

Election 2016 Recap

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At his final rally of the campaign, Donald Trump told his supporters that victory would be “Brexit +++.” As Americans went to the polls on Election Day, most major media outlets showed the Republican candidate trailing. Throughout the night, Mr. Trump score a series of victories in battleground states, including parts of the Industrial Midwest. By 2 AM CST, Mrs. Clinton conceded the race.

Last night’s victory was truly historic for many reasons. First, like Brexit earlier in the year, polling data proved to be inaccurate. It failed to account for the groundswell of angry voters who feel left behind by a global and digital economy. Americans in many Democratic stronghold counties voted for Mr. Trump despite his never holding an elected office. The British and American elections of the last six months prove that populism is real. That has major ramifications for upcoming European elections, beginning with Italy on December 4th.

Perhaps the biggest loser of the night was President Obama. Mr. Trump campaigned vigorously for months vowing to overturn many of the President’s accomplishments. With so much of President Obama’s legacy tied up in a series of executive orders, Mr. Trump can keep his promise to voters with a stroke of the pen. For items that require legislative action, the odds of overturning major parts of Obama’s agenda improved greatly as Republicans kept control of both the House and Senate.

Media reports last night showed S&P 500 Futures dropping precipitously as Mr. Trump neared victory. By the time markets opened this morning, markets were flat. Healthcare stocks were the best performers on speculation that Obamacare would be repealed. Inside of healthcare, biotechs were up the most as fears about drug pricing eased. Financials were another strong performer. Mr. Trump vowed to reduce regulations, which have hampered the sector since the passage of Dodd-Frank in 2009. Financials also rallied as interest rate spreads widened. Finally, infrastructure stocks were also outperforming.

As we move forward, it is still too earlier to make a definitive call on the economy. Mr. Trump’s call for infrastructure spending and reduced regulation are very simulative; however, his anti-trade rhetoric could serve as a detractor. The problem with the Trump campaign has been its lack of details of how he plans to implement his proposed changes. This is what gives us the most pause.

The populist movement continues to gain ground and will likely show up in upcoming elections in Europe. Although it appears no other countries will exit the European Union, the polls show right-wing populists and nationalists will gain ground throughout Europe, thereby making it increasingly difficult for European parliaments to address major structural problems hobbling their economies. This is why we still recommend an underweight position in MSCI EAFE.

Finally, we still believe the most important determiner of future stock returns are the actions taken by the world’s central banks, led by the Fed. As of this morning, the probably of a 25 bps hike in the Fed Funds Rate in December remains over 75%.

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