Gramont Capital (Helsinki)

> "The Trump victory will mean heightened uncertainty and continued market volatility. We would expect equity markets broadly to continue to correct lower, as this comes against a backdrop of high equity market valuations, weak fundamentals, and continued earnings headwinds.
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> We welcome the increased volatility, as we have historically performed well under turbulent market conditions. As of November 9th, the Fund is up approximately 4% for the month. In our view, these types of equity market dislocations provide attractive investment opportunities, particularly in our Special Situations strategy.
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> In the short term, the Trump victory may derail growth. This may be accompanied by higher treasury rates given expectations of wage inflation via immigration controls, trade protectionism, and fiscal spending. However, it is too early to draw longer term conclusions, as we wait for details on Trump's policies on trade, tax, foreign policy, healthcare, and immigration. For Europe, the near-term economic impact of protectionist trade policy is obviously negative. The geopolitical impact, in terms of defense and security arrangements, could be significant. Europeans may see the US as a less reliable alliance partner.
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> In terms of monetary policy, given the uncertainty, the Fed may be on hold in December. The implied probability of a December hike is down notably. Furthermore, Trump's criticism of Fed Chair Yellen may also have an impact on the future composition of the FOMC.
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> Once things settle, we believe there are positive drivers for the equity markets too. Republican control of the White House and both houses of Congress may provide a platform to push for major expansion of infrastructure spending. An overhaul of the tax code is likely too and may include a bipartisan deal to repatriate foreign earnings to fund federal infrastructure spending.

However, the election does highlight that political risks remain elevated. Looking ahead, the Italian referendum will take place in December. In our view, the markets may need to price in the risk of further EU fragmentation. “

Bjørn Holta, Analyst – Alchemy Trading (Oslo)

There is opportunity in differentiating the short versus medium-term consequence of a Trump presidency. Using Brexit as a playbook for navigating equity markets will only backfire, especially because money managers will have to unwind risk-off and tail hedges initiated into the U.S elections. Negative factors pre-inauguration will be roadblocks coming not only from the exiting Obama administration, but political backlash from the Federal Reserve. Quite understandably, the FED has a preferential bias for the DNC from a continuity perspective. As a political bargaining tool, the FED will be incentivized to implicitly guide higher rates on that dot plot, compared to a status-quo Clinton presidency.

The most important feedback loop implicit in a Trump presidency over the medium-term remains public spending and private capex. That may sound quite consensus, but Trump’s motivation for lower the corporate tax rate to 15% needs to be better appreciated by the markets. This should trigger repatriation of U.S multinational cash deposits of up to 3 trillion USD and imply a stronger U.S economy and international capital market dislocations as a direct consequence. On a more practical note, we see trading opportunities in the Danish drug sector on Clinton being out of the picture. A status-quo Republicans controlled Senate and Donald Trump imply little motivation to immediately upset the public pricing schemes on high-priced drugs and therefore is clearly positive for biotech and drug companies. Let us not forget Martin Skhkreli of Daraprim infamy, he is not scheduled to stand trial until June 2017, implying some drug sector reprieve from bad publicity from the U.S mainstream media.

Catella Fund Management Team (Stockholm)

We awake on November 9 to news that Donald Trump has won the US presidential election. This is causing concern in the financial markets, and below is a concise picture of how we are positioned in each of our funds. Do not hesitate to contact us if/when you have any questions.

Catella Hedgefond

- Net exposure to the stock market is close to zero
- Allocation of bonds is about 36 % government, local authority, covered mortgage bonds, and cash for the total hedge fund, 17 % investment grade and 16% high yield

- The utilisation of risk is generally in the lower range (measured as VaR)

Catella Avkastningsfond, Catella Corporate Bond Flex and Catella Credit Opportunity

- All hold high liquidity
- Have no holdings in CoCos
- The utilisation of risk is generally low in the fixed-income funds compared with the historical range

Catella Nordic Long Short Equity

- Net exposure to the stock market about 24 %
- Overweight in cyclicals
- Normal risk utilisation (around +/- 30 %)

