DFM
Diversified Financial Management

80 Washington Street • Building E-13 • Norwell, MA 02061
781.792.0440 • Fax 781.792.0606
dfm@dfmwealth.com

ECONOMIC AND INVESTMENT FORECAST
November 2016

One of the most memorable and divisive U.S. presidential elections culminated in the unexpected victory of the populist and anti-establishment candidate Donald Trump. The win for the Republican nominee came as a great surprise, as most national polls had Hillary Clinton ahead and projected additional down-ticket victories for the Democratic Party. In the end, it was a clean sweep for the GOP, with the Republican's full control of Congress having potential far-reaching consequences for economic, social, and geopolitical policies in the years ahead.

Global markets were clearly caught off-guard by these developments, with the Dow Jones Index falling about 800 points as the election results took shape, only to reverse course and increase by about 1000 points in the ensuing days. While a Republican sweep of the Executive and Legislative branches has historically been very bullish for markets, unease on the part of investors can be expected until more is learned of Donald Trump's cabinet choices and his immediate policy goals as president.

One week removed from election day, the president-elect has demonstrated a more conciliatory tone in his first public appearances, which included a civil meeting and conversation with President Obama. Investors, in turn, have pivoted to a more bullish stance, envisioning a Trump administration that will pursue a growth-oriented agenda. Lower taxes for businesses and individuals, coupled with $1 trillion in potential infrastructure spending over the next five years, could certainly propel economic activity. In addition, rolling back regulations in industries such as energy, banking, and healthcare is also popular within the Republican party, and deemed pro-growth by business leaders and economists alike.

While a strong economy and rising asset prices are typically welcomed by investors, these conditions can also be accompanied by inflation and higher interest rates. Although Trump won't be sworn in as president for several more weeks, interest rates have been adjusting higher in a meaningful way. The ten-year Treasury rate, for example, has moved from about 1.6% to 2.25% in a matter of days, which is of major consequence for bond investors (as bond prices fall when rates rise). These developments are of interest to Fed Chair Janet Yellen, who will be overseeing a key monetary policy meeting next month and is expected to announce a further tightening (by increasing the Fed funds rate by .25%).

In closing, fundamentals of the U.S. economy remain on solid ground, with third quarter GDP growth registering at 2.9%, more than double the increase of the prior quarter. Consumer spending, which accounts for about 70% of the overall economy, continues to expand with the support of a strong job market and healthy housing trends (which bolsters consumer confidence). Looking ahead, corporate America now has the certainty and clarity that comes with a completed presidential election, to go with momentum in the broader economy. Recently released third quarter earnings announcements have exceeded analyst expectations, with companies offering encouraging guidance for sales and profits in 2017. Finally, an additional post-election boost to American business could come in the form of a repatriation of $2.5 trillion of corporate cash parked overseas. That breakthrough, coupled with hoped-for corporate tax relief, have investor and business leader optimism brimming. Going forward, it will be largely up to our political leaders to deliver on these various campaign promises and sustain this new-found optimism. With markets at or near all-time highs, and the economic recovery in its later innings, our political leaders and policymakers have little room for error.