Philequity Corner (March 6, 2017)
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In Spite of or Because of Trump

Last month, we wrote about the Dow Jones' historic march towards the 20,000 level. Despite the heavy pessimism in the aftermath of the 2008 Financial Crisis, it took the Dow Jones just 6 and a half years to double from 10,000 to 20,000 (see *Double Your Money*, 13 February 2017). Fortunately for investors in US stocks, there was more to come. Last week, we saw the Dow Jones index notch milestone after milestone.

12 straight up days – longest winning streak in 30 years

Before Trump won the presidency, many research firms forecasted the Dow Jones index to fall by double digit percentages if he won. Instead, the US market rose significantly. Undeterred, many investors pointed to Trump's controversial rhetoric, anti-immigration stance, protectionist programs and populist policies as reasons for an impending correction. Instead, we bore witness to 12 straight up days for the Dow Jones index - the longest winning streak since 1987.

Fastest 1,000-point rise

After notching the longest uninterrupted upswing in 30 years, the Dow Jones index was to set yet another milestone. With Trump about to give his first Congressional address as president, markets took a breather. Though scant on details, Trump's speech and demeanor was more presidential than expected. As he repeated his push for more infrastructure spending and tax cuts, the market took his word for it. Thus, the Dow Jones index embarked on a blistering rally. In just 24 trading days, the Dow Jones index rose by 1,000 points, matching the previous streak in 1999 when the Dow Jones rose from 10,000 to 11,000.

21,000!

On January 25, US investors applauded as the Dow Jones index hit the 20,000 milestone for the first time. In a previous article, we discussed the reasons behind this and explained why the US stock market will continue making new highs (see *20000*, 6 February 2017). After the historic 12-day winning streak and 24-day 1,000 point upswing, the Dow Jones index hit yet another record as it breached the 21,000 level for the first time ever.

Animal spirits

Despite the record rise in US stocks, many are still wary of investing in US stocks because of Trump. For example, Ray Dalio, fund manager of the biggest hedge fund in the world, was previously bullish on the Trump administration. In a previous article, we discussed his view that Trump will "reignite animal spirits" that will unlock capital in the US economy (see *Where is Santa?*, 26 December 2016). However, in the wake of the controversial travel ban that was being criticized as anti-Muslim, Dalio reversed his call, saying that Trump is being "aggressive and reckless" and that "there is also significant risk that his populist policies could hurt the world economy".

Politics won't stop Buffett from investing

On the other hand, we have the best investor in the world, Warren Buffett, sticking to his guns despite his support for Hillary Clinton. Though he openly criticized Trump on the campaign trail, he put his money to work after Trump won. In an interview, he said that "we have net bought $12 billion of common stocks since the election (from November 8 to January 31)". Even for the Oracle of Omaha, this still stands as one of his biggest purchases in such a period of time. In an interview on CNBC last week, Buffett had this to say:

"Probably half the time, my adult life, I've had a president other than the one I voted for. But that has never taken me out of stocks. I mean, the American economy, you know, we're up to number 45 or so and we've done awfully well. If you mix your politics with your investment decisions, you're making a big mistake."

Bull market in retrospect

To understand the US bull market, it would be helpful to look at what happened in the most vicious bear market of our generation. In Chapter 1 of the book, Opportunity of a Lifetime, we discussed how the 2008 Financial Crisis affected risk assets worldwide (see *Gloom and Doom*, pages 21-42). We witnessed waves of real estate defaults, the collapse of major financial institutions, a deflationary spiral, and precipitous drops in stock prices. This culminated with the bankruptcy of Lehman Brothers. As panic set in, many bankers and fund managers felt the world had ended (see *The Day the World Stood Still,* 14 September 2009).

Fed pulls out all the stops

With the spectre of a full blown financial armageddon upon us, Bernanke, Janet Yellen, Mario Draghi, Haruhiko Kuroda and other central bankers pulled out all the stops to save the US and the rest of the world (see *The Great Global Monetary Easing*, 22 October 2012). To prevent another Great Depression and pull the world out of the recession, central banks resorted to a series of unconventional monetary policies such as QE, QE2, QE Infinity, Operation Twist, OMT and QQE. This then opened up an opportunity of a lifetime for investors (see *Chapter 2, Opportunity of a Lifetime and Chapter 4, Don't Fight the Fed*).

Deflation to reflation

Even if Trump's impact on equities is open to question, the main reason behind the rise in stocks is much clearer. After Bernanke and Yellen's valiant efforts to steer us out of a deflationary spiral, we are now experiencing the beginning of global reflation, which is precisely what the Fed was trying to engineer.

Monetary stimulus to fiscal stimulus

After monetary stimulus created the bull market, fiscal stimulus is now needed for it to continue. The implementation of pro-growth fiscal policy is needed to ensure that the US economic expansion stays on track. If the US continues to grow, it will help the budding economic recovery in other countries.

Trump is just the trigger

Contrary to popular notion, it seems like instead of being the death knell for equities, Trump may actually be just the trigger behind the resurgence of US stocks. The growth we are seeing in the US now was actually laid out by the Fed and other central bankers. Trump is trumpeting and getting ready to implement the fiscal stimulus that Bernanke said is the crucial next step for the continuation of the US recovery.

Republican party's pro-business agenda

With the Dow Jones now at 21,000, naysayers have obviously been proven wrong. The question now though is whether the US stock market is rising in spite of Trump or because of Trump. We believe that it may not be necessarily because of Trump but because of the pro-business agenda of the Republican party which controls both houses of Congress. As Wharton professor and stalwart bull Jeremy Siegel said, if the "Republican part" of Trump's agenda goes through, then the bull market in US stocks can continue.

Though the credibility of Trump and some members of his team are often questioned, these are unlikely to undermine functioning of the strong institutions in the US and the policymaking of the Republican-controlled Congress. Thus, it looks like that as long as the pro-growth and pro-business policies are implemented properly, then the US bull market will continue whether it's because of Trump or in spite of Trump.

Strength in the US may lift all boats

The reason we are writing extensively about the US stock market is because of its influence on the rest of the world. As the global engine of growth and home of the largest stock market in the world, whatever happens in the US will affect the rest of the world. Though some countries may rise faster or ahead of others, the sharp rise in the US is likely to lift stock markets around the world. So whether this strength is in spite of Trump or because of Trump, strong growth in the US will lift the global economy. At the same time, it looks like the US bull market has paved the way for a global bull market.

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