CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

February 4, 2017

Mr. Trump Begins

The beginning weeks of the new administration have been bewildering and unsettling. Mr. Trump's ongoing commentaries via his Twitter account show an impetuosity inconsistent with the seriousness of the office he holds. He evinces a disregard for the decades-long alliances that the United States has nurtured carefully and successfully in the post-World War II era. The disparagement of NATO and of our key European allies, the bulwark of America's preservation of peace in Europe, is alarming in the context of Russian revanchism and aggression. Picking fights with China by trivializing its 'One China' policy is needlessly provocative and counterproductive.

The ban on entry of people from seven majority Muslim countries is, apart from being dreadful policy, an example of ill-considered action that caused havoc at airports around the world and engendered angry opposition from across the political spectrum in this country. At the end of the week, a federal court stayed enforcement of the ban temporarily, pending consideration of the legal and constitutional issues raised by the order. Mr. Trump's persistence in spouting utterly transparent falsehoods, including about the numbers who attended his inauguration and the suggestion that he would have won the popular vote but for the millions of illegal votes, directly undercuts the authority he needs for the office he holds.

I have no wish to address political matters in these letters that are meant to be discussions about investing. However, given the presidency's centrality to many things in our world, including financial markets, it is rather difficult to write meaningfully about investments while ignoring the havoc unfolding in Washington.

The salient issue as I see it is the crisis that will very likely result from the administration's recklessness and the Faustian bargain that Congressional Republicans struck with Mr. Trump. The agreement seems to be that Congressional Republicans will ignore his financial conflicts and violation of the Constitution's Emoluments Clause, in exchange for the his support for legislative actions dear to the Republicans in Congress. These include its cherished tax ideas, the weakening of banking regulations, and more.

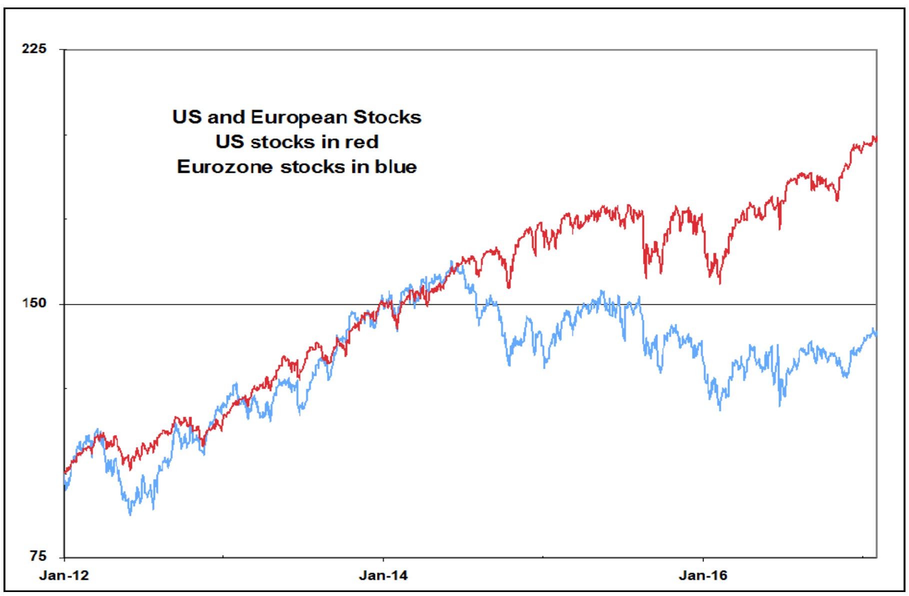
By

Jack Mayberry

Although Republican members of Congress will not take Mr. Trump to task for financial corruption or violation of the Emolument's Clause, those issues and others will be before a number of federal courts. They will unavoidably arrive at the center of American political discourse. We watched this movie before in the Watergate era of the early 1970s; before too long, we will be watching the remake. Maybe the process will unfold smoothly; maybe not too much damage will be done to America's democracy. Let us hope.

The economy and the markets. The administration's efforts to undo regulatory restraints on various industries continues to provide support for stocks in these industries. In the week just past, Mr. Trump took aim at the drug-testing regime for new pharmaceuticals and undertook to cut the time and cost needed for drug trials. With Congress, Mr. Trump's administration is in the process of rolling back bank regulatory rules developed after the financial crisis. Big banks have lobbied hard against the Dodd-Frank regulations; they wish to take us back to the bad old days when the actions of major banks gave rise to the biggest financial crisis and deepest recession since the Great Depression. Whether the proposed banking de-regulation is in the interest of citizens is open to question. What is not open to question is that the banking industry finds de-regulation to be an unalloyed good thing. The stock market casts its vote with the banks.

Although the subject seems slightly trivial when measured against the political mayhem, we can report that the US economy remains reasonably strong and the economic growth is well-balanced. Another quite strong employment report on Friday exemplifies this. Moreover, economies are growing in Japan and Europe, as well. After several years earlier this decade, when the Eurozone crisis appeared ready to blow the lid off things, a relative calm prevails there and we can expect economies in the developed world to continue to grow at a decent pace.



The adjacent graph illustrates the difference in US and European stocks in the last few years. The Eurozone crisis suppressed economic activity and its uncertainties caused European stock markets to lag the US market from the middle of 2014. Although Europe has its own share of political uncertainties now—consider the Brexit vote and the rise of right-wing parties in many countries—there is economic growth now. Core has abstained from investments in European stocks for some time, but there appear now to be good value and prospects in European stocks. We anticipate making investments there.

The situation in Japan is somewhat similar. We have Japanese stock investments now; we think that valuations and prospects for Japan to be favorable, as well. We may add to these.

These are fraught and uncertain days in the political realm. Will political turbulence spill over into the economies of the developed countries? Will this turbulence upset financial markets? It may. We do not know in prospect. There are certainly good reasons for caution in investing. But we should keep in mind the resilience of our large economy and the arc that bends toward a good future. Crises come and crises go. With effort and persistence, America makes its way past present grimness toward a more enlightened future, notwithstanding the dark fears propounded by Mr. Trump.

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