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Election Edition

JIM'S JOURNAL

A New Administration- Change Underway!!!

Change is the law of life. And those who look only to the past or present are certain to miss the future. – John F. Kennedy

Discussing whether your candidate won or lost is not the purpose of this month's newsletter. As I write this article, there is a debate in various circles on whether there should be a vote recount in certain states or whether delegates should change their vote from President-elect Donald Trump to Hilary Clinton.

In my opinion, the likelihood of such actions changing the election results is fairly remote. Consequently, the purpose of this newsletter is to present the direction and themes that might take place in a Donald Trump Presidency. I carefully chose the words "might take place" because there is always uncertainty as to whether any President's plans can or will actually be implemented.

No one really knows what the priorities of the Trump Presidency will be until he is sworn in and starts to push his policies through Congress. Because Republicans control both the House and the Senate, Trump should find both sponsorship and support for most of his policy proposals. However, the Democrats will still have a Senate representation large enough to prevent bills from being voted on. Without a filibuster-proof majority, the ever present gridlock we saw in the Obama Administration could very well continue in the Trump Presidential years.

Despite this potential for gridlock, some changes will likely occur. I have chosen two articles that discuss possible changes that are near and dear to retirement planning and investing. The first is from *Financial Advisor* (November 10, 2016) and titled, *Your Retirement Under President Trump*. The second is from *The Trust Advisor Newsletter* (November 16, 2016) and titled, *How Donald Trump Blew Up The Bond Market And Changed Everyone's View* On *Interest Rates*. Both articles give us a glimpse of what might happen in the Trump Presidency. It will be my job to monitor and adapt your investment portfolios to what actually does happen along the way. Certain parts of these articles have been condensed to fit into this newsletter.

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Your Retirement Under President Trump

As a candidate, Donald Trump barely mentioned America's retirement crisis. As president, he will have enormous power over the issue, bolstered by Republican control of the U.S. Senate and House of Representatives. Here are a few ways Trump's presidency could influence your retirement.

Social Security

Trump made clear that he doesn't plan to cut Social Security benefits, but he didn't sound enthusiastic about plans to expand the federal program, as more and more Democrats have proposed. Trump has also proposed large tax cuts. If they create wide deficits, as analysts have predicted, that could put long-term financial pressure on the Social Security program, which faces a shortfall in 18 years when the Baby Boom generation is fully retired.

Financial advice

It has long troubled consumer groups that there are essentially two types of people who call themselves financial advisers. The first are "fiduciaries," required to put their clients' interests first. The second operate more like salespeople, often selling complicated financial products with high fees.

President Barack Obama's Department of Labor proposed a rule that will require all financial advisers handling retirement accounts to put their clients' interests first. The White House said the rule, finalized in April, would prevent conflicts of interest that cost Americans about $17 billion a year.

It's not clear how Trump feels about such a rule, but he or Congress could try to scrap it before it goes fully into effect in 2018. Republicans have already tried to block the rule, and a Trump economic adviser compared it to the Supreme Court's Dred Scott decision supporting slavery.

Automatic IRAs

One reason workers aren't saving for retirement is that they don't have an easy way to do it. Less than 60 percent of U.S. private-sector workers have access to a retirement plan through their employers. Obama said he supported ways to sign up employees automatically for 401(k)s or other retirement accounts, but Congress never acted on his proposals.

Partly in response, five states—California, Connecticut, Illinois, Maryland, and Oregon—recently passed laws designed to get every worker into a retirement plan. The laws require employers either to sign their workers up for a 401(k) or pension or to connect those workers to a portable individual retirement account (IRA) administered by their states.

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The federal government under Obama gave its blessing to these automatic IRAs. Some financial industry groups are opposed and could lean on Congress or the Trump administration to prevent the state plans from operating.

A better 401(k)?

For almost a decade, Democrats and Republicans, and companies and consumer groups, have been fighting over financial regulations. But there is broad agreement that some aspects of the U.S. retirement system aren't working well. Not enough workers have a retirement plan at work, for example, and it's too easy for workers to cash out their 401(k)s and too hard for them to roll them over to new employers. Members of Congress have made several proposals, some bipartisan, to fix these issues, and a few could be enacted under a new president and Congress. None is likely to have a dramatic effect on Americans' retirements, but these efforts could at least make it less of a hassle to run a retirement plan or save in one.

