

The Only Certainty is Uncertainty

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Irrespective of your political views, one must acknowledge that big changes are afoot in Washington. Trump supporters applaud the aggressive style of the new administration's take-no-prisoners approach, while liberals cringe at the thought of the damage that might be wreaked on their fundamental beliefs over a four-year presidential term.

After a sharp stock market rally that ensued immediately after Trump's come-from-behind victory, financial markets have moderated as the realities of governing in the real world have begun to sink in. Investors were initially enthused by Trump's plans to cut corporate and personal income taxes, reduce business regulations, implement a \$1 trillion infrastructure program, and negotiate trade deals more favorable to the United States. While supportive of the ideas, Republicans are wondering how all of this will be paid for. Boosting spending on programs favored by the administration while at the same time instituting dramatic tax cuts that will reduce government revenue is likely to blow a big hole in the federal deficit unless accompanied by a meaningful pickup in economic growth. While it sounds great, the historical success of this policy prescription is inconclusive at best.

Businesses are turning more skeptical on the outcome of the whirlwind policy pronouncements of the first days of the Trump administration. Fundamental laws of economics would indicate that Trump's hardline stance on trade with Mexico is unlikely to shift much production back to the US. (Consider that the average hourly manufacturing compensation in Mexico is \$5.90 versus \$37.71 in the US, according to the Bureau of Labor Statistics.) Most economists agree that the imposition of a 20% tariff on Mexican imports would only increase costs to American consumers.

Corporate executives, especially in Silicon Valley, are grumbling over the administration's new restrictions on immigration, worried about the stability of the large numbers of their foreign-born workers to remain in the US.

Nonetheless, if President Trump is successful in reducing the corporate income tax rate from 35% to 20% or so, some analysts predict a bump in corporate profits on the order of 10-15% in the year of enactment. Furthermore, his plans to reduce taxes on repatriating offshore cash held by domestic corporations could mean a big boost in dividends and/or share buybacks. Both of these actions are likely to be quite bullish for stocks.

At this point in the new president's tenure, the only certainty is uncertainty. Our view is to give the new administration the benefit of the doubt, believing that the circle of advisors surrounding Trump are likely to warn him of the potentially damaging effects of some of his policies on the American economy. Nonetheless, for those investors concerned about the direction our new president is taking, our advice is to make sure your portfolio is adequately diversified to weather any potential downside. And keep in mind the time horizon of your assets: it took only about five years for the S&P 500 to recover all of the nearly 50% decline of 2008-'09. If you are invested for the long term, this may only be a passing squall.

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Bruce is a Managing Director and Director of Portfolio Research at the firm. Bruce rejoined Ballentine Partners in June 2016 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 in Philadelphia as Chief Investment Officer and Portfolio Manager. In addition to working directly with a number of family clients, Bruce serves on Ballentine's Investment Management Committee, which is responsible for the oversight of all of the investment activities for the firm. 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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