ClearBridge Investments

Investment Implications of a Trump Presidency

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The election results are a surprise to markets. We believe it is too early to draw firm conclusions and prefer to see detailed policy proposals rather than relying upon campaign rhetoric. In our view, there are likely positive and negative implications for the U.S. economy and financial markets from a Trump presidency and a Republican Congress.

The potential positives include tax reform, regulation and infrastructure investments. We have long advocated for tax reform and believe a restructuring of the tax code for corporations and individuals – along with a more efficient vehicle to repatriate foreign cash – will be beneficial for economic growth and spending. We also expect a less stringent regulatory environment and "friendlier" oversight for consolidation (through mergers and acquisitions) to support market valuations. Finally, the country will benefit from strong fiscal policy to rebuild infrastructure. We view all of the aforementioned as market friendly and stimulative to growth.

That said, we also have some concerns including trade, monetary policy and the direction of interest rates. Our biggest concern stems from commentary on trade and the potential impact of modifying existing treaties and agreements. We view potential restrictions on trade and any attempts to isolate or protect the U.S. from foreign trade as highly negative. In fact, this type of protectionism invokes memories of the 1930s when trade tariffs resulted in retaliation and caused the economy to eventually tumble into depression. While we do not expect this type of extremism, slower trade has the potential to mitigate some of the growth-oriented proposals. Lastly, monetary policy and interest rates remain a critical variable for both the markets and the economy generally. The proposed Trump policies are growth stimulative but also have the potential to push inflationary pressures back towards historical levels, thereby pushing up interest rates. While in the long run we believe this would eventually be healthy for savers and pensions and positive for spending, U.S. markets are very sensitive to changes in interest rates which have been excessively low for seven-plus years. Increased interest rate volatility would likely result in shorter-term market dislocations.

We have had modest expectations for stocks for the last year and a half, primarily due to a combination of lackluster growth and elevated valuations, but believe sticking with a diversified approach across our portfolios that emphasizes companies with shareholder-friendly capital allocation policies is the prudent course as we enter a new presidential cycle.

About the Author

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