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January 2017

Donald Trump has taken command of the stage and control of the narrative. Everyone, from protesters to world leaders, are only reacting to his pronouncements. Having accepted the fact he has won the election, I was naïve enough to presume he would tone down his rhetoric and act in a more Presidential manner. So far no luck. Like a passenger on the Titanic after hitting the iceberg, I knew something worrisome had happened, but it took a while to realize one should head for the lifeboats. I assumed, Trump like most victorious politicians, would soften some of his more strident campaign promises. I hoped his Americentric and protectionist inauguration speech and verbal attacks on his opposition both foreign and domestic were his way of staking out a negotiating position. His actions since, evidenced by his Executive Orders, prove he means what he says and is resolutely determined to press forward his agenda. As I read recently, “he is the respecter of no person or institution”.

The President’s style leads to more uncertainty and potential volatility, but the big impact on fundamentals will come from legislation dealing with increased fiscal spending, lower tax rates and less regulation. All are market positive, but expectations are already high as reflected in the market’s rise post-election. Disappointment would likely lead to lower stock markets. The President will have trouble putting these policies into action, since they must pass Congress. Republican control in the Senate is only by a margin of 52-48, so only a couple of defections would derail passage, and some bills will require 60 votes to pass. Trump’s popularity ratings could have a big impact if Republican Senators sense supporting the President will cost them support at home, and choose to vote against his proposals. Most of the legislation appears to be business friendly, but the devil will be in the details. For example, reducing the corporate tax rate is a major element of Trump’s program, but as we have said before, revenue neutrality is a mainstay of Republican policy. As such there must be a quid pro quo to compensate for the lost tax revenue. At this point in time, the most likely offset is to eliminate or at least reduce interest deductibility. As long as anyone remembers, corporations could borrow money and write off the interest charges. The way U.S. companies finance their balance sheets could be turned on its head.

Central Bank policies will continue to be a major factor in the economy and markets, despite taking a back seat currently to government actions. The FED will maintain a strategy of tightening monetary policy by raising rates in 2017, and there is talk of shrinking the huge balance sheets that it has accumulated over the past years of monetary stimulation. It is fascinating that only last June, during the Brexit scare, Central Banks’ concern was all about deflation, yet the worry is now becoming inflation. The Fed is walking a tightrope as it tries to rein in policy without crushing economic growth. In 1937 the Fed and Treasury Department constricted money

supply, and what had been a nascent recovery from the Depression was halted, and a new economic downturn resulted. I am confident Janet Yellen has read the history books.

A review of global affairs shows China had a good 4th quarter, and Europe continues to muddle along. It will be interesting to follow politics in Europe as elections this year in the Netherlands, France, Germany and likely Italy will reflect the rise in populism and anti- European Union sentiment.

In summary we are in the midst of an anticipated stock market consolidation, but the bull market remains intact. Geopolitical risk is definitely heightened, particularly given the new leadership in the U.S., which will likely mean more volatile markets this year. At the end of the day, good economic growth will compensate for the extraneous noise. Investors must be prepared to change their minds, but not overreact to news; a daunting task. The King Report expressed it well; “The market is not rational; it rationalizes”.

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