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How Donald Trump Blew Up The Bond Market And Changed Everyone's View On Interest Rates

President-elect Donald Trump's White House victory was a surprise, and so is the ripping sell-off in global bond markets, which has quickly driven U.S. interest rates to the highest levels in a year. The rout has wiped out an estimated $1 trillion from global bond markets and has Wall Street scrambling to retool its forecasts.

The sell-off comes on the expectation that Trump's promised infrastructure spending and tax cuts will result in higher growth — but also higher inflation and higher amounts of U.S. government debt. Since last week's election, the benchmark 10-year Treasury has gone from a yield of 1.80 to 2.30 percent. It has moved higher with the dollar, which is up about 2.5 percent against a basket of currencies. The 30-year bond yield crossed the psychological 3 percent level Monday (November 14, 2016).

Mortgages and other financing are based on the 10-year, and fixed-rate and other mortgages are already on the rise. The 30-year fixed rate mortgage is also up a half percent since Trump was elected. It jumped an eighth of a point Monday, to the psychologically important 4 percent level.

So far, the stock market has taken the rise in yields in stride and is rallying. But the move in interest rates will create ripples across the economy. "If you're going to buy a house and your mortgage payment went up by $200 or $300, you may buy a smaller house. There's impact on interest rate sensitive sectors, like autos and housing, and also corporate bonds themselves, where financial engineering has helped juice up the equity market," said George Goncalves, head of rate strategy at Nomura. With extreme low interest rates, U.S. corporations had been loading up on debt and using proceeds to pay for stock buybacks and dividends, among other things.

For financial institutions, it's a major positive to have rates rise, and their stocks have been flying since Trump's election. The S&P financial sector was up 2 percent Monday, after an 11 percent gain last week. Savers will also be helped, as interest rates on Treasuries and money markets edge higher. U.S. interest rates have been held down by Fed policy and sluggish U.S. growth, but they have also been distorted by super-low and negative yields, courtesy of central banks in Europe and Japan. Now, the U.S. Treasury market, like a once sleeping giant, is dragging world rates higher with it. Bond yields move inversely to bond prices.

Goncalves said his forecast for the 10-year had been 2 percent next year, as he and many on Wall Street were basing their expectations on a Hillary Clinton victory and a status quo situation in Washington and in the markets. But the "lower for longer" theme, where the Fed was expected to keep rates low for a very long time, has been smashed, and even Fed officials concede Trumponomics may force them to adjust their policy outlook if it sparks economic growth and inflation.

Strategists say a Clinton win would have meant a very different bond market. Mark Cabana, head of U.S. short rate strategy at Bank of America Merrill Lynch said, "Maybe that would have been 10 to 15 basis points. Nothing like this kind of move we've made. It's because you would have (had) continued gridlock in Washington. The Republicans would have continued to hold the House and that would have been a continued gridlock."

Cabana now believes that the Fed's forecast for one hike this year and two next year may actually work out, as opposed to overly optimistic forecasts the Fed has repeatedly pared back. He said Bank of America economists have pared back their growth forecast slightly to 1.9 percent for next year based on the uncertainty around a Trump presidency. Some of the uncertainties that have worried the market revolve around Trump's plans for trade, and whether he could start a trade war with China and others.

"We do think all of this means the Fed will likely have to be more active. We are going to hear from Chair (Janet) Yellen this week. She is likely to reiterate a December hike is on the table, and any type of fiscal stimulus will be well received," said Cabana. Fed officials and central bankers globally have called for fiscal stimulus to prod growth, since they have come to the point where more monetary policy has become questionable in terms of its ability to stimulate growth. Cabana said the move in yields, if it continues too quickly, could become a negative in that it could create tighter financial conditions. That would change the outlook for the Fed, and hurt emerging markets and stocks.

"We're moving away from an Obama administration to a Trump administration, which has clearly a different priority set, and the economy is going to have to retool and recalibrate, and that's going to mean disruption. That doesn't mean a recession. It just means changes, as we adjust to the new world," said Goncalves.

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In summary, I think we all know that change can be scary and can create a lot of uncertainty along the way. The stock and bond markets hate uncertainty. Uncertainty creates volatility in the investment markets. As mentioned above, it will be my job to monitor the uncertainty and adapt your investment portfolios to what actually does happen along the way.

In closing, I hope all of you had a wonderful Thanksgiving. As we enter into this upcoming holiday season, I would like to wish you and your families a Merry Christmas, Happy Chanukah and Joyous Kwanzaa. For those who are clients, your chestnuts will be arriving in early December. Take good care!!!

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