

Investing for a Trump Presidency

Donald Trump and Republicans generally won a clear victory on election day. What does that mean for our clients money? How might we adjust asset allocation in anticipation of a new administration?

Of course, it will take some time to analyze the full impact of potential policy changes, and things like key leadership posts and actual policy initiatives will surely modify our stance over time. Uncertainty remains high. However, based on what we know now, here are some preliminary thoughts:

- Trump policies are likely to be designed to sharply increase short-term and possibly long-term GDP growth. There is likely to be a large fiscal surge from tax cuts, increased spending on infrastructure and defense and other Trump initiatives.
- Ironically, since President-elect Trump has indicated he will not re-appoint her, economic policy might resemble the “high pressure economy” that Chair Janet Yellen of the Fed mused about in her speech at the Boston Fed last month. She envisioned an economy that runs hotter, with inflation temporarily above the Fed’s 2% target as a way of drawing more people back into the labor force, increasing the potential long-term growth rate and increasing wages.
- If we do see a fiscal surge, we might well see at least modestly higher inflation. This might hurt some financial assets short term, but hurt bonds more than stocks, in my opinion. Within the bond market, TIPS might catch a bid.
- Lower regulation, lower and fairer corporate taxes should also assist equities more than bonds.
- I still expect the Fed to hike the Fed Funds rate by 25 bps in December, absent unexpected market turmoil. As we argued in a recent piece, a Fed hike might actually help the equity market if it signals that the Fed expects stronger growth ahead.

The third quarter earnings season was a nice positive surprise. We think that on balance the outlook for equity fundamentals has been fairly supportive recently. Although there is much uncertainty, we think the bull market of the past few years is likely to continue.

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QMA

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