

# The Triumph of Populism: Our Initial Thoughts

**“Be assured ...that there is a great deal of ruin in a nation.”** Adam Smith, 1777

In 1777, the future looked far from bright for Britain. The country was bleeding itself dry in North American wars, first against the French and then against their own colonists. This is what led John Sinclair to lament to Adam Smith that **“If we go on at this rate, the nation must be ruined,”** which elicited the skeptical reply above from the father of modern economics and capitalism.

The Poles were wrong. The Predictive Markets were wrong. The Experts and Pundits were wrong. We were wrong. Our view of Trump:



Whether you agree with the above or not, how will his election affect our investments (which is a different question than what the election portends for the country as a whole)? It was a wild ride. First the S&P 500 was down for 9 consecutive days, which hadn't happened since 1980. Sunday's second letter to Congress from FBI Director Comey on the latest batch of Clinton emails resulted in the 3rd-best two-day pre-election rally of the

past 16 as the odds of a Clinton win grew. Then, as the likelihood of a Trump victory increased late last night, stock index futures began to fall. At its worst, the Dow was down 800 points, while the S&P 500 and NASDAQ were limit down at -5%. The Mexican Peso hit a record low and Japanese stocks were down over 5.6%. Stocks started lower this morning, but then rallied, with the Dow closing up 257 points (1.4%), while the S&P 500 gained 1.1%. Stocks adjusted rapidly to the new Geopolitical environment without any corporate news.

**Interest rates will continue to rise.** The yield on the U.S. 10-year Treasury climbed to over 2% today, with Real Estate stocks continuing to fall. Unless there is significant market turmoil between now and the FOMC's meeting next month, the Fed Funds rate will be increased by .25%, with more increases to follow next year. Rising domestic interest rates relative to the rest of the world will result in the dollar heading higher. Per BCA Research's November 9th Global ETF Strategy, "Multinationals are prominent among the S&P 500's largest constituents, and since 2011, the broad trade-weighted dollar index has exhibited a robust negative correlation with S&P 500 earnings. ... In a rising-dollar environment, U.S. firms competing globally face the unpalatable choice of protecting their margins and ceding share, or ceding share to defend their margins. ... That view also informs our allocations to mid- and small-cap U.S. equities, which are more domestically focused than their large- and mega-cap counterparts."

**Obamacare will be repealed.** It is a tax on those of us that can afford insurance to subsidize those that can't. It's death will effectively be a tax cut. Hospital stocks were sliced and diced today while Pharmaceutical companies rallied, as price controls are now less likely. Mallinckrodt (MNK), a Specialty Pharma held by most HCM clients, was up 10.4%.

**Dodd-Frank's days are numbered.** Bank stocks rallied accordingly.

**Tax rates will be cut,** particularly for Corporations. This will be positive for stocks.

**Fiscal austerity is out,** although how a \$616,000,000,000 deficit in the 7th year of a recovery can be seen as austerity has distorted the definition beyond recognition. **Infrastructure spending** will increase significantly. Although positive for our economy, thanks to Dynamic Scoring it won't be paid for, which will be inflationary. H&E Equipment Services (HEES), also owned by a majority of our clients, was up 17.6%.

**Freer Trade is dying.** TPP is dead. Globalization is in retreat, and that is also inflationary. One of our favorite stocks for clients focused on Capital Appreciation is LG Display (LPL), a Korean manufacturer of digital displays, which ended down 5.6%.

**Populism remains on the rise.** A Clinton victory would have kept left wing populism at bay in the Democratic party for 8 more years, but it now has the potential to take control in 2020. The economic policies of a Senator Warren are a deep concern. One of our favorite quotes comes from Roger Dornbusch and can apply equally well to politics: **"In economics, things take longer to happen than you think they will, and then they happen faster than you thought they could."**