# DONALD TRUMP WON THE ELECTION—SO WHAT'S CHANGED?

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As people continue to adjust to what many view as a very surprising election result, there is an almost constant stream of analysis coming out day after day. Whether people are considering the implications of different cabinet appointments or the possibility of some combination of infrastructure spending and tax cuts, one fact cuts through the speculations about what may or may not come to pass:

*Leadership in U.S. equity markets has shifted—specifically, styles that were working well before the Trump victory aren't working quite as well afterward.*

**Catalysts for the Changing Trends of U.S. Equity Leadership**

There are times when markets react based almost entirely on what their collective participants think may happen before anything actually happens. That's the most intriguing part of what we're seeing today. To recap a few of what we believe are the most critical elements:[1]

- **The U.S. 10-Year Treasury Note Interest Rate Has Risen…a LOT:** As of this writing (November 17, 2016), the U.S. 10-Year Treasury Note interest rate was nearly 2.29%. On election day, merely nine days prior, that number was 1.85%—a full 44 basis points (bps) lower! In fact, this essentially means that for the whole of 2016, this yield has now risen—including a full recovery from the lows of 1.36% seen on July 8, 2016. Additionally, the difference between the U.S. 2-Year Treasury Bill interest rate and the 10-Year was more than 125 bps as of this writing—indicating that the yield curve has steepened about 25 bps since November 8, 2016.
- **The U.S. Dollar Has Strengthened:** Since President-Elect Donald Trump's victory, the Bloomberg Dollar Spot Index has appreciated nearly 4%. As of this writing, two currencies that WisdomTree follows closely in particular against the U.S. dollar have moved significantly: the yen (nearly ¥110 as of this writing) and the euro (nearly Euro $1.06 as of this writing). Emerging market currencies—especially those associated with significant commodity exports—have shifted drastically from appreciation to depreciation against the U.S. dollar over a relatively short time.

As of this writing, those are facts, and we recognize that the movements of interest rates or the U.S. dollar may shift in the future. What seems to be driving them are a few important speculations:

- **The U.S. government may be poised to engage in big deficit spending**
- **Infrastructure spending could increase**
- **Taxes could be cut**
- **The tone toward regulation (of banks, energy producers and others) could change**

*For those considering action within portfolios, a key point to remember is that none of these things can be guaranteed and all of them could take a variety of different forms as they shift from the concept stage to the implementation stage.*

**Which WisdomTree U.S. Equity Strategies Have Been Working?**

With a toolkit as broad as what WisdomTree offers in U.S. equities, looking at how different strategies respond to catalysts—President-Elect Trump's Victory—can provide insight into bigger questions related to how strategic asset allocations may behave in different environments.

**Bottom Line:** Many are asking us about what might happen if 1) interest rates rise significantly, and 2) the U.S. dollar strengthens. Performance since Trump's victory—as short a period as it's been at this point—provides an interesting window into the potential answer.

**Performance of U.S. Equity Strategies Pre-Trump and Post-Trump Victory**

| |
|---|
| US Strategies |
| U.S. Market Cap. |

*For definitions of indexes in the chart, visit our glossary.*

**Characterizing Some of the "Shifting Trends[2]"**

- **Dividend Payers:** Even before Trump's victory, 2016 was already a "case study" type of year for dividend-paying stocks. From December 31, 2015, to July 8, 2016, it was the quintessential "falling rate" environment. The higher the yield, the better during that period. After July 8, 2016, higher-yielding dividend payers began to face greater headwinds. Post-Trump victory, with the extreme acceleration in rising rates, higher-yielding dividend payers saw even greater headwinds. Related to this within the market capitalization-weighted benchmarks was the shift from outperformance of value (and underperformance of growth) to a more mixed picture after Trump's victory.
- **Don't Forget the Small Caps, Small Cap Earnings in Particular:** With the steepening of the U.S. Treasury yield curve, banks may be headed for stronger net interest margins. With the rising of interest rates due to expectations of stronger growth/higher inflation, small caps may respond most effectively. The nexus of these two themes at WisdomTree is the SmallCap Earnings Index with its double-digit exposure to banks and its focus on small caps.

[1]Source for both bullets is Bloomberg, with data current as of 11/17/16.

[2]Source for both bullets is Bloomberg, with data current as of 11/16/16.

For more investing insights, check out our Economic & Market Outlook

**10- Year Treasury** : a debt obligation of the U.S. government with an original maturity of ten years.

**Basis point** : 1/100th of 1 percent.

**2-Year Treasury** : a debt obligation of the U.S. government with an original maturity of two years.

**Yield curve** : Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

**Bloomberg Dollar Spot Index (BBDXY)** : Tracks the performance of a basket of ten leading global currencies versus the U.S. dollar. Each currency in the basket and their weight is determined annually based on their share of international trade and FX liquidity.

**Dividend** : A portion of corporate profits paid out to shareholders.

**Yield** : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

**Net interest margin** : A measure of the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest-earning) assets.