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Shock and Awe in Financial Markets

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The stunning upset in yesterday's US presidential election has left many people in a state of shock. Although the polls indicated a tightening race over the last two weeks, very few observers predicted or believed in the possibility of a President-elect Trump. Yet here we are.

If President-elect Trump fulfills many of his campaign promises, the impacts will be felt across the world. His policies on immigration, trade, regulation, and taxes, among others, will have a profound effect not only on US residents but also many of our global partners and adversaries. More will be known about these effects over the coming months and quarters, but as wealth managers we are focused on the potential short and long-term impacts on our clients' financial well-being.

Markets hate uncertainty and the uncertainty created by a President Trump triggered a "sell first/ask questions later" response in financial markets. Although S&P futures were down 5% overnight as the odds of a Trump victory increased, the market has recovered more than half of that loss as this is being written (pre-open on November 9). US bond yields are sharply higher. In Europe, stocks are down about 1% after sliding as much as 2.4% earlier this morning. Amid concerns over Trump's protectionist trade policies, emerging market stocks are down more than 2%. The Mexican peso, considered an inverse indicator to Trump's presidential aspirations as a result of his antipathy toward Mexico, is down more than 8%. Anticipating a relaxation of economic sanctions, the Micex Index of Russian stocks has rallied 1.4%.

Our expectation is that asset prices will continue to experience significant bouts of volatility in coming weeks as expectations adjust to the new reality and as Trump's intentions (and limitations) become better understood.

Beyond the immediate turmoil, some of the new administration's policies could be viewed as very market-friendly. With his party in control of both the Senate and the House of Representatives, Trump may be able to enact pro-growth initiatives such as comprehensive tax reform and reduced regulation that should be good for corporate America. Trump has proposed simplifying our personal tax system down to three brackets, including a top tax rate of 33% for high earners, versus the current 39.6% rate in effect. He has also proposed reducing the tax on capital gains by eliminating the 3.8% Net Investment Income Tax imposed by Obamacare. Trump has also suggested that he would eliminate federal estate and gift taxes, while eliminating the step-up in basis for estates in excess of $10 million.

For businesses, Trump has proposed reducing the top corporate tax rate to 15% from its current 35%. Along the same lines, he also proposed to reduce the personal income tax that individuals pay on business income from pass-through entities (such as partnerships and S Corps) to 15%. These are meaningful changes that will impact the decisions of business leaders across all industries.

On the other hand, some of his professed views may have negative economic consequences as well. His plan for massive infrastructure spending, also advocated by Clinton, could have significant benefits for US job growth and economic efficiency. But without a viable means for financing, it is likely to greatly expand the federal deficit in coming years, resulting in much higher interest rates. His intention to renegotiate a number of the trade agreements with other nations (e.g. NAFTA) to our advantage may improve our economic competitiveness, but also run the risk of inciting a trade war with many of our important partners. The outcome could result in higher prices for US consumers and less trade.

Regardless of your political views, one must acknowledge that Trump has tapped into an important vein in the American psyche, one that many of us in the wealthier segments of society have failed to fully appreciate. Whether he can deliver on many of the promises he made during the tumultuous campaigning season, having alienated many members of both parties, remains an open question.

There will undoubtedly be both winners and losers as a result of last night's surprising outcome. Our job as investors is to consider all of the possibilities and make informed judgments about the likely impact on our clients' portfolios. In coming days, we will be providing additional comments to clients as our thoughts evolve.

In the meantime, please feel free to reach out to your client team at Ballentine if you have further questions.

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In addition to working directly with a number of family clients, Bruce serves on the Investment Management Committee, which is responsible for the oversight of all of the investment activities for the firm. Bruce rejoined Ballentine Partners in June 2016 as Managing Director and Director of Portfolio Research after more than 5 years as Chief Investment Officer of City National Rochdale, LLC, in Los Angeles. City National Rochdale, a wholly owned subsidiary of City National Bank, serves family clients across the United States with a staff of nearly 100 investment professionals. Before moving to Los Angeles, Bruce served as Chief Investment Officer of Ballentine in our Waltham office for three years. Prior to that, Bruce spent four years with Morgan Stanley Private Wealth Management in New York and eight years with Glenmede Trust in Philadelphia as Chief Investment Officer and Portfolio Manager. Bruce received an MBA with a concentration in Applied Economics from George Washington University and a BS degree in Business Administration from Penn State University. Bruce holds the Chartered Financial Analyst (CFA) and the Certified Private Wealth Advisor (CPWA®) designations. He lives with his wife in Palm Beach Gardens, Florida.