Market Update

25 November 2016

Are the markets responding to a Trump mania or a Republican Party win? Historically markets rally after a Republican administration which has a strong business mandate and lowers taxation. This can be as strong as double digit returns in the first 100 days of the administration. What is pending now is who will join Trump to lead the nation and his success in the first 100 days. Markets are already rallying and the bull is back. The bears and Doom Sayers missed the mark.

Let's review Trump's position so far on:

- Lower taxes across the board
- Consolidate tax brackets, lower maximum tax rate with 4 tax brackets of 0%, 12%, 25% and 33%
- Limit tax deductions but allow mortgage interest deduction and charitable giving
- Eliminate the alternative minimum tax (AMT)
- Repeal the federal estate and gift tax
- Lower the corporate tax rate 15%
- One time repatriation of overseas corporate profits at a tax rate of 10%
- Introduce a deduction for the average cost of childcare spending

No increase to Federal Benefits:

- No change to social security and no benefit cuts to Medicare

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Lower Healthcare:

- Repel and replace the Affordable Care Act
- Repel the Cadillac tax on high benefit health plans

Massive Infrastructure spending:

- No details as of yet but Trump has made it clear his administration wants a comprehensive initiatives strategy on piece meal funded deals

Support American Energy producers:

- Repel the Clean Power Plan
- Maintain coal as a key energy source and expand fracking across America
- Rescind the environmental protection Agency regulations establish by Obama
- Support Key stone pipeline

Trade:

- Renegotiation of NAFTA
- File trade cases against certain countries accused of unfair trade practices and currency manipulation (China is the number on target)

Defense and National Security:

- Repeal budget Control Act on defense spending
- Increase the overall size of the military by an additional 540,000 troops
- Add 350 ships and 1,200 new fighter aircrafts

Labor:

- Support the right to work policies by removing the need to be apart of a union to join the work place

So let's summarize what is going on. Cut taxation for individuals and corporations and allow for more tax deductions. Limit how much governments spend on healthcare. Introduce massive infrastructure spending by developing a comprehensive rebuilding of America not a piece meal deal. Support American energy producers. Cheap oil is here to stay and keep coals mines producing. Position NAFTA to better benefit America and target nations with unfair trade practices and actively manipulate their currencies to drive trade in their favor. Weaken unions by allowing workers the right to employment without union participation.

If Trump's administration is able to attain all the above direct investment capital follows will be at historical records into America due to capital repatriation of trillions of dollars still abroad. Lower corporate tax rates will further induce firms to relocate or expand. Massive infrastructure spending will support the demand placed on a growing industrial and manufacturing for roads and utilities. As we have discussed in many previous articles central banks must shift away from quantitative easing and move to fiscal spend policy. America is at the forefront of it all by raising interest rates and switching the burden of economic grows away from central bank intervention and to fiscal stimulus. Interest rate hikes are coming sooner or later. Dollar evaluations support the belief that interest rates must rise in America. Note to bond markets, your bubble is set to be burst.

The above details released so far by Trump represent a monumental shift in fiscal policy from the previous administration. What is not known yet is Trump's team which will lead the new administration. Mitt Romney is favored for secretary state. Mr. Romney is a dyed in the wool business man and hardcore Republican.

What investors and markets have been craving for is change by not repeating another 8 years of political grid lock and limited growth. Since the near collapse of financial markets in 2008 government has been plagued by lack of fiscal stimulus putting the American Federal Reserve at the forefront in managing economic recovery first and second prosperity. No doubt America has prospered but the growth has been weak and tepid. The great rebound which all were expecting did not take place. Monetary policy only goes so far and the Fed reaches their limit on quantitative easing. What is required next is copious amounts of fiscal spending. Under the Liberal government in Canada, fiscal spending is key in keeping us out of a recession. America under a Trump republican mandate promises to deliver spending in spades. Trillions of dollars will be spent on infrastructure and trillions are projected to follow back into America if capital repatriation is allowed.

Don't get me wrong, I did not wake up this morning and become a Trumpeteer. As Chief Strategist my role is to guide clients to winning strategies by filtering out the noise and rhetoric. Yes, stock evaluations are at all time highs, there is no doubt. Given that the rest of the world is in monumental upheaval from Europe to China. North America and more specifically America is the safest growth engine for capital at present and into the near future. All eyes are on Trump and his administration in the upcoming days into his appointment and the critical 100 days after. Trump may have won the Electoral College vote but it is important to note that Trump is also the most unpopular president voted in. Unpopular presidents don't get two terms. Two terms will be needed to execute necessary fiscal stimulus. As the popular vote results come in Hillary Clinton leads by over 2,000,000.00.