

December 2016

Market Bulletin

The Orchard Practice



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This month's update comes to you from Thomas White International Limited, manager of the Omnis Developed Markets (ex US, ex UK) Equity Fund:

The Potential Trump Boost to International Equities

Quickly discarding the initial apprehensions, US equity investors have embraced the prospect of generous tax cuts, less onerous regulations, and a short-term fiscal stimulus boost from the incoming Trump administration. Stronger GDP growth could further bolster the US dollar and encourage the Federal Reserve to lift interest rates at a quicker pace. Though there are lingering doubts about Trump's ability to implement some of the election promises, Republican control of the US Congress may make legislative approval easier.

In contrast, investors have turned less enthusiastic about international equities as the prospect of stronger dollar and Fed rate hikes make US assets more appealing. It is also likely that most developed countries will see slower GDP growth, relative to the US, over the next couple of years, if the new Trump administration keeps its promises.

From a medium to long-term perspective, we believe the prospects for non-US developed market equities remain attractive. Historically, faster real economic growth in the US has been good for the rest of the world. If US consumer demand growth turns more vigorous, it should lift the outlook for the Eurozone, Japan, Canada, and the UK as they are among

the country's largest trade partners. Though trade protectionism was one of the major planks of the Trump campaign, it may prove difficult to unwind trade relationships built over the last several decades.

If the US boosts fiscal spending, it could become a policy template for Europe and Japan to revive their slow economies in the coming years. Several of these countries have the fiscal flexibility to increase public spending and central banks have cautioned about the diminishing effectiveness of monetary measures. Higher government spending could lift domestic demand and eventually encourage more capital spending by businesses.

Finally, stronger export demand and increased government spending could lead to an earnings recovery, especially for large European and Asian companies.

Past performance is no guide to future performance and may not be repeated. The value of your investment, and any income derived from it, may go down as well as up and you may not get back the full amount invested.

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