– Given that all products have normal or low utilisation of risk there is no need for drastic action
– All products have a higher proportion of liquidity than normal
– Maintaining respect for the difficulty to predict market movements in the short term
– The geopolitical risks are increasing, and market focus on politics will rise. Next in line is the Italian election in December
– Central banks will continue to pursue expansionary policies
– Fed hikes in December will be brought into question

IPM Informed Portfolio Management (Stockholm)

With the results from the US elections now decided, global markets are digesting the implications of a Trump Presidency. Whilst volatility in markets initially spiked, markets appears to have calmed down after Trump adopted a more conciliatory tone in his acceptance speech, and the level of volatility has so far not matched the turmoil seen after the Brexit vote.

The impact on the IPM Systematic Macro Fund have so far been positive – the portfolio is up around 0.6% at the time of the writing of this update. The largest negative impact on the portfolio has been the long position in the Mexican Peso, which saw a dramatic drop following the election result, and from the Directional portfolio and its long equity exposure. This has been mitigated by the Developed Currency portfolio, which has delivered very strong gains from long positions in the JPY and EUR, and further gains from short positions in AUD, NZD, SEK, and CAD.

Volatility will likely remain elevated and the short-term results may hence fluctuate. That said, with the fundamental rooting of the strategy, these fluctuations are unlikely to affect the positioning to any significant extent in the immediate aftermath of this election.

Juuso Mykkänen, Portfolio Manager – JOM (Helsinki)
Funds managed: JOM Silkkitie Asia Fund & JOM Komodo Indonesia Fund.

As Trump's policies are still a large question mark, it is difficult to predict what will happen.

We do not see any large effects on Asian domestic driven economies on Trump's victory. However, there may be some uncertainty on large export countries given Trump's election speech rhetoric on import tolls from China etc. Trump's foreign policy is still a large question mark. Thus, more uncertainty on North-Asian countries (including China) and less so on South and SE-Asian countries, who do not export to the US so much.

Vietnam: TPP (Trans-Pacific Partnership) will not go through. This was already mostly in the price in Vietnam as Hillary Clinton was also against TPP.

Indonesia: export account for only 23% GDP while export to the US account only for 10% of total exports

As Trump is a "*deal*-maker", who understands money, there may be more bilateral agreements between Asian countries and the US.

Overall there will be no changes in our approach to the markets. Today we have been buying and continue buying tomorrow as attractive opportunities have popped up.

Andreas Julin – QQM (Stockholm)

It is important to stress that QQM has a disciplined systematic approach to investing, meaning the Fund's positioning is not an expression of the fund manager's personal views of the market at any particular point in time. We anticipated a lot of volatility around the election but contrary to what most experts forecasted for early Wednesday morning, the election results landed remarkably softly.

The QQM Equity Hedge employs a market neutral and zero beta approach which most often counts for less portfolio volatility during extreme market events such as Brexit or the US election. The Fund is built up of 10 geographically market neutral portfolios. Given the protectionist winds that are blowing across Europe, having a geographically neutral exposure reduces the potential country specific risk that we have seen an increase in over the last couple of years. Brexit, Greece, and the Swiss central bank's decisions to drop the peg to the euro back in 2014 are three very good examples of such country risk, and we think there is more to come in this respect.

It is not our 'thing' to make forecasts about the market, and besides, most experts' predictions were hardly accurate directly after Brexit illustrating the difficult nature of forecasting quite well. Now the situation is even more complex, with geopolitical risk as a possible new factor to take into consideration.

What we can see though is that earnings momentum on an aggregate European level is rather weak, and rising stock market have stretched the valuations. It remains to be seen what Trump delivers on his talk about suspending trade deals but further protectionism will be a challenge for many export dependent European companies suffering from already weak earnings trends.

QQM Equity Hedge is not dependent on market direction to generate returns. On the contrary, volatility, uncertainty and dispersion is something that we have a history of benefitting from.

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