Asset Management

With Trump's Victory, We Take a Look at What to Expect

By David Fisher, Chief Investment Officer

Similar to the United Kingdom's Brexit referendum this summer, markets were surprised by the outcome of the U.S. presidential election and Donald Trump's victory. But political events are transitory, and the market always goes back to fundamentals. Currently, those fundamentals look solid but unspectacular. Specifically, earnings have turned positive, reflation trends are in place, and global economic data have been strengthening.

While the long-term implications of a Trump presidency are vastly different from those the market expected from a Clinton presidency, we believe that the volatility seen in the markets thus far has been a function of uncertainty and not knowing the fundamentals rather than a judgment of such. Once the dust settles, we expect fundamentals to return to the fore, and we are positioned for that. If we see underlying shifts in economic data or corporate performance, we will consider possible changes.

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Dan Clifton, Head of Policy Research for Strategas, offered insight into what to expect with Trump's election and the policy initiatives that are likely to have a high priority early in the new administration:

1. Trade policy will be the first key issue. Trump's potential trade policy is a source of uncertainty for investors, as the Constitution offers the President a broad range of implied power to fulfill foreign policy, potentially affecting relations and trade deals with countries such as Mexico and China. Trade policy also has implications for the inflation environment, as more protectionism typically leads to more inflation through higher tariffs and lower availability of low-cost, foreign-sourced goods.

2. Affordable Care Act redesign is another source of uncertainty. While it is clear Trump intends to change the legislation, the magnitude of these changes and their effect on health care is unclear. In Mr. Clifton's opinion, the possibility of Republicans choosing to pass legislation that drops 10 million people from health care coverage is low, creating a wide spectrum of potential reforms.

3. Budget and tax reform, specifically repatriation, will also be impactful. Tax reform at an individual level can be difficult to implement but is far more likely on a corporate level. Businesses may also benefit from the opportunity to repatriate their overseas cash at a reduced tax rate, a potential windfall to tax revenues of states such as California and Massachusetts.

4. Renewable energy will likely come under pressure since Mr. Trump positioned himself throughout the election cycle as being pro-coal. According to Strategas, this stance may have benefited him in blue-collar states, but it is unclear how we will see this platform converted to actionable policy.

With regard to international markets, we believe that the election results will put more pressure, especially in combination with Brexit, on foreign leaders to push back against populist movements. This effort will require additional stimulus policies, especially on the fiscal side. Trump will likely find support for his infrastructure and other spending plans from a Republican-controlled Congress. Further, markets have shifted their expectations regarding a December rate hike, moving implied odds from 85% pre-election to 50% now and suggesting easier monetary policy on the margin. These changes are likely to be positive for most foreign markets.

The biggest trend we are monitoring is the momentum behind the reflation trade. Our portfolios are already tilted away from core fixed income, which is most susceptible to this move, but additional shifts in the portfolio to take advantage of this increasing trend are being reviewed. We believe structural support for greater inflation is at least intact, if not strengthened. Higher wages resulting from a tighter labor market, the increased likelihood of fiscal stimulus and anti-trade rhetoric are three arguments for increasing inflation expectations over the next year.

We remain committed to managing your portfolio rooted in the ideals of patience, discipline and contrarianism, which we believe help protect investors from succumbing to the shifting sands of market emotions. The outcomes of the election, whether positive or negative, will not sway our commitment. We believe our portfolio positioning stands to benefit from both durable, long-term trends and opportunistic mispricings, and we regularly review our holdings to ensure that they align with current economic realities.

Thank you for your support and the trust you have placed in the team.