PERSPECTIVE

Emerging Markets and a Trump Presidency: No Need to Panic

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The US presidential election resulting in a victory for Donald Trump has many potential implications for markets around the world, including emerging markets. When it became clear that Trump would emerge the winner, stock markets echoed the shock many US voters felt. Emerging markets were particularly volatile. Relations between the United States and Mexico—Latin America's second-largest economy—were a focal point for Trump's campaign amid promises to build a larger border wall to reduce immigration and to nullify the North American Free Trade Agreement (NAFTA), which also includes Canada. Trump's victory caused the Mexican peso to plunge to a record low against the US dollar the day after the election, and Mexico's equity market likewise declined, along with most other Latin American markets.

While the global markets are likely to remain volatile for a period of time given the uncertainty surrounding potential US policies under a Trump presidency, I think we need to take a step back and realize that much of the rhetoric we heard on the campaign trail may not result in any concrete action. Taking his comments during the campaign at face value, many expect some extreme policies to be put into place. However, I feel as if some people may be expressing too much pessimism and fear, and it may not be warranted given the nature of the US economy and political system of checks and balances that remains in place. And certainly, should Trump be able to achieve the type of robust economic growth he had pledged for his country, we think other nations—including Mexico and other emerging markets—are likely to benefit.

I personally was not all that shocked that Trump won the election. We've seen similar voter disenfranchisement in Europe and other places around the world which has now manifested in the United States. In particular, many of the pre-election polls didn't fully capture the dissatisfaction of Americans living in economically depressed rural areas of the country. I am hopeful that as a businessman and self-proclaimed deal-maker, Trump can achieve positive solutions, including trade agreements that may perhaps be bilateral rather than multilateral (e.g., NAFTA).

Being a businessman, Trump will likely feel at home engaging in negotiations with other countries, and I think he should be able to reach some trade and investment agreements that will satisfy both parties. For example, there could be a new relationship and trade agreement with Russia, given Russia was also a pre-election focal point for Trump. There could be positive impacts for a number of other emerging countries which were not happy with the blanket and rigid rules of multilateral agreements. In addition, the potential for lower taxes and a more business-friendly environment in the United States could result in more active efforts by US companies to not only expand domestically but also internationally, particularly in the high-growth, emerging-markets arena. If I had to deliver a message to the new US president, I would ask him to accelerate free-trade and free-investment agreements with countries all over the world.

With any election there are winners and losers. It is our job as investment managers to sort through these periods of shock and determine which countries and companies might survive and emerge stronger. Of course, we need to be selective. Overall, we still see many compelling reasons for investments in emerging markets in general, including high-growth rates, sound fiscal policies and positive demographic trends. As the US election has shown, surprises can happen anywhere. During this time of high volatility in the markets, we at Templeton Emerging Markets Group believe it is important for investors to take a long view and not be swayed by the short-term volatility that we will likely continue to see in emerging markets.

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