
# Post-Election Update

November 9, 2016

Yesterday, U.S. voters rejected a continuation of the status quo choosing instead to follow Donald Trump and the path he has articulated. In addition to winning the presidency, Republicans maintained control of both houses, although by a very small margin for the Senate. Like the Brexit vote, this result was not widely anticipated. As was the case with Brexit, we believe investors will be served best by maintaining balanced risk positions and awaiting more specific insights into eventual policy measures. The real impact of this election will be driven by future policy implementation, despite heightened near term uncertainty.

The chief concern among market participants has been that while President-elect Trump has articulated an agenda in broad strokes, he has been light on specifics. Combined with Trump's temperament, there has been significant speculation as to the exact nature of any eventual outcomes resulting from the pursuit of his agenda. Fortunately, as reflected in Mr. Trump's victory speech, these specifics likely will be crafted in an environment that is considerably more thoughtful than what might prevail in the heat of an election. We expect investors will redirect their attention to evolving fundamentals, which remain constructive. In recent quarters, U.S. and global growth have stabilized, if not accelerated, while corporate earnings in the U.S. have improved, returning to positive growth. With that in mind, there are several areas on which we will focus as we evaluate the evolving investment landscape and advise you on your asset allocation:

- **Monetary Policy:** The Fed is likely to remain on hold through year end if markets remain volatile, providing additional liquidity as necessary. This continued accommodation should be supportive of risk assets.
- **Fiscal Policy:** President-elect Trump has advanced several policy proposals targeted at providing economic stimulus:
  - **Increased infrastructure investment**
  - **Personal tax cuts**
  - **Corporate tax cuts and tax holiday to repatriate off-shore income**

  While some or all of these measures may be implemented, and likely they would all provide varying degrees of economic stimulus and be constructive for risk assets, it is unclear how they would be funded. Any material expansion of debt would weigh on fixed income markets as well as the dollar while any revenue offsets would reduce the impact of the stimulus.
- **Trade Policy:** A main theme of Mr. Trump's campaign was the renegotiation of existing trade agreements as well as scrapping agreements, such as the TPP, which currently are under negotiation. Any reduction in free trade likely will result in a drag on future growth and have some inflationary implications. We view a trade war as unlikely.
- **Immigration Reform:** While the impact of such reform will be felt only over time, historically such reforms have created a drag on economic growth. The ultimate impact will be determined by the eventual implementation.
- **Healthcare Reform:** The Affordable Care Act (ACA) is likely headed for significant reform. The key question is: with what will it be replaced? Here again, it is difficult to divine the ultimate impact without greater detail.
- **Regulation:** It is possible that regulatory measures will become less of a burden on businesses, which would be a positive. Of note, judicial appointments under Trump could result in a more conservative Supreme Court, which was poised to turn leftward. This would have significant effects on regulation and first amendment opinions.

We view the main near-term risk as being a tightening in financial conditions resulting from heightened uncertainty, which would create a drag on economic growth. We will evaluate economic data to identify any additional softening. We recommend that clients make sure that cash needs are met reasonably in advance and that market volatility is used as an opportunity to rebalance.

Please contact us with any comments or questions.