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IN THIS ISSUE

Trump's tariff policies have triggered market volatility that could significantly impact retirement portfolios, making it crucial for investors to adapt. By focusing on diversification and long-term strategies, retirees can protect and even grow their savings amid economic uncertainty.

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TRUMP TARIFFS:
HOW TO PROTECT AND GROW YOUR RETIREMENT SAVINGS

ANDRÉ BASSON | CERTIFIED FINANCIAL PLANNER®, HEAD OF BWM VAL DE VIE

US President Donald Trump can be a contentious topic – some like him and others loathe him. The fact of the matter is that he is the sitting US president, and my opinion will not change that. However, what I can control is how I adjust my investments to this reality.

UNDERSTANDING TRUMP:

HE IS CONFRONTATIONAL

Conventional presidents are very diplomatic – they talk a lot and often do less. Trump talks a lot, but also does what he says he will do, and both are very non-diplomatic. This has rattled markets, which do not like a change in the status quo. Therefore, expect increased volatility.

HE IS TRANSACTIONAL

It is all about the deal the US gets – from the Russia/Ukraine conflict to the trade tariffs. One needs to ask, "What is in it for the US?" Nothing is for free, and he will create pressure in order to negotiate from a stronger position. He looks at partnerships, not relationships. Therefore, expect that he will unfriend old allies if he feels the US is not getting the best deal out of the current relationship. Again, more volatility.

HE IS A BUSINESSMAN, NOT A SOLDIER

Although he is confrontational and negotiates with a strongman mentality, his intentions are not to start a global war. It is important to remember that he will create pressure, but only to the point which enables him to arrive at the negotiating table in a stronger position.

HE IS CHANGING GEOPOLITICS IN EUROPE

A big market mover is the way in which Trump (and his foreign minister) confronts Europe. Trump expects Europe to take ownership of their own defence and not be overly reliant on the US. This is a rational request which most European nations have failed to adhere to – spending 2% of their GDP on defence, as per the NATO Agreement. The only problem with this approach is that the US is unfriending old allies through the way in which they are communicating.

There has been a shift in the US-EU partnership which will influence the way in which Europe operates, going forward.

HE IS ONLY HERE FOR ONE TERM

Although it feels like he is dominating every news headline, one needs to remember that Trump has already served one term and, therefore, only has this one left. The Republicans will need to change the constitution for him to be able to serve a third term, which is extremely unlikely. This means that Trump only has a couple of years to bring about the changes he desires, but he will not remain in power forever. The point is this, that the American democracy and legal system outlives the president and, if the system remains strong, there is still a long-term future in the US – whether they have a good or bad president.

HOW THIS IMPACTS MARKETS

EUROPE GAINS TRACTION

In reaction to Trump's pressure and the Ukraine conflict, Germany has announced a fiscal bazooka of EUR800 billion to spend on defence and infrastructure. As the biggest economy in the EU block, it will move the needle. This will increase sentiment from a very low base, and it is clear to see that there is some capital moving away from the US to Europe. European stocks are extremely cheap compared to US stocks, and can be a good place to invest, should this trend continue.

A WEAKER US DOLLAR

Trump wants a weaker US dollar to help US exporters, particularly in the manufacturing industry, where he has a big voter base. But this will also help stocks listed in non-US jurisdictions.

A weaker US dollar, measured against the Euro, for example, will add to the growth of share prices listed in Europe (when measured in USD). Other areas, such as Asia or the UK, also come into play.

TARIFFS HURT EVERYBODY

Global trade is changing. Global tariffs will move both ways. There will probably be a retaliation by other trade partners by increasing their duties as well.

All this will be inflationary and will result in higher prices for consumers, leading to higher inflation and higher interest rates – hurting both consumers and governments. This means lower global GDP growth, possible recessions for certain countries and a higher interest rate environment.

ADJUSTING YOUR PORTFOLIO

1. DISCRETIONARY MONEY: GET OFFSHORE EXPOSURE AND CURRENCY

As Trump creates global volatility, we have our own local troubles which are evident in the current GNU struggles. We will always have both local risks and offshore risks. But the fact of the matter is, that by only investing in the JSE (or having a big overweight in the JSE), you are exposed to one set of risks that can ruin you financially.

By adding global equity and exposure, you create a properly diversified portfolio which, in the current times, protects you from local risk too. If you can physically externalise funds – converting rands to offshore currency – you further protect yourself against sovereign risk.

2. PENSION MONEY: USE A LIVING ANNUITY INSTEAD OF RA'S AND PENSION FUNDS

Once you are 55 years or older, you can convert pension, provident and preservation funds, as well as retirement annuities (RAs) – all governed by Regulation 28 of the Pension Funds Act – to living annuities. Here you can increase your offshore exposure and use other tools, such as hedge funds, with greater freedom, which can greatly increase your diversification and growth over time.

3. GREAT AMERICAN COMPANIES WILL STILL STAY GREAT

Dominant companies, such as Microsoft, will be a dominant market player many years from now. The fact is that their share prices were expensive, but they have recently taken a hit and, if they fall even further, at some point it can present a good buying opportunity.

The biggest and best companies in the world will remain in the US for some time and should not be ignored. Stay invested in the US, for good reason, but also include exposure to other areas, which will benefit from shifting fault lines.

4. ADJUST YOUR EXPECTATIONS

Historically, the US stock market has returned around 10% annually (in US terms), when measured over an 100-year period. However, investors have a short memory and have grown accustomed to recent gains of around 15% per annum. This is unrealistically high, and the fact that Trump is changing the economic world just amplifies this.

The next 10 years might not look the same as the previous 10 years. Sticking to only the S&P 500 might not be the best solution. Diversify into other areas, as mentioned, and make use of flexible fund managers.

5. INCORPORATE PROTECTION FOR YOURSELF & YOUR EMOTIONS

By having some insurance in your portfolio, you give yourself the ability to stay invested, which is the best way to generate wealth over the long term. Use one of the below methods to lower your risk:

- **Increase diversification.** Do not rely solely on one area, such as the US.
- **Include uncorrelated assets, such as gold and offshore exposure.** When markets drop, these assets increase in value, when measured in ZAR.
- **Make use of hedge funds.** There are excellent local hedge funds with great track records and very stable returns.

BOTTOM LINE

Expect extra market volatility during the Trump presidency, especially with the new tariffs. This is, however, not the end of the world. A rational and calm investor can stay invested and still make money during this time, although the ride will definitely be bumpy.

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ANDRÉ joined Brenthurst Wealth in 2018 and is head of the Val de Vie Estate office. In 2020 he was voted as one of South Africa's top three relationship managers in the SA Intellidex Wealth Manager and Private Banks Awards.

André obtained his BCom degree from Stellenbosch University, finishing top of his financial planning class. His postgraduate studies include a BCom (Hons) degree and a Postgraduate Diploma in Financial Planning, also from Stellenbosch University. He obtained his Advanced Postgraduate Diploma in Financial Planning (Cum Laude) from the University of the Free State. He is a member of the Financial Planning Institute of SA and is fully qualified to give advice on all investment matters.

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