



## Episode 43

# The Potential Economic Implications of a Trump Presidency

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Well, here we go again. In yet another example of conventional wisdom being proven wrong this year, Donald Trump has won the U.S. presidency and Congressional Republicans have gained control of both the House and the Senate. This was by far the most unlikely scenario in many professional election projections.

The election of Trump was clearly an anti-establishment vote by rural America, who felt left behind in this feeble economic recovery that we have experienced since the financial crisis of 2008. Voters have clearly rejected higher taxes, more regulatory oversight, and greater entitlement spending, which has characterized Hillary Clinton's platform.

Markets will have to adjust to the impending reality of a Trump presidency. Nobody can be completely certain about what this will bring, as he has never been a politician, and therefore, has no real track record that we can examine.

However, based on his campaign promises, we believe these are the top implications of his win for the economy:

- 1) Increased infrastructure spending** – Rebuilding the nation's aging infrastructure is one issue that both candidates agreed upon. For example, Clinton called for \$275 billion in infrastructure spending over a five-year period to fix roads, bridges, and other needs. Trump bested that proposal by pledging to "at least double" the amount Clinton pledged to spend for infrastructure.
- 2) Substantial tax reduction** – Trump has pledged to reduce personal income taxes, essentially consolidating seven tax brackets into three — of 12, 25, and 33 percent. He also proposes cutting the corporate tax rate down to 15 percent from its current rate of 35 percent, in addition to eliminating the corporate alternative minimum tax. Trump will also tax repatriated cash—these are profits held overseas by corporations—at a one-time tax rate of 10 percent. And he's also called for the elimination of the estate or so called "death" tax.
- 3) A more aggressive trade policy is likely** - In addition to calls for greater tariffs on Chinese imports, the renegotiation of NAFTA, and the cancellation of the Trans-Pacific Partnership, Trump has promised to dramatically change the free-trade relationship with Mexico, the U.S.' third-largest trading partner, with about \$531 billion in two-way trade in 2015.
- 4) A repeal of Obamacare** – One of Trump's biggest campaign promises was to repeal the Affordable Care Act, better known as Obamacare. Now, with a Republican majority in Congress, Trump may have the support he needs to actually do so. In our opinion, many pharmaceutical and biotechnology stocks, which have been hurt badly this year by potential pricing controls implemented with Obamacare, will do much better under some sort of new system. However, we believe that health-care facilities—hospitals and many other facilities—which have benefited from a greater volume of patients, may be hurt by a potential repeal.
- 5) Less regulation** – Trump has pledged to deregulate at several federal agencies, which has been a welcomed sigh of relief for many sectors, including financials, energy, and small businesses in particular. We believe less overall regulation may stimulate more economic growth, which has been very mediocre since the financial crisis.

**6) Higher defense spending** – Trump has proposed ending the current sequester on defense spending in addition to spending a substantial amount on veteran's programs.

There are potential risks to a Trump presidency. To believe Trump can be somewhat unpredictable is a gross understatement. However, if he is able to act on his campaign agenda, we believe inflation and interest rates will head higher over time. Gross domestic product growth rates in the U.S. may actually pick up as much as one-to-two percent over the current annual growth rate of about a percent and a half.

In addition, we believe Trump's anti-trade policies may cause short-term dislocations in global growth and warrants monitoring as we move forward. Moreover, Trump isn't really a traditional Republican president, as it remains to be seen how well he can actually work with Congress. After all, the U.S. President isn't a complete dictator – we do have checks and balances in our system.

#### **Key Takeaways**

As bottom-up investors who place great emphasis on company fundamentals, we never buy or sell names solely based on who wins the presidential election. With that said, there are some areas of the U.S. economy and markets that may benefit if President-elect Trump's policies come to full fruition. The election results have come as a surprise to many of us given the poll projections. But now that the veil of who will actually be the next president of the United States has been lifted, we believe we will see positive market reaction, at least in the short term as this uncertainty has now been eliminated.