

Markets Struggle for Post-Election Clarity

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With last week's historic election now behind us, investors are feverishly recalibrating their plans in light of its stunning outcome. The despair registered in the early hours after the polls closed on November 8 turned sharply into euphoria as investors focused on the "pro-growth" agenda of a Republican president and control of both congressional chambers. Since the election, those industry groups perceived as winners (e.g. banks, pharmaceutical companies, and industrials) have staged enormous rallies while other groups (e.g. utilities, consumer staples and technology stocks) have struggled.

Despite the headlines noting the all-time highs achieved by the Dow Jones Industrial Average last week, other financial assets were decidedly more mixed. After a gradual rise in October, interest rates bolted higher, driven by concern over the new administration's plans for tax cuts and aggressive infrastructure spending that may substantially expand the federal budget deficit and/or lift inflation. The yield on the 10-year US Treasury bond rocketed from 1.70% before the election to just over 2.2%, resulting in a paper loss of about 1.5% on a diversified bond portfolio in just a week. Higher US interest rates and a strengthening dollar also caused sharp losses in REITs (down 9.5% since September 30), MLPs (down 4.5%), and emerging market stocks (down 7.8%). So despite the bullish headlines, most diversified portfolios are posting negative returns for the quarter.

Are these substantial moves in asset prices likely to be vindicated by future changes in underlying fundamentals? And if so, is it too late to adjust portfolios to take advantage?

In our view, the markets have responded to a set of possi-

ble outcomes based upon extremely limited information. In only the first week, we have already seen President-elect Trump make substantial modifications to his campaign pledges. It seems likely that his goals of stimulating the economy through aggressive infrastructure spending, cutting tax rates, and dismantling regulations is likely to accelerate economic growth in the medium term and benefit certain industry groups. But guessing the economic impact and timing of these proposed changes, assuming he can persuade Congress to accept them, seems premature at this point.

We believe that the era of slow, steady economic growth, low interest rates, and a bias toward "doing no harm" at the Fed that has persisted for almost seven years is coming to an end. The new administration is likely to take a radically different approach to economic policy than the previous one. Therefore, we expect that financial markets will remain on edge as these plans are solidified, presenting speculative opportunities in the short term and investment opportunities over the longer term. Our focus will be on the latter.

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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.

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