Portfolio Management, LLC

Building Wealth Wisely

Registered Investment Advisor | Certified Financial Planner
4610 Sweetwater Blvd., Suite 200, Sugar Land, Texas 77479 | 281-494-1919

Surprise, Surprise, Surprise!

NOVEMBER 9, 2016

In the words of Gomer Pyle, “Surprise, Surprise, Surprise!” In a historic victory that shocked the political establishment, Donald J. Trump will become the 45th president of the United States. Importantly, the swing to the Republicans also saw the party retain control of the U.S. Senate and maintain a comfortable majority in the House of Representatives. In an uncanny echo of the Brexit outcome, millions of Americans frustrated with the country’s direction voted against the trends of higher taxes, higher regulation, and expanding bureaucracy.

Most people were anticipating a Clinton win and a continuation of the status quo. By contrast, Trump’s victory has elevated global uncertainty. We think the election results could lead to a lot of volatility in the short run, but Trump's agenda of lower taxes, less regulation, and increased defense & infrastructure spending should lead to a more productive economy and more prosperous markets. It should be noted that Trump is a supporter of social security and plans no significant changes to most entitlement programs. He ran on a platform aimed at helping the average American worker who feels displaced by economic headwinds. On balance, his economic agenda is the most pro-growth our country has seen in a long time. This election reminds us a lot of when Ronald Reagan was elected president in 1980.

The Republican majority in both the House and the Senate means Trump stands a good chance of enacting much of his economic agenda. He could do that via the budget reconciliation process, under which tax and spending changes can pass with a mere majority of the Senate instead of 60 votes. Investors who might be spooked now by Trump’s election may find themselves surprised next summer by the effects of the economic stimulus of Trump’s policies. For now, we have lowered our expectations for a Federal Reserve rate increase next month, as President-elect Trump will have an unusual degree of influence on the composition of the Fed's Board of Governors due to current vacancies and expiring terms.

Perhaps the biggest negative to a Trump victory from an economic perspective is the possibility of more restrictive trade policies going forward, but we're not sure Trump will be able to live up to all of his campaign promises. Most candidates discover election rhetoric is often muted by reality after taking office, and the checks & balances of government tend to moderate extreme views. There is a wide gulf between Trump's protectionist agenda and the views of many establishment Republicans, and Trump will certainly face opposition on many issues from an electorate that has ample evidence to believe he is a very flawed man and a potential loose cannon.

At the end of the day, we would caution against any knee-jerk reactions at this time. Initial market reactions to surprises often turn out to be wrong. For example, stock futures last night were projecting a calamitous decline today, but as we write this message the markets are reacting positively. We were prepared to add to equities on a selective basis to many client accounts today, but no major buying opportunity is presenting itself right now.

The U.S. economy that President Trump will inherit is in decent shape. Real economic growth has picked up in recent months, while the current 4.9% unemployment rate is close to most definitions of full employment. S&P 500 earnings seem to be recovering from the oil and dollar induced slump of last year, and inflation is still under control. Over the long run, the U.S. economy is likely to remain steady no matter who resides in the White House.

Moreover, the global economy is also showing signs of life with the global manufacturing purchasing managers' index hitting a two-year high in October. All of this should be positive for stocks over time and perhaps a headwind for bonds.

For our many clients who already have a solid financial plan and a well-diversified portfolio, we plan to ignore the political winds today and, as usual, focus on long-term goals and objectives. As always, let us know if you have any questions, comments or concerns about your portfolio and investment strategy.