

November 9, 2016



## Update on U.S. President-Elect Donald J. Trump

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Dear Clients & Friends:

The world awoke this morning to a surprise US Presidential victory by Donald Trump. And perhaps equally important were the congressional elections, in which Republicans also maintained control over both the House of Representatives and Senate.

There are many unknowns attached to Trump's upcoming Presidency, his policies, and the man himself—but it is important to at least parse out the things we do know about certain important economic factors.

### Interest rates

- Trump has been openly critical of the Fed's policies of easy money (low interest rate) policy. Of course, the President doesn't control the Fed but a policy of fiscal stimulus (spending and tax cuts) would be reflationary on its own.
- In just one day, we have seen yields on both the 10- and 30-year Treasury Bond spike. This could be interpreted as perceived pressure on the Fed to move more quickly or the bond market pricing in new inflation expectations. Or both.
- Banks are rallying on the steepening of the yield curve (the differential between long and short interest rates); bonds are selling off dramatically.
- It is hard to know if this is a trend that will persist or merely a "first reaction," but this will be incredibly important to watch.
- A move much higher for interest rates would be potentially damaging to fixed income portfolios, not to mention at some point the increased cost of capital could begin to choke credit markets (and companies borrowing to grow).

### Banks

- As noted above, banks will benefit from a steepening yield curve.
- Banks with more incentive to lend is, in theory, good for the economy and the velocity of money.
- A lighter regulatory hand would certainly be seen as a positive for the group.
- The market's initial reaction has been bullish banks. An old market adage is that a bull market cannot exist without the banks. We'll have to see if that continues....

### Healthcare

- Healthcare and pharmaceuticals have been under attack for over a year.
- Questions over drug pricing practices and the promise of additional regulations by Democrats have kept a huge amount of pressure on the group.
- Should the ACA (Obamacare) be dismantled, it is hard to know what the result would be on the healthcare sector; consensus is that it would be favorable.

- We saw huge moves higher in everything healthcare today. It will be important to watch how much of this is short covering (investors buying back positions they have bet against) and how much is truly a bet on the perceived improvement for the sector's fundamentals going forward. Time will tell.

### **Energy**

- It's no secret that Trump is interested in reigniting the United States' path to energy independence.
- Whether he is truly a "climate change denier" or not, I think it is safe to say that Trump is in favor of exploring and developing all of our nation's options for energy production/storage.
- Trump has been specifically forceful in his rhetoric about the need for additional energy infrastructure in this country—he is known to have large personal holdings in pipeline companies, and he referenced the nation's need for additional takeaway capacity (pipelines) from places where oil and natural gas are found/processed to places where they are consumed.

### **Infrastructure Spending**

- Regardless of who won last night, the consensus has been for increased infrastructure spending here in the U.S.
- Donald Trump specifically mentioned in his speech last night that he plans to launch a massive program for spending, building, and refurbishing our nation's bridges, roads, and tunnels.
- Should he be successful in obtaining approval for such government expenditures, this could have the potential to create an enormous number of jobs and therefore bolster [at least some] consumer spending.

### **Taxes**

- Trump has also proposed a major reduction (potentially from 35% to 15%) in the corporate tax rate, meant to encourage companies to repatriate cash held abroad and, ideally, spend and hire domestically.
- Trump has intimated that he would also be "friendly" with regard to personal income tax rates.
- It is hard to understand where the funds for the aforementioned infrastructure spending will come from provided he pushes enormous tax cuts through successfully.
- It would be interesting to see us follow the lead of Japan, Italy, South Korea, and the UK (among others) and consider issuing 50-year bonds while we still have very low rates.

In the days and weeks to come the market will be gauging how seriously to take Donald Trump's campaign messages, given his lack of a voting track record and political experience. We will do our very best to evaluate the circumstances and communicate our thoughts with you on an ongoing basis.