

## Thoughts on President Trump

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Tomorrow, Donald J. Trump will be inaugurated as our forty-fifth president. Fasten your seat belts. We cannot remember any previous incoming administration that has produced more head scratching than this one. There have certainly been other controversial administrations -- American political history is full of seismic events and unexpected twists -- but this one ranks near the top of unpredictability. The uncertainty about what the next four, or eight, years may hold for us is due to the uncertainty surrounding Donald J. Trump.

Donald Trump has conducted his political life in an unconventional, and still evolving, way. This may go a long way towards explaining why voters chose him. A significant portion of the population, fed up with partisan squabbles, a moribund economy and a political class that seemed more interested in posturing than in addressing the issues that mattered to the average voter, rejected professional politicians and voted for a political innocent. Trump is clearly no innocent. But to his supporters, his manner of campaigning set him apart from all the other candidates tainted by a life in politics. This absence of a political life is one of the main reasons we find ourselves guessing about what a Trump presidency will produce.

During the campaign, Trump made many promises in the heat of the moment that he subsequently qualified, moderated or simply reversed. He's also been known to deny having said things that physical evidence proves otherwise. If it weren't for the clumsiness of these episodes, we might cynically attribute them to politics as usual. We prefer, however, to think that Trump, unlike professional politicians but like monarchs of old, is accustomed to uttering statements before they're fully formed and to taking some of the ill considered statements back following consultation with trusted advisors. We've already seen a "walking back" of some of his more extreme pronouncements -- the giant coast-to-coast wall across the Mexican border is now a partial wall across the more permeable stretches, not all illegal immigrants will be rounded up -- and we expect to see more of this moderation over the next few months. Judging by the responses from many of Trump's cabinet nominees at Senate confirmation hearings, he appears to have several strong minded advisors ready to provide sound advice when needed.

The stock market has chosen to believe many of candidate Trump's promises and to hope he will listen to wiser heads on some of the others: the S&P 500 tacked on an 8.6% run from Election Day to the end of 2016 after having posted only a 2% advance for the preceding ten months. The market likes the idea of tax reform, reduced regulations and increased spending on infrastructure and defense. It hopes the president-elect will reconsider his views on foreign trade and on the policy of punishing companies that employ foreign operations in pursuit of efficiency. It believes a new friendliness to business will promote repatriation of billions in overseas profits that will fund new investment and improve productivity. We expect a lot of volatility as optimism waxes and wanes to the tune of the new president's mercurial pronouncements. Whenever there's a new president, there's often a good bit of talk about which party in the White House has the best history of promoting a strong stock market. It's often said that, based on

history, the Democrats have the best record. However, another way of parsing this history argues that the best returns occur when Republicans hold the White House and both houses of Congress, a condition soon to be realized. If we believed in the validity of this argument (and we don't), we still might find difficulty making predictions. This is because the new occupant of the White House is hardly a professional politician, is only recently a Republican and may actually hold strongly divergent views from many traditional Republican positions. The unanimity of purpose that one might expect from control of the executive branch and majorities in both the House and Senate may not exist. It's not too much of an exaggeration to suggest that we may now have three parties in power: a Democratic minority, a slim Republican majority and Donald J. Trump.

It's too early for predictions on what effect this dynamic will have on issues critical to economic growth. We know that Trump promised a lot of things during the campaign. Some of them, if enacted, would have a positive impact on the economy. Some of them would not. A lot of them require approval from Congress, approvals not as easily achieved as one would think. Given the slim majorities in the House and Senate and given the hostility to the new president among significant numbers of legislators on both sides of the aisle, we should expect a good bit of spirited debate and drama in the months ahead. The fear is that all of this will result in a continuation of governmental gridlock. The hope is that a political neophyte in the White House, along with a practical set of advisors, will provide effective solutions to many of the problems he highlighted during the campaign and prove to be better able to strike deals with Democrats and Republicans than his more partisan predecessors were able to do. We believe there is reason for hope.

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