

# Trump victory batters emerging markets

Nick Beams

14 November 2016

Donald Trump's victory in the US presidential election lifted American stock markets on the back of the belief that financial deregulation and possible increased infrastructure and military spending could provide a profit boost. But it was a different story in "emerging" markets, where currency values have fallen and funds have been withdrawn.

According to the Institute for International Finance, emerging market stocks and bonds experienced a \$2.4 billion outflow in the past week, most of it after the election.

Last Thursday, the iShares Emerging Markets' exchanges traded fund suffered its worst single day of outflow since 2011, with more than \$1.5 billion in withdrawals.

Latin America was particularly hard hit. Currencies fell sharply, led by a 12 percent decline in the value of the Mexican peso since the election, hitting a record low on Friday. The Brazilian real fell by 5.2 percent against the dollar on Thursday—its biggest single-day drop in five years.

The declines were not confined to that continent. The South African rand was down about 6 percent for the week. Indonesian stock markets fell 4 percent on Friday and the rupiah dropped by 2.7 percent, prompting an intervention by the country's central bank.

Emerging market bond funds suffered their first outflow in four months and JPMorgan's emerging market currency index experienced its worst week in three years. According to one financial analyst quoted by the *Financial Times*: "In just two days, half of the last six months' gains have been given back."

Asian bond markets were hit by a sell-off. Yields on 10-year government debt rose sharply in South Korea and Thailand. As with all fixed income debt, yields rise as the price of bonds falls. The yield on 10-year South African bonds rose to 9 percent, its highest level since September.

Several factors are driving the emerging market downturn. There is concern that Trump's protectionist "America first" policies will have a significant impact on global supply chains. These fears are also reflected in US stock markets. The stocks of tech-based companies, which depend on cheap-labour countries for their business models, did not join last week's rise on Wall Street.

Another major factor is the sharp rise in US bond yields which followed the Trump victory on the expectation that any infrastructure spending program, coupled with major tax cuts for corporations and the wealthy, will increase US government debt. The yield on 10 year-treasury bonds, considered to be a global benchmark, rose by 37 basis points (0.37 percentage points) last week to finish at 2.15 percent, the first time it has gone over 2 percent since the beginning of the year.

The prospect of higher yields in the US is attracting funds from emerging markets. According to Ashely Perrott, head of pan-Asia fixed income at UBS Asset Management in Singapore: "If [US] treasury yields continue to march higher, that will put pressure on emerging markets. What you think is an opportunity initially might turn into a regret."

Rapid movements of funds out of emerging market debt back to the US could have major global ramifications. The Japanese financial firm Nomura noted that a move "meaningfully above" 2.25 percent in US 10-year treasuries in the short run "could result in a significant redemption flow... potentially triggering a broader risk-off event." In other words, major outflows could bring about a rush for the exits, leading to global financial turbulence.

The International Monetary Fund has reported that world debt now stands at a record \$152 trillion and warned that high debt levels in emerging markets could make them vulnerable to a reversal of capital flows.

No one has any clear idea of what specific measures a Trump administration will implement and whether they will get through the US Congress. But any policies that increase fiscal spending, at least in the short term, are likely to bring about higher inflation and will increase pressure on the US Federal Reserve to lift interest rates.

Whatever the medium-term outlook, there is a growing expectation that the US Fed will raise its base rate by 0.25 percent when it next meets in December.

That prospect appears to have strengthened on the back of remarks by Fed vice-chairman Stanley Fischer. Addressing a conference convened by the central bank of Chile, he said the Fed appeared to be reasonably close to achieving its objectives on inflation and employment and “the case for removing accommodation gradually is quite strong.”

Rising interest rates in the US will in turn bring about a stronger US dollar and a further fall in emerging market currency values, with consequences for emerging market dollar-denominated debt because the real value of that debt rises with every increase in the dollar. There was significant financial turbulence in January and February when the Fed raised rates by 0.25 percent last December, with global equity markets experiencing one of their worst starts to the year on record.

In the longer term, as the *Financial Times* noted, there is considerable scope for further rises in yield because outstanding US debts are twice what they were relative to gross domestic product when Reagan came to power in 1980s. Much of that increase has occurred in the recent period, with US debt almost doubling to \$14 trillion since the global financial crisis of 2008.

The other longer-term factor that will impact not only on emerging markets but the world economy as a whole is the “America first” nationalism that forms the core of the Trump economic agenda.

In a research note on the impact of Trump’s policies, the US bank Citigroup said that while they might provide a short-term boost for the US economy, they could set off a disastrous global trade war.

“A US-led trade war is a material downside risk for the global economy, which could easily trigger a global recession. In our view, the election outcome significantly increases the risks around the global macroeconomic outlook, including for inflation, and future Fed policy,” it said.



To contact the WSWS and the  
Socialist Equality Party visit:

**[wsws.org/contact](https://wsws.org/contact)**