
After the Election: Thoughts from Bowen Asset Management

By Zack R Bowen
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After Tuesday's unexpected election results, we thought it appropriate to go out and visit a few of the portfolio managers where we have placed some of our client funds. The unanimous issues going forward seem to be that:

- 1) Investors are uncertain where Trump stands on numerous financial issues. Though he has made conflicting statements about his objectives, he has not provided details on how he will accomplish those goals.
- 2) In order to find answers, investors will be looking for any indication of what Trump will be actually doing to meet his objectives. Staffing and advisor announcements will likely be first on the news cycle. Investors will be examining the backgrounds of the advisors Trump chooses. If Trump announces he is filling his cabinets with unknown players, we should see more market volatility. If the names are recognizable, the market swings should be allayed.
- 3) Until we get some direction about Trump's pathway to reach his economic objectives, the markets will continue their volatile performance.
- 4) The clearest layout of Trump's objectives comes from his October 22 Gettysburg Speech describing his first 100 days in office..

Infrastructure spending was one of the main investment themes brought up at the meetings we held on Wednesday. Because both Trump and Clinton advocated funding of public infrastructure projects being passed by congress, that bodes well for both hard and soft infrastructure projects, including traditional builders of roads, bridges, and the power grid, as well as companies that provide technology-based infrastructure for things like power grids and internet security. Trump has been advocating for the repatriation of corporate profits from overseas operations by offering significant tax breaks for those funds to return to the United States. This encourages an increase in corporate investment and helps to drive overall economic improvement.

The repeal of the Affordable Care Act, or Obamacare, will fracture the healthcare industry. Some healthcare companies will benefit, and others will hurt. It is particularly negative for the hospitals whose accounts receivable have declined under Obamacare, and in theory, should be good for the drug industry. With the repeal of the subsidies to help people buy insurance, as well as the expansion of Medicaid, we will likely see an increase in unpaid medical bills for the hospital providers, because we should see a decline in healthcare coverage. We also could see the elimination of taxes on medical devices (good for those manufacturers), and an elimination of taxes for high-cost health plans (good for participants of "Cadillac Plans," who will get some expected tax relief).

Trump spoke during his campaign about reestablishing a form of the Glass-Steagall Act, which would separate commercial banking (taking deposits and loans) from the riskier investment

banking (trading stocks and bonds). Again, depending on the pathway Trump chooses, a new Glass-Steagall could be detrimental to the big banks—whose businesses have become highly integrated—because breaking them up will be very difficult. That being said, strong regional economies require strong local and regional banks. In many parts of the country, it is largely the local banks that are the economic drivers through their business lines of consumer and small business lending which the larger banks have largely abandoned.

From a practical standpoint, Trump has to prove he will be able to work with a split Republican Party in Congress and the remaining Democrats to get his ideas pushed through. Although the Republicans will control the House, the Senate, and the White House, Trump will not automatically have a blank check from the legislative branch. A good source of Trump's plans listing his short-term political and economic objectives is his Gettysburg Speech from October 22, which lays out his proposals for his first 100 days in office. The first item on that list is a constitutional amendment to impose term limits on all members of congress. Senate Majority Leader Republican Mitch McConnell summarily ruled out imposing term limits on Congress, period.

We have had what we believe to be very good performance so far this year. We will be moving to protect our returns through year end, and will be looking for opportunities in smaller regional banking and infrastructure plays until we get a stronger sense of Trump's pathway to change. Don't be surprised if you see us running for shelter to protect our gains between now and the end of the year.

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