



The Election Results are Final: What it Means for Investors

On Thursday, November 10th, Thomas E. Nugent, Executive Vice President of Victoria Capital Management, Inc., was interviewed about the firm's initial outlook for the economy and financial markets given the surprising results of the election. Here are some snippets from that interview:

Question: We've had the surprising result of a Trump victory. Let's talk about what this means for investors. Let's start with the big picture first. What are the key macro data points?

This surprising election result ushers in a new economic era where the principal tenets of capitalism: free markets, less government regulation, and a focus on strong economic growth will characterize the U.S. economy for the foreseeable future. This outlook includes a favorable stock market environment but a time when interest rates are likely to be rising. A strong U.S. economy implies a stronger dollar in world currency markets indicating a less optimistic framework for large multinational companies while favoring smaller companies that rely on domestic sales. The president elect's commitment to lower tax rates, both for individuals and corporations should accelerate economic growth, raise tax collections and lower the budget deficit.

Question: What does this Trump victory and resulting policy implications mean for the Federal Reserve and upcoming rate hikes?

The current level of interest rates continues to benefit borrowers and penalize savers. If interest rates are pushed higher by the Fed, it just means a wealth transfer from borrowers to savers. The real role the Fed plays in the economy is functioning as a safety net in a time of financial crisis. Raising interest rates by ¼% at a time will not affect the overall economy. If the Fed acts to raise interest rates a lot higher then we will have to contend with a strong dollar.

Question: We have been hearing more about the potential inflationary pressures that could be the result of a more expansionary fiscal policy from a Trump presidency. Should investors be concerned about rising inflation?

Over the past forty years, inflation was driven by the OPEC monopoly on constantly higher oil prices that permeated virtually every aspect of American life. The effective collapse of OPEC due to the fracking discovery implies that inflation emanating from higher oil prices will be minimal. We can increase production of virtually everything made around the world. There is no longer a concern that we will experience surging prices because of a shortfall in supply. The real culprit causing inflation is government regulation—one area that the new president will be committed to reducing. We don't see inflation as being a factor that will impede overall economic growth.

Question: All right, so there is a lot of uncertainty out there on the macro side. Clearly there is a lot of uncertainty in the financial markets too. How should investors be thinking about the market reaction in the short, medium, and long term of this Trump win?

The election outcome has dramatically reduced that uncertainty. The stock market's shifting sands to find the biggest winners in a Trump presidency has not yet been resolved. By March of next year, we should have a good idea of how successful the president is in implementing his plan of action. Remember he is a successful businessman and not a politician so the results of his leadership will be on display from day one in the White House. Equity markets are reflecting the growing expectation for a better economic environment and renewed economic growth. We don't see a collapse in bond prices as inflation is not a threat and Fed policy is unlikely to be aggressive in raising interest rates. As the new president's economic policies gain traction, stock prices should move higher.

Question: Would it be fair to say that there are some countries out there that may take advantage of Trump's more nationalist approach to foreign policy?

I question the implication of a Trump nationalist policy. His commitment to make America Great Again implies that his decisions will favor Americans first but not to the detriment of cutting off their access to inexpensive foreign products. His trade policy will ask only for trade agreements that make sense and are not open for other countries to cheat on that agreement. Accusations of trade wars are nonsensical and grist for a political contest only.