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US election has global effects

The election of US president Donald Trump has ramifications for the global market but the consequences for Asia may be even more pronounced.

Since Mr Trump's victory, there have already been significant market rotations, with Asian markets selling off. Such a reaction is understandable, particularly if president Trump follows through with his anti-globalisation rhetoric.

Growth in Asia has been driven by the expansion of international trade and any moves to close off US borders will adversely affect regional growth. With the threat of trade wars brewing, it is advisable to take a cautious stance on export and trade-related investments.

While many of the policies upon which Mr Trump staked his campaign are unlikely to happen, his rhetoric on trade is already being implemented via Twitter after he threatened a "big tax" on General Motors if it continues to import cars made in Mexico.

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The real impact for Asia, however, is the US withdrawal from the Trans-Pacific Partnership – indicative of the anti-trade sentiments in the West.

The situation is different in Asia, where leaders are focusing on another trade pact – the Regional Comprehensive Economic Partnership (RCEP), which includes the 10 South-East Asian countries plus China, India, Japan, Korea, Australia and New Zealand.

While the US is a significant loss, the RCEP nations have a collective population of more than three billion and a GDP comprising approximately 30 per cent of the world’s total. Stronger intra-regional trade may well make up for that which is potentially lost from the US.

Another real concern for Asia is whether the US opts to maintain a military presence in the region. On the campaign trail, Mr Trump was vocal about having other nations help fund US overseas bases. Any withdrawal of US troops could increase geopolitical risk.

In fact, a US military withdrawal could be playing into China’s hands. The country’s recent initiatives – One Belt, One Road and the establishment of the Asian Infrastructure Investment Bank – all form part of a strategy to increase its political and economic influence.

The US dollar has rallied since Mr Trump’s victory and could strengthen if his reflationary policies pan out, putting pressure on the Fed to hike rates faster than expected. As a result, weaker balance sheet currencies like the Malaysian ringgit and the Indonesian rupiah, which enjoyed gains in the first three quarters of the year, have suffered sell-offs. The good news for Asia is that there could be a limit as to how much further the US dollar can appreciate, as a strong US dollar is not really in America’s best interests.

In North Asia, Taiwan has been a lone bright spot. Looking ahead, the region is likely to continue facing headwinds as a large part of it is plugged into the global manufacturing supply chain and is at risk from the anti-globalisation movement. In contrast, South-East Asian markets led the way in 2016 with Thailand, Indonesia and Vietnam the top-three performers.

The Philippines stockmarket has suffered a de-rating since president Duterte took office in May 2016. However, valuations are now more reasonable. Both Vietnam and the Philippines are expected to enjoy 6 per cent GDP growth in 2017.

India is also a preferred market. Prime minister Modi's de-monetisation policy led to a cash crunch that will, no doubt, affect the economy for the next few quarters, while corporate earnings will take a temporary hit. For investors, though, this sell-off presents a buying opportunity.

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