Infomail
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Still the Best House in a Bad Neighborhood
(Bet on the USA)

"It's never paid to bet against America. We come through things, but it's not always a smooth ride"
Legendary Investor Warren Buffett

Since the US election, equity markets have rallied and bond yields have experienced their sharpest increase in over three years. With Donald Trump's election victory, markets are anticipating stronger economic growth, higher inflation, favourable tax policy and increased fiscal stimulus in 2017.

While it's still early to determine how many of the Trump policies will get passed, if the expectations turn into reality, the equity markets will continue to advance as higher earnings will offset higher valuations.

The headlines in 2016 were dominated by the US election, the refugee crisis in Syria, and the Brexit vote. If the populist victories of the Brexit vote, and the Trump election are repeated in Germany, Italy, and France in 2017 and more protectionism policies are enacted, then one would guess equity markets would be constrained and yields will decline once again.

The world remains a scary place, both on geopolitical and economic terms. Ongoing mischief by Russia, China and North Korea are geopolitical incidents waiting to happen. President- elect Trump will no doubt be tested in a number of arenas. There are still concerns on whether he will follow through on campaign promises of higher trade tariffs and renegotiating trade deals, and one would guess he will prove to be a tough negotiator. There is no doubt that many aspects of Trump's agenda are good for stocks and bad for bonds near term- tax cuts, deregulation, fiscal stimulus, etc.

Looking around the globe, the EU is showing some cracks. The EU was never put together properly in the first place, and like the USA, populism and protectionism are on the rise. Brexit was a sign of it. The US election was a sign of it. I believe there is a good chance that we may see a sovereign debt default, possibly in Europe first, and it pains me to say it might even be in Italy. There are lots of issues with government debt all over the world outside of the USA.

The European Central Bank (ECB) now owns 15% of German national debt. Most at negative yields. They also hold a lot of debt of the "PIGS"- Portugal, Italy, Greece and Spain, who are not out of the woods yet. Despite over a year of negative rates, Euro economies can't seem to get any traction.

In Japan, the Bank of Japan (BOJ) now owns more Japanese debt than the private sector. And oh yes, as of June 2016, the BOJ owned 60% of the nation's ETF's.

In Emerging Markets, the incredible strength of the US dollar combined with rising rates is a dangerous cocktail. Many issued a lot of their debt in US dollars and at all times low in rates. China, Asia and Emerging markets continue to weaken.

Economies which are big exporters of energy, and therefore dependent on oil prices, like the Middle East, Russia, Venezuela, Brazil and yes, even Canada, had a tough first half of 2016. Recent price increases thanks to actions by OPEC have helped near term, but the jury is still out for 2017. I think Canada is set up to benefit from an improving US economy, and I do believe oil prices are setting up for a move up to the $55 to $60 range which will help.

So while there are still many questions as to what a Trump Presidency will be able to achieve once he takes control of the White house, the markets tend to be pretty good at looking ahead, historically, and so far are betting a President Trump administration will be very good for the US economy. While the markets may have moved "too far, too fast", and Q1 2017 may see some increased volatility, any decent pullbacks and weaknesses should be used to accumulate.

The USA remains the best house to own in the global neighbourhood and there's a new (pro-business) sheriff in town.

Stay tuned,

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