



THE BIG HAND-OFF

The United States elected Republican nominee Donald J. Trump as its 45th President on November 8th. Marking a remarkably peaceful transition of power, the Republicans now add the White House to their incumbent leadership positions in the Senate and the Congress, and an anticipated conservative majority on the Supreme Court, for a rare clean sweep. Indeed, the last time the Republican Party enjoyed such power for an entire term was almost a hundred years ago in the 1920s.

As the nation gathers itself from a hard-fought and divisive Presidential race, it is now time to reflect briefly on what transpired and, at greater length, on what may lie ahead.

Much along the lines of the Brexit vote this summer, Trump's election underscores the intense anger and frustration that is aimed squarely at the establishment in our country. The wave of populism and call for change was likely exacerbated by the now-increasingly-apparent observation that it was being ignored or discounted by the media, pundits and the elite. In the final analysis, pollsters proved to be clueless about heretofore shy and silent Trump voters and the undecided were likely turned off by what they perceived to be the patronizing attitude of those in power and polarization created by double standards.

It is now time, however, to put our differences aside and look ahead collectively and constructively to a future that offers promise. Republican ideologies have generally proven to be pro-business and pro-growth. Trump has campaigned vigorously on the promise of a smaller government, fewer regulations and structural reforms. But far more important than the productivity potential of these initiatives is the likely arrival of the much-needed hand-off from monetary easing to fiscal stimulus as a driver of economic growth.

Despite unprecedented and sustained monetary policies that have kept rates at close to zero or

even negative levels, there is growing recognition that they have failed to trigger the desired level of growth. More worryingly, central bankers now seem to be running out of ammunition and options for further stimulus. The additive hand-off of the monetary baton to fiscal stimulus and structural reforms was impeded thus far in the U.S. and other developed countries by political uncertainty. With Trump's election, we can not only look past that uncertainty, but also focus on key elements of his stated economic plan that have the potential to spur growth.

- Lower taxes for individuals and corporations
- Increased infrastructure spending
- Higher defense spending
- Repatriation of foreign earnings pending tax reform

Each of these actions comes with higher spending and larger deficits, and so a careful calibration of the expected costs and benefits of these programs is crucial to their implementation. Along the way, we remain cognizant of the risks posed by ill-conceived social, trade or foreign policy initiatives.

We conclude our brief update on yet another optimistic note. Even as we highlight new avenues for growth, we are encouraged by recent positive developments.

- a pick-up in US GDP growth to 2.9% in the third quarter
- an uptick in global growth indicators in recent weeks
- an end to the earnings recession and a new all-time high in S&P 500 earnings in the 3rd quarter
- a strong cyclical earnings recovery in 2017

We look to build on these themes in future writings. For the moment, we remain optimistic about our country's economic future.

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