

November 10, 2016

The Day After The Day After

Five Market Implications of a Donald J. Trump U.S. Presidency

Rhetoric Abates, Policy Materializes. Perhaps more than any election in modern history, the 2016 U.S. presidential election was marked by personality clashes, divisiveness and rhetoric. Now that the election has been decided, we expect Trump's theatrics to be displaced by a more sober and unified approach to implement actual policy changes. Trump has never held public office before, but he is a proven business deal maker. Joined by the Republican-led U.S. Congress, we expect Trump to negotiate compromises to enact workable policy. This should have a net positive impact on markets.

U.S. Domestic Tax & Regulatory Reform Growth Friendly. Trump has advocated for lower individual and corporate tax rates across the board. This bodes well for consumption, capital investment and economic growth in the U.S. Trump has pledged to reduce regulation that stifles job creation. This could be particularly beneficial to the energy and banking industries, among others, despite weaker support of environmental initiatives. Canada could benefit in the metals, mining and commodity sectors, especially with anticipated approval of the Keystone XL pipeline. Trump's tax and regulatory policies should support corporate earnings growth and have a net positive impact on equity and credit markets.

U.S. Federal Reserve Policy Tightens. The U.S. yield curve has steepened following the election results against the backdrop of Fed rate hikes that have been expected. The market implied chance of a December rate hike has increased to over 80%. The implied chance of more rate hikes in 2017 has also increased. Trump's plan of lower taxes with increased infrastructure spending will likely increase the U.S. national debt. We view Trump policies as broadly supportive of growth, but also inflationary and negative for long-bond yields. The implication is to remain relatively short-duration with bond holdings.

Foreign Trade and Military Policy Uncertain. Trump has announced a tough line on trade with China, Mexico and others. He has made provocative statements regarding U.S. military policy around the world, including domestic military leadership and NATO. The initial period of his presidency will reveal Trump's true intentions. Excessive trade restrictions could hurt global growth and emerging market economies in particular. Military policy could go either way. We believe these factors will have a net neutral impact on markets until more specifics are known or demonstrated by a Trump administration.

Global Anti-Establishment Movements Validated. The election of Trump as an outsider follows Brexit and the decision of the UK to leave the European Union. Important upcoming votes in Italy, France and Germany could see anti-establishment parties gain momentum against entrenched status-quo political parties. We believe this increases the likelihood of further "surprise" outcomes and materially increases the chance of stress and/or fracture in the Eurozone. The market implications of this development are difficult to determine without specifics at this time. But the trend must be carefully monitored for financial implications in the event that other countries follow suit with rejectionist voting behavior.

Randol W. Curtis, CFA

Partner | Senior Portfolio Manager