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WIDER FACTORS

The so-called reflation trade following the US election has been driven by several factors not directly related to President Trump's victory and will continue to influence global financial markets in 2017.

The first factor is that the 30-year bull market in bonds, which pushed yields to an all-time low, has come to an end. Our proprietary long-cycle trend analysis highlighted the onset of a bear market in bonds in early 2016. Bond yields worldwide peaked in August 2016 amid continually slow but steady US economic recovery, an uptick in commodity prices led by precious metals and a growing realisation the US interest rate cycle had turned.

These expectations have hardened since the US election due to rising inflation expectations and a potentially large US fiscal stimulus.

Equity prices have also benefitted from renewed optimism about corporate profits (including a possible lowering in tax rates) and a relatively strong final quarter of 2016. While US shares seem overbought over the short term and are not cheap compared with other major markets, on a two-year view they remain attractive relative to bonds.

"The so-called reflation trade following the US election has been driven by several factors not directly related to Trump's victory"

The Big Question

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