FEB
17
2017

Featured G

The First 100 Days

Jack P. McIntyre, CFA |

President Trump just completed his first month in office and to call the first 30 days eventful would be an understatement. With more than two months to go, I'm offering a couple ideas on what investors would like clarity on during the remainder of Trump's first 100 days in office.

Fiscal Stimulus

People have tried to draw parallels between presidents Reagan and Trump, so I thought I'd resurrect a popular phrase from the 80s: "where's the beef?" in terms of economic stimulus. Executive orders, diplomatic relations, and cabinet picks are getting all of the attention right now. The president has already spent a lot of his political capital during his first month, and has offered few details regarding his fiscal policy initiatives that would benefit U.S. businesses, such as regulatory reform, tax reform, and a stimulus package. Despite the absence of details, indicators like small business confidence have recently soared. Check out the Chart of the Moment for more on small business optimism.

Reform

So far the president has gone after the "low hanging fruit," such as the decisions that mainly lie within the Executive branch or can be influenced by it. However, President Trump will need help from Congress to make impactful and lasting changes to the U.S. economy. That means *real* regulatory reform, not just saying the plan is to eliminate two regulations for every new one. As for corporate taxes, will they truly be reformed or will there be a simple tax cut? Infrastructure stimulus will by far be the most ambitious plan and will take time to iron out details like public and private partnerships and weed out proposed funding for bridges to nowhere from meaningful and necessary projects.

Even if details on Trump's fiscal package emerge during his first 100 days, I don't think the U.S. economy will benefit from the effects of his pro-growth policies until the back end of 2017, or 2018 at the earliest. There are still influences like the dollar, bond yields, and commodity prices that are slowing down U.S. economic activity—more on those later. Hence, there's a timing mismatch between existing headwinds to the U.S. economy and actually implementing fiscal stimulus. Equity market performance shows this disparity.

Tighter Monetary Conditions

The lack of details may also put the Federal Reserve (Fed) in a holding pattern regarding its 2017 dot plots. Chair Yellen recently told Congress that a March rate hike was still on the table, but I suspect the Fed wants the market to view every meeting as a live meeting. Furthermore, I think the Fed will backload its rate hikes during 2H17. President Trump's trade and fiscal policies, along with dollar strength, will also factor into the Federal Open Market Committee's (FOMC's) decision to tighten. In terms of inflation, I think the Fed will weigh cyclical factors like the growth rate, the output gap, and labor market tightness more closely than secular issues like

globalization, automation, debt, and demographics.

Trade Policy

The investment community as a whole, including the Fed, is waiting for the president’s trade proposals. Trade was at the centerpiece of Trump’s campaign, and we still need clarity on his *actual* trade policies. Protectionism is redistributive, not pro-growth like the rest of his agenda. If the U.S. does go down this protectionist rabbit hole, unintended consequences to the global economy will be very high; I believe the odds of a worldwide recession will meaningfully increase. Even if U.S. exports become more competitive, what’s the point if our trading partners lose the ability to import American goods? The Smoot-Hawley Tariff of 1930 is an example of a seemingly insignificant piece of legislation that ended up having enormous unintended consequences. I think the world economy hasn’t forgotten the impact of Smoot-Hawley and hopefully President Trump understands that the global economy is not a zero-sum game. But in the meantime, countries that run a trade surplus with the U.S. may be in store for some fiery rhetoric from President Trump.

The U.S. Dollar

As the Fed mulled rate hikes over the last two years, we’ve continually said that a strong dollar environment is a form of tightening. Rising bond yields and oil prices will only further tighten financial conditions. Therefore, I’m not sure who supports a weaker dollar even more, the Trump Administration or the Fed. Both should take the dollar into account in setting policies. So far, the administration has used rhetoric to manipulate the dollar—it has fallen against most currencies since President Trump’s inauguration—while the Fed only tightened once in 2016 due to the universally strong dollar.

Outlook

We are still constructive on U.S. economic growth—the chance of a recession is a long shot in our opinion—but we think 1Q17 will come in closer to 4Q16’s growth rate of 1.9% rather than 3Q16’s 3.5%. The reason for this lower growth rate is the dollar’s strength since May 2016, which at the margin, is a drag on economic growth. The back up in bond yields since last July is also at the margin a drag on economic activity, particularly housing as mortgage rates increase. So throw in rising energy prices with rising real estate prices, and we can expect the burden to fall squarely on the shoulders of the consumer.

Social Media Guidelines

Brandywine Global Investment Management, LLC ("Brandywine Global") is an investment adviser registered with the U.S. Securities and Exchange Commission ("SEC"). Brandywine Global may use Social Media sites to convey relevant information regarding portfolio manager insights, corporate information and other content.

Any content published or views expressed by Brandywine Global on any Social Media platform are for informational purposes only and subject to change based on market and economic conditions as well as other factors. They are not intended as a complete analysis of every material fact regarding any country, region, market, industry, investment or strategy. This information should not be considered a solicitation or an offer to provide any Brandywine Global service in any jurisdiction where it would be unlawful to do so under the laws of that jurisdiction. Additionally, any views expressed by Brandywine Global or its employees should not be construed as investment advice or a recommendation for any specific security or sector.

Brandywine Global will monitor its Social Media pages and any third-party content or comments posted on its Social Media pages. Brandywine Global reserves the right to delete any comment or post that it, in its sole discretion, deems inappropriate or prevent from posting any person who posts inappropriate or offensive content. Any opinions expressed by persons submitting comments don't necessarily represent the views of Brandywine Global. Brandywine Global is not affiliated with any of the Social Media sites it uses and is, therefore, not responsible for the content, terms of use or privacy or security policies of such sites. You are advised to review such terms and policies.