



**Philequity Corner (December 12, 2016)**  
**By Wilson Sy**

### **The Trump Card**

Donald Trump's shocking win in the US presidential election initially triggered a massive 1,000-point drop in the Dow futures and caused global stock markets to tumble. Investors became anxious about the prospect of a Trump presidency due to his vicious campaign rhetoric, which included prospective protectionist and anti-immigration policies. For many, it was a déjà vu of the startling outcome of the Brexit vote in June.

### **From panic to euphoria**

In yet another surprising twist, the stock market miraculously reversed after the initial scare following Trump's win. Trump's conciliatory tone in his post-election speech calmed nervous investors. Thereafter, his pronouncements about implementing pro-business and pro-growth policies gave investors many reasons to be bullish. This set the stage for an epic run in US stocks.

### **All-time high**

Starting from the spike bottom of the Dow futures in November 8, the Dow has surged more than 2,300 points in 22 trading days. Last Friday, the Dow closed near the 20,000-point milestone. The speed and magnitude of the move resulted in one of the fastest rises of US stocks in history. Moreover, the Dow, along with the S&P 500, Nasdaq and Russell 2000 reached new all-time highs last week. This is the first instance since 1999 that all four major US indices touched all-time highs at the same time. In our book *Opportunity of a Lifetime* (Chapter 3 – *Staying the Course*) and in a previous article (*New High Means Higher*, September 20, 2010), we said that stocks or indices which make new all-time highs will likely continue to move higher.

### **Reasons behind the run-up in US stocks**

Below, we enumerate the catalysts and reasons that drove the post-election surge in US stocks.

- 1. Trump's conciliatory tone after the election.** Right after winning the election, President-elect Trump made a conciliatory speech which served to calm the stock market. He reached-out to political rivals such as Democratic candidate Hillary Clinton and outgoing President Barack Obama. His post-election tone has so far been a stark contrast to the combative and belligerent rhetoric that he used throughout the campaign.
- 2. Infrastructure spending.** Trump has stressed that his administration plans to prioritize infrastructure spending, which has been neglected in the past years. His pronouncements have caused US equities to surge, especially infrastructure and material stocks.
- 3. Fiscal stimulus and reflation story.** The Trump government intends to use fiscal stimulus to complement accommodative monetary policy in promoting economic growth. These policies aim to break the trend of slow growth which has plagued the US economy for many years now.
- 4. Higher inflation outlook.** Trump's plans have so far led to an increase in inflation expectations. These go hand-in-hand with the Fed's goal of combating deflationary forces that continue to drag the US economy.
- 5. Higher interest rates.** Interest rates are expected to move higher in a faster pace while bond yields have surged since Trump's win, thereby contributing to the strength of the US dollar. With the

FOMC meeting next week, it will be crucial to monitor how the US dollar reacts to the impending Fed rate hike.

6. **Strong US dollar.** The higher inflation outlook and higher interest rates have resulted in a strong US dollar. All these have caused increased equity fund flows into the US.
7. **Shifting from bonds to equities.** Expectations of higher inflation have triggered a selloff in bonds, thus causing a massive shift from bonds to equities.
8. **Financial stocks lead the way.** The financial sector, which is one of the biggest sectors in the US stock market, led the surge in US equities. US banks stand to benefit from a potential push-back in regulations, higher interest rates and stronger economic activity.
9. **Deregulation.** Trump has repeatedly said that loosening existing regulations, especially for banks, is part of his government's agenda. Generally, this is positive for corporates, as it would allow companies to conduct their business activities more freely.
10. **Pro-business, pro-growth policies.** At the forefront of the Trump and Republican agenda is the implementation of pro-business policies which will likely lead to faster economic growth. This has fed the enthusiasm of businessmen and investors, resulting in increased confidence in the stock market.
11. **A band of billionaire appointments.** Trump has been busy getting more businessmen to join his Cabinet. Many of these are billionaires and Wall Street veterans, thereby inspiring business and investor confidence.
12. **Lower corporate taxes.** One of the main policies of Trump is the lowering of corporate tax rates. If implemented, this will be accretive to the earnings of US companies.
13. **Repatriation of overseas US dollars.** Trump has made pronouncements that he will encourage US companies to repatriate offshore US dollars, which are estimated to be at least one trillion US dollars. If executed, this will contribute to US dollar strength and may result in a shortage of US dollars in other countries.
14. **Jobs, jobs, jobs.** One of Trump's main campaign promises is to boost job creation in the US. So far, he has been busy doing the rounds, personally talking to companies to bring back jobs to the US or create more jobs in the country. So far, companies such as Japanese telco Softbank, US Steel and Carrier have pledged to accelerate investments and bring back or create more jobs in the US.

### **Stars are aligned for US stocks**

**The reasons and catalysts that we enumerated above are feeding off each other, creating a halo effect for US stocks.**

The Trump government's plans to engage in fiscal stimulus and widen the budget deficit to fund infrastructure spending have resulted in a higher outlook for inflation. Consequently, this has resulted in higher bond yields, as well as expectations of faster hikes in interest rates. All these contributed to the continued strength of the US dollar, which is already trading at multi-year highs.

Meanwhile, various pronouncements about lower corporate taxes, less regulation, better job creation, repatriation policies and other pro-business initiatives are expected to boost economic growth. These policies are aimed at breaking the trend of slow economic growth that has plagued the US economy following its recovery from the 2008 global financial crisis.

Given these, it seems that the positive catalysts for the US economy and the stock market are all aligning at the same time. Consequently, global funds have continued to flow into the US equities market. **This is the president-elect's trump card. From expectations of a black swan and doomsday scenarios, Trump's win has suddenly turned into a golden swan for the US stock market.**

### **Will EM stocks follow the US bull run?**

The US run-up has gone beyond banking and infra stocks and has now broadened into other sectors. A rising tide is lifting all boats in the US stock market. European and Japanese indices have also started moving higher. On the other hand, EM stocks fell sharply and continue to lag US equities because of the strong US dollar, the threat of trade wars and potential protectionist policies. It remains to be seen if EM stocks, including the Philippines, will follow the US bull run.

### **A whole new world**

This year, we have seen a massive shake-up in global politics. It seems that a new world order is emerging, driven by a clamor for change, politics of anger and populism. What is also impending is a restart of relationships between different countries. It is definitely hard to predict what other shocking developments are in the offing. We should therefore monitor how recent events will affect the global macro picture. In a period of underdog victories and black swans, investing has become more challenging but also more interesting. For the US stock market, Trump has transformed from an ugly duckling into a beautiful swan.

### **Beyond expectations**

Congratulations to the LaSalle Green Archers for winning the UAAP basketball championship. The Green Archers were touted as the heavy favorites for this year's tournament. They were on their way to a 14-0 sweep when they were unexpectedly derailed by the Blue Eagles. Composed mostly of rookies and sophomores, the Ateneans unexpectedly performed well this season under the astute guidance of former national team coach Tab Baldwin. Very few expected this young Ateneo team to reach the Final 4, much more the UAAP Finals. They put up a valiant stand in the Finals against the juggernaut LaSalle squad. Even though the Blue Eagles did not win, they showed tremendous fighting spirit and maturity well above their young years. In this year of the underdogs, the Ateneo Blue Eagles have definitely performed beyond expectations.

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