Trump Bumps & Pullback Panic: Things Aren't Always What They Seem

By Spuds Powell
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We are heading into the second half of 2017, a year so far defined by unexpected policy maneuvers, uncharacteristic geopolitical risk, and rising interest rate anxiety. As a financial professional for more than 20 years, I know I can't predict for jittery clients what the next six months will bring, but I can help them identify the critical markers needed to interpret their environment. Unsavory politics aren't always as consequential as they seem, and peaking equity performance doesn't necessarily mean a pullback.

Investors often look to their advisor to allay fears in times of uncertainty, and this year is no different. With equities hitting all-time highs in a bull run that's now more than eight years old, many investors are tempted to yank money out of the market as they brace for a correction. My first response is to advise clients to filter out emotions—political or otherwise—that might be tainting their view of the markets. Then, I offer some historical perspective and key data points they may be missing in their market calculations.

History, for example, has proven fairly consistently that politicians tend to have much less influence on the capital markets than we give them credit for. While Donald Trump-inspired rallies suggest investors remain hopeful the president will execute on his policies, there are a number of more telling economic indicators among pre-election trends, such as strengthening monthly job market numbers. Wages rose as unemployment dropped, allowing people to spend more money.

Additionally, the energy sector rebounded and recovered after a devastating drop in oil prices in 2015. We experienced economic tailwinds from an intense surge of innovation across industries, from technology and aerospace to biotech and medicine. The U.S. dollar also stabilized before the election, creating another tailwind for earnings growth.

These dynamics are further complicated by what investors believe has been—or has not been—already priced into the market. Stocks with lower tax rates have actually performed better since the election than those with higher rates, indicating the potential benefit of tax reform proposals has not yet been fully priced into the equity markets.

So, investors anticipating a 10 percent market pullback should consider the impact of a healthy job market, a strong housing market, rising employment numbers, as well as an increase in corporate profits and historically low interest rates.

Those factors point to an increase in economic growth and activity, not a sustained slow-down. There's little doubt we'll see some market volatility or even a 5-10 % market correction in equities, but that's more likely to be a short-term trend based on our current environment.

I can't tell investors how to react to market developments, or dictate what emotions they should feel when they do. But I can help them recognize the role their emotions play and stress the importance of separating the rhetoric from the fundamentals to guide them through the rest of the year. The key to interpreting the markets is sometimes just knowing there are reasonable reactions to unreasonable data. ■

Spuds Powell is Managing Director for Kayne Anderson Rudnick, a boutique wealth advisory firm, providing comprehensive wealth management solutions to institutions and high-net-worth individuals. The firm is currently ranked #3 on Barron's list of Top Independent Financial Advisors and has been among the top 10 for the last four years.

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