Bull & Bear Bulletin

Volume 7, Issue 7 November 2016

Cultivating relationships for over 30 Years Since 1984

Valicenti Advisory Services, Inc.

400 East Water Street
Elmira, NY 14901
607-734-2665
Fax: 607-734-6845

447 East Water Street
Elmira, NY 14901
607-733-9022
Fax: 607-734-6157

24 West Market Street
Corning, NY 14830
607-936-1203
Fax: 607-936-0213

www.valicenti.com

Asset management as individual as you

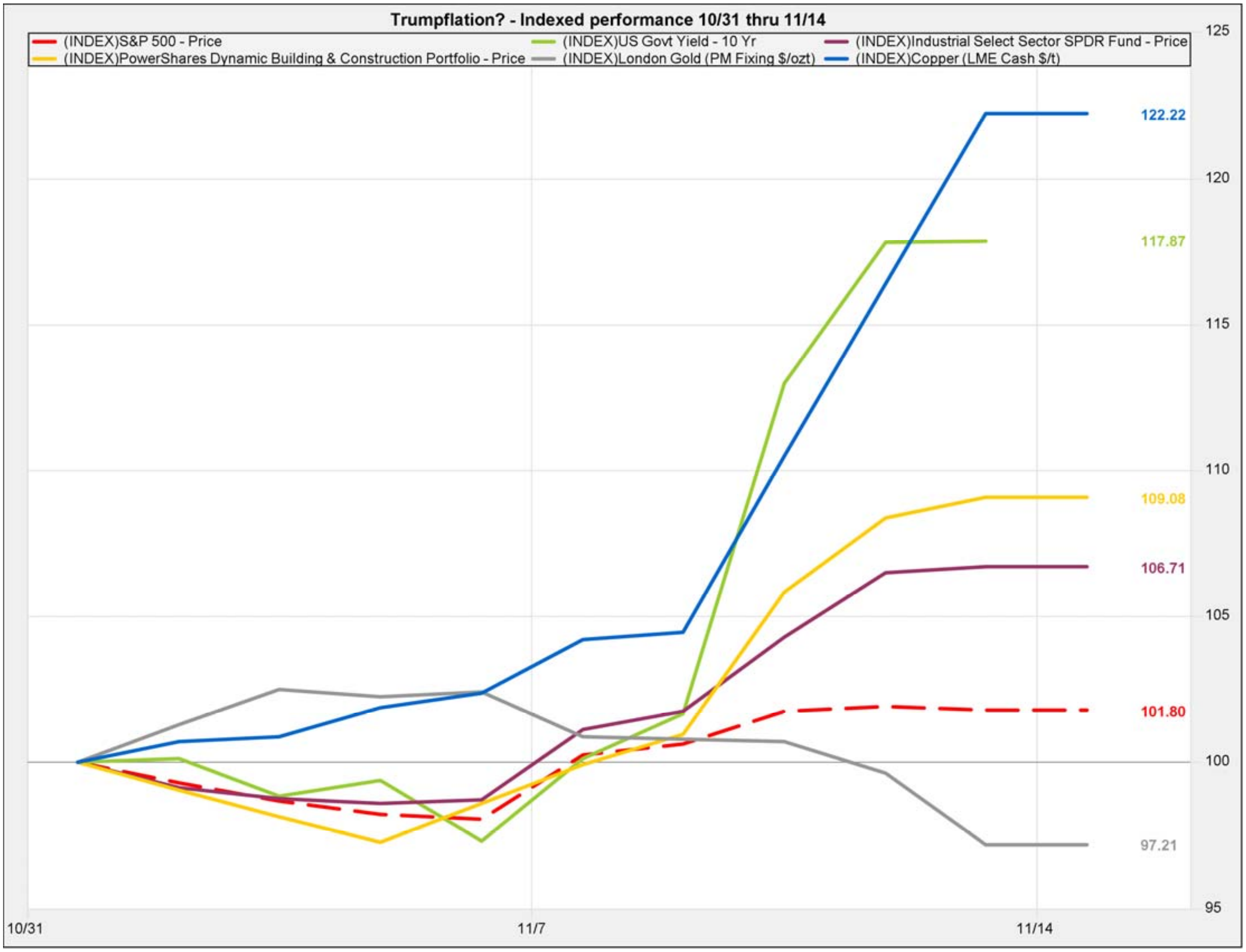
An on-line publication by The Investment Committee

Trumpflation?

While it may not be wise to draw firm long-term conclusions from the short-term market trends that emerged after the U.S. Presidential election, the recent price action may be instructive about market participants initial thinking on the matter. The general market conditions this year have existed against a backdrop of low growth both here and around the globe. Equity markets have experienced some bouts of volatility, though a mid-single digit return has been realized in the S&P 500 index concurrent with a continued low interest rate environment. Mr. Trump's win jolted the market complex initially, as reports on election night indicated that equity overnight futures markets were selling off quite significantly. The nature of the stock market is often over-reactive in the short-term around such big consequential events. The follow through selling when markets opened the next day did not really materialize. Expectations moved fairly quickly towards Mr. Trump's policy objectives on infrastructure spending, corporate taxation, limited trade protectionism and regulatory reform. Capital allocators likely began to factor in their commercial business friendly attributes.

Without going into too much detail about specific stock or sector winners and losers in the equity space, we can observe that broad market indices ultimately rallied higher as normal trading began on Wednesday. More significantly, the bond market sold off sharply which simply means that longer-term interest rates moved higher rather quickly and both the equity and bond market trends carried through the next few days. The accompanying graph shows the indexed performance of the S&P 500, U.S. Government 10 year yield, industrial and construction sectors, copper and gold. All of these moves are unsurprising given the expectations around this reflationary narrative. Cyclical industrial sector names and base metals have rallied, significantly outpacing the S&P 500. Interest rates have moved sharply higher and gold, the perennial safe haven, has lost some luster near-term. The Republican retention of both houses likely provides further "wind in the sails" as easier passage of policy may be anticipated.

Using historical business cycles as a guide, it goes something like this: **Faster growth** leads to **higher interest rates** and **higher equity prices**. This then usually over time transitions to a period of **interest rates that become too high** which in turn leads to a **slowing down of growth and profitability** in the economy and **lower equity prices** are the result. Once again, the cycle completes as **interest rates are lowered** in order to work through the downturn. After 9 years of extraordinary monetary policy, interest rates are very low concurrent with a seemingly intractable low level of growth. Policymakers and market participants have been looking for a true economic reflation for some time now. The recent optimism over this reflationary theme may or may not be followed by a true environment of growth over the next few years. One thing is certain, if Mr. Trump won an improbable victory by threading a needle on election night by winning the upper Midwest states in what was his narrow path to the White House, his policies will similarly have to thread a needle in order to create a real environment of growth and reflation over the next few years. It will be a hard task to get right, but it will give Bulls and Bears plenty to argue about over the coming months and years.



Source: FactSet