Investment Insights

Fredric Lutcher, CFA

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The 2016 Elections - Initial Thoughts

Fredric Lutcher, CFA
Managing Partner

As investors try to interpret the recent election results, we have put together a short report on our initial thoughts. We continue to believe it is much too early to step in and make wide-sweeping predictions about what is going to happen in intricate detail like many market strategists have already done. Similar to our advice after the surprising Brexit vote back in June, we counsel investors to step back for a moment and take a few deep breaths. Even as we write this a week after the election, there are still so many moving parts and unknowns that to make major portfolio shifts based on macro beliefs or themes may be foolhardy at best.

In the days since the election we have seen a shift from "candidate Trump" to President-elect Trump as evidenced by a more sober and pragmatic list of priorities. This helps to discern where the most likely changes will be seen from the new administration.
What we feel confident in at this point:

- We are optimistic over the intermediate term for US equities because overall wages have begun to move higher, corporate earnings are coming in better than expected, investor sentiment remains too negative, and the market is likely to respond well to the uncertainty of the election being behind us.

- After the Brexit vote and now the US election, it is pretty clear that political polls are deeply flawed.

- The initial market reaction was partially due to uncertainty and shock rather than in response to President-elect Trump's policies (since we are not completely sure what they will be). However, pro-growth policies are generally positive for the capital markets.

Tandem Investment Partners LLC
www.tandeminvestment.com

29 Emmons Drive, Suite A-5
Princeton, NJ 08540
Tel 609-452-2100
Fax 609-916-1280

220 S Pleasant Street
Prescott, AZ 86303
Tel 928-521-5628
Fax 928-458-7100

- President-elect Trump has promised to make it easier for small businesses to hire people and run efficiently (less regulation). If done successfully, this has the potential to increase economic growth.

- The likely changes in the healthcare insurance system are expected to be positive for consumers and corporations via lower costs and more certainty.

- Significant changes in the corporate tax code should incentivize US-domiciled companies to remain in the US as well as repatriate hundreds of billions of dollars which can be used for infrastructure spending and hiring.

- The new administration will be more positive for energy exploration which should help keep energy costs lower than had been expected.

- The overbearing regulatory burdens on the financial sector following the banking crisis (mainly the Dodd/Frank rules) will be scaled back significantly. This would allow individuals and small businesses to borrow more easily which should encourage economic and job growth.

- The expected improved US standing in the world provides a better environment for US multinational companies.

- Interest rates will probably increase modestly, as we had long been expecting. An improving economy will cause a nautral and gradual increase in interest rates. The sharp uptick in rates since the election may be an over-reaction.

While the post-election situation will continue to develop and evolve over the coming weeks and months as the Cabinet is built out and more legislative priorities are released, these initial points should help investors set a road map for the coming months. At Tandem, we do not favor one candidate or party over another. Rather we try to discern how each would affect business in the United States and thus the overall economy and investing climate.