Benefit Financial Services Group

BFSG Insights

Improbable Event – Donald Trump's Presidential Victory

By Michael Allbee

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Donald Trump's presidential victory is the second "improbable" event to occur in 2016 — just four months after the Brexit referendum. The message is clear: the status quo is totally unacceptable and the populist movement is real. As we discussed in our July Perspectives newsletter, "The forces underpinning populist trends (rising inequality, distrust of elites, nationalism, etc.) are not likely to dissipate anytime soon, while the risk of isolationism and attacks on globalization will increase as long as the global economy remains growth challenged." Populism makes for good politics but we will see if it makes for good economics.

To everyone's surprise, the U.S. stock market actually rallied on Wednesday. We also mentioned in July Perspectives that "Fiscal policy measures will be needed to stimulate growth in concrete ways: infrastructure spending, tax reform, job-training, and education to name a few. Government action is needed!" We may get this now that we have a unified Republican government, which was last seen in 2006, and this could be why we are seeing stocks rally.

Bureaucratic complexities and partisan politics can make it difficult for a President to implement his agenda. We think there are enough middle-leaning Republicans and Democrats to counter Trump on some of his more extreme policies. We need to see how he works with Speaker of the House Paul Ryan; if they are supportive of each other, their cooperation would be a net positive for risk sentiment since markets view Ryan as more of a conservative centrist, and the odds of some of the Republican's "A Better Way" proposals becoming policy would increase.

Control of Congress will allow the Republicans to use the "reconciliation" process to pass fiscal legislation with a simple majority. Since Congress controls spending decisions and taxes, it is quite possible that we will see tax cuts for high-income earners, corporate tax reform, an increase in defense spending, a one-time repatriation holiday bringing some of the U.S. $2.5 trillion held overseas back to the U.S., and infrastructure spending (featured prominently in Mr. Trump's victory speech on election night). However, Republicans will still face some constraints, namely the need to secure the support of nearly all Republicans in the Senate, some of whom may have qualms about raising the deficit ("tea party conservatives"). The Affordable Care Act (ACA) may be at least partially repealed (it would require 60 votes to roll-it-back completely, which seems tough to achieve).

Trump's signature issue of immigration will likely not be a significant shock to economic growth in the near term, but might impact future net migration. Since the executive branch has more discretion over immigration, President-elect Trump may very well deport some illegal immigrants (we think he will focus on those with criminal records in order to maximize public attention and support). As for building a physical border wall, this would require additional resources that Congress would need to appropriate. His policies on immigration are likely to be toned down.

The key negative risk for global stock markets is likely to be uncertainty regarding trade policy. Trump's administration would be under significant pressure to implement some trade restrictions as the nexus of protectionism is in the U.S. (and Europe). Trade policy is an area of greater presidential discretion, and President-elect Trump will have authority without congressional approval, to unilaterally raise tariffs on goods from certain countries, in certain product categories, or both; and he would have the authority to withdraw from bilateral and multilateral trade agreements, such as NAFTA. We do not expect any trade policies to be implemented immediately, and it is more likely he would introduce some tariffs on Chinese and Mexican goods (in the 10-15% range) and renegotiate some terms in NAFTA without pulling out completely (which is impractical). Who he appoints to key cabinet positions could be telling, and something we will be watching closely. This is one of our largest concerns, as trade is already less robust despite positive trade growth in volume trends, and there seems to be a relapse in G20 economies' efforts at containing protectionist pressures.[1]

It will take weeks—if not months—for markets to figure out the future of U.S. policy. While presidential elections do add a layer of uncertainty—and the markets don't like uncertainty—they typically don't have a long-term effect on market performance. We recommend you watch this short video "The presidential election and your portfolio": Click Here (you will be directed to Vanguard's website). What matters in the long-term is market valuations, technology, demographics, the Fed and the economy, and unforeseen events. Most of these factors are out of our control, and we recommend staying focused on what we can control: asset allocation, diversification, saving vs. spending, your health (longevity), etc. We recommend you stay focused on your long-term goals during periods of volatility and uncertainty.

We recently sent out with Q3 reports an insert titled "Managing Your Investments is Just the Beginning"; if you haven't already reached out to us, please do so for a personal goals based plan consultation. There is no charge for this – it is included in your current management fee. We can pull your financial picture together at a high level in short order, and then work with you to run various stress-test scenarios to see the effects of achieving your goals.

As President Obama said during his post-election speech this morning, "We all move forward, win or lose." We need constructive action to solve the many problems we face, and there's only one way for it to materialize: bipartisanship.[2] We can only hope!

Sincerely,

BFS Wealth Management

1. OECD, WTO, UNCTAD, "Reports on G20 Trade and Investment Measures". In the review period between mid-October 2015 and mid-May 2016, G20 economies applied 145 new trade-restricted measures, equating to an average of almost 21 new measures per month (+10% during the review period).

2. Oaktree, "Memo from Howard Marks: Implications of the Election", November 7, 2016

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