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Trump Trade Redux?

Global Markets and Regions

	3rd QTR	2017 YTD
US	4.50%	14.50%
Developed Europe	6.18%	23.40%
Asia	5.42%	23.40%
Emerging Markets	8.26%	28.10%

US Markets

	3rd QTR	2017 YTD
Dow 30	5.50%	15.50%
Large Cap Cos.	3.86%	14.00%
Mid. Cap Cos.	3.18%	9.33%
Small Cap Cos.	6.16%	8.86%
Bonds	1.02%	3.47%

Donald Trump campaigned on a specific economic agenda. Despite all of the other issues and non - issues that came to define last year's presidential race, the markets paid attention. Once the initial surprise of Trump's improbable victory was absorbed, the markets began a relentless two and a half month rally. Tax cuts, Obamacare repeal, regulatory relief and infrastructure spending seized the market's attention. This is what the markets had been waiting for. A growth agenda was suddenly in the mix. Since the Great Recession, monetary stimulus and quantitative easing have been key drivers of stock prices by funding dividend increases and corporate stock buy backs. Surely corporate America's ability to grow earnings was also a key driver, but the concerns over the quality and sustainability of those earnings was suspect, due to the ease of financial engineering in the era of Central Bank suppression of interest rates. The fiscal side of economic growth was about to get a reboot.

By early 2017, it was becoming apparent that the non-professional politician Donald Trump and the home of professional politicians, Washington D.C., had a lot to learn about each other. It appears they are still early in that process. Most, but not all, of the original agenda has been sidelined by the political process. Markets tempered their enthusiasm and sort of settled back onto the old themes of slow growth, modest inflation and accommodative Central Banks. Those companies capable of growing earnings and sales in such an environment had their share prices rewarded; think Apple, Netflix, FaceBook. The rest of the market has been left in the "slow lane" dictated by the macro economic reality.

That reality has been essentially slow but steady US economic growth accompanied by a benign inflation environment. Global growth has picked up. Europe has somewhat stepped back from the geopolitical and economic brink and begun to add to global growth, which is a positive for US multinational companies. Japan has returned to the status of a global growth engine. China and India are in growth mode and Latin America has survived the melt down of Venezuela as Brazil, Argentina, Columbia and Chile have demonstrated modest growth. Through all of this companies have been able to deliver steady modest earnings growth that has been able to sustain stock prices. The markets have not given up hope on a return to a more growth oriented future.

The failure to repeal or repair Obamacare has been a disappointment, but market expectations were low and the primary impact of the non-action on the healthcare front is on state and local governments. The private sector has been operating under Obamacare and has at least learned to live with it. There has been some improvement in the regulatory regime, mainly due to the new Administration using the same tools and techniques the prior Administration used. Executive orders rather than legislative actions are easily reversed. Deliberating and passing laws is how our government is supposed to work. As for infrastructure investment, hurricanes Harvey, Irma and Maria may deliver what our politicians haven't been able to. That leaves tax reform. That game has just begun and it appears to have the market's favorable attention, at least for now.

The same slow growth low inflation economy continues to plod along. It doesn't seem to matter who occupies the White House, which is the same pattern of the last several years. The Executive branch makes the headlines and the Legislative branch just sort of does whatever it is they do. The economy is at least still improving. This has ended up being one of the longest expansions on record. The longevity of this business cycle may be attributed as much to its lack of vigor as to any other factors. Instead of economic boom followed by economic bust, we've just had a slow steady melt –up. That being said expansions don't go on forever. Sooner or later another recession will ensue and this current expansion is beginning to exhibit late cycle characteristics. We may be in the late innings of a familiar game. We'll see how markets respond as that inevitability gets closer.

In the background and sometimes the foreground, because they can make headlines too, is the Federal Reserve. Their role is to keep the economy from overheating in order to limit the damage of economic downturns. They are the keeper of the punch bowl at the party; in this case the monetary punch bowl. When they take it away bad things happen in the economy. The normal targets for Federal Reserve action are not really flashing yellow. The economy is not over heating, yet they have still insisted on tightening policy. We'll see in the coming months whether the economy can live up to their expectations.