



If You Are Going to Own It on the Way Up...

(Why Trump's Market Cheerleading Could Backfire)

These are noisy times in Washington.

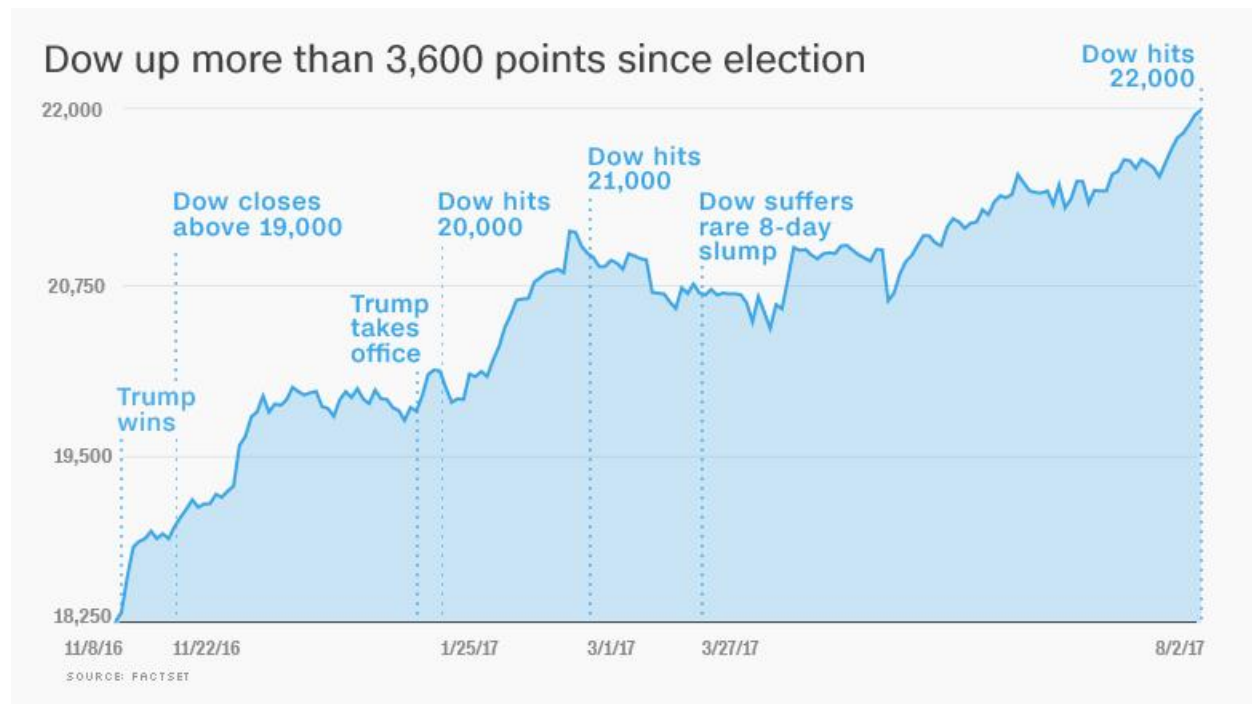
Last week was an especially noisy week with several personnel changes, expanded investigations on Russian collusion, and another Obamacare vote that failed. But despite all that, the US Markets keep closing at all-time highs, and even breaching the mental milestone of 22,000 on the Dow Jones Index. And too many times last week I heard the President himself, and many of his surrogates, make reference to "all-time" markets' as a scorecard for the Trump Administration.

The President has made a "huge" (as he would describe it) mistake (but an understandable one). By becoming the "cheerleader in chief" of the rising stock market, he's trying to portray himself as the main reason for the current stock market rise. He wants the credit... however, most American Presidents traditionally avoid weighing in on the daily gyrations on Wall Street for the simple reason; markets also go down.

And where we stand today, in a US Federal Reserve induced bubble, and at 402 calendar days, the longest streak since 1996 without a 5% correction, any rational market watcher knows we are due for some sort of pullback/correction.

So logically, if the President is going to take credit for the upside move, won't he have to take the blame when it goes down as well?

Markets are rarely ever this calm for this long, and even when the closely watched VIX, which measures volatility, hit an all-time low this week.



(Source: <http://money.cnn.com/2017/08/03/investing/dow-stocks-trump-volatility/index.html>)

How much credit President Trump actually deserves, for the new records on Wall Street, remains open to debate. Stocks surged after the election on hopes the new President would deliver strong pro-business policies, along with reduced regulations and corporate tax cuts.

And while President Trump's agenda may have stalled, Wall Street has lowered its expectations in the meantime, a far cry from where we stood right after the election.

My best guess right now in the next 60 days, we will experience some sort of pullback. With Trump's agenda stalling, the US hits its debt ceiling in early October, and who knows what will happen with North Korea? I would guess 6-10% is the number to look for. If we start getting into the 12-15% range, markets would be telling us they are worried about something bigger, like maybe the US heading into recession.

Sometimes I read too much, and I know each and every Republican President since Teddy Roosevelt in the early 1900's endured a recession in their first two years of office (Source: USA Today Nov. 20th, 2016). Maybe

President Trump, as unorthodox a politician as we've ever seen, can break that streak. I hope so.

But even though he inherited a late cycle environment, with (now) rising rates and record debt, when the first big pullback comes, thanks to his recent braggadocio, he will own it.

The Fed now has its fall guy for all its policy errors it has committed for the last 10 years.

Stay tuned,

Vito Finucci, B.COMM, CIM, FCSI
Vice President and Director, Investment Advisor
Associate Portfolio Manager

This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ®Registered trademarks of Royal Bank of Canada. Used under licence. © 2016 RBC Dominion Securities Inc. All rights reserved.