2016/2017 Investment Trends

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2016 will be remembered for the United Kingdom's "Brexit" vote to leave the European Union and the election of political outsider Donald Trump to be the 45th President of the United States. The December constitutional referendum in Italy and 2017 elections in France and Germany seemingly guarantee that geopolitics will remain in the headlines. The United States is likely to remain at the center of headlines, setting the tone for the economic and market outlook for 2017. Considerable uncertainty remains about the Trump policy agenda, and his economic policies and priorities may not be clear until after his inauguration.

Trade and immigration are likely to be the most consequential policy areas influencing the outlook for markets. Many investors say that the rise of technology and robots has cost more jobs and is more responsible to stagnating incomes than immigration from Mexico and trade from China. Trump backed off from some of his more divisive economic policy statements after winning the election, giving hope that his economic policies would reflect more mainstream economic thinking. In a "soft Trump" scenario, in which Trump takes a more pragmatic approach to immigration and trade, the bull market in equities is likely to continue. If Trump holds to his campaign promises and closes the U.S. borders while instituting steep tariffs in a "hard Trump" scenario, a recession and decline in global equities is likely to ensue. Regardless of the overall direction of the market, there will be winners and losers within the stock and bond markets in the coming year:

Energy: Trump is expected to emphasize policies that favor oil and coal, rather than clean energy industries favored by the Obama administration. Although the policy environment for clean energy will be challenging, renewable energy — solar in particular — is increasingly less dependent on government subsidies.

Healthcare: Pharmaceutical and biotechnology companies have a secular tailwind from an aging population, and under Trump have a lower risk of being subjected to governmentally-imposed price controls.

Financial services: Banks, hedge funds and private equity investors were populist targets during the campaign. Although preferential tax treatment of hedge fund and private equity "carried interest" may be a casualty under Trump, the Trump administration is likely to be much friendlier to banks than the Obama administration has been. Banks, unloved and trading at low valuations, are rebounding given prospects for a lighter regulatory touch and steeper yield curve.

Government spending and lower taxes: Inflation was rising before the election, and prospects for higher spending and lower taxes fueled a post-election rush to TIPs. The rush may slow post-inauguration as it becomes clear that spending and tax cuts may not be as "huge" as expected, but the trend will be for inflation to rise.

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