Economic Outlook

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The Triumph of Trump

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There are decades where nothing happens; and there are weeks where decades happen. - **Vladimir Ilyich Lenin**

SEI recently released its fourth-quarter Economic Outlook. A summary of the conclusions is provided below:

- With Trump's election victory, change is coming in many aspects of U.S. policy — economic, social and diplomatic. We expect to see a variety of bills, executive actions and departmental decisions that will aim to break down disincentives that have impeded hiring, bank lending, new-business formation and investment.

- Corporate marginal tax rates are expected to decline, taking the U.S. from the highest statutory rate among developed countries to almost the lowest.

- The new administration is expected to offer U.S. corporations a one-time "tax holiday," in which repatriated cash currently held abroad would be subject to a reduced 10% tax (from the current rate of up to 35%). Individual tax rates also will be lowered, resulting in a far greater impact on Federal government revenues.

- In addition to tax reform, deregulation will be a high priority, particularly in healthcare, energy and banking.

- We think that over the next two or three years, the Federal budget deficit could expand by 2% to 2.5% of gross domestic product on a cyclically adjusted basis as a result of tax cuts and additional spending.

- Trumponomics is not without problematic policies, notably its focus on throwing up impediments to trade. With respect to NAFTA, we expect pragmatism to prevail; however, we fear relations with China will decline before they improve.

- The Federal Reserve lifted its benchmark interest rate by one-quarter percentage point in December and bumped the number of 2017 rate-increase projections from two to three. We think that three increases is a reasonable guess.

- We do not anticipate a sharp rise in interest rates from current levels in the year ahead. The dollar's strength provides some brake to economic growth and should help put a cap on any further acceleration in inflation that may occur.

- Commodity prices have been rather resilient since the U.S. election. We wonder how long this will be the case, if the dollar maintains its upward trajectory as we expect.

- Emerging markets had a seriously negative reaction to the Trump victory. Concerns about the new administration's stance on trade and resumption of the dollar's appreciation are the main factors for the setback.

- In Europe, politics will be a major consideration for investors once again as voters have tired of austerity and poor economic outcomes. The presidential election in France will be especially important. The fight over the details of the U.K.'s exit from the European Union also has the potential to create periods of market volatility.

- The biggest impediment to a favorable investment environment involves the changing trading relationship between China and the U.S., the two most important economies in the world.

- We maintain our view that equities generally will do well versus fixed-income securities; that the U.S. appears to be the cleanest shirt in the laundry bag; and that yields will increase over time as inflation makes a mild comeback.

A full-length paper is available if you wish to learn more about this timely topic.

Important Information

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