

---

# The Trump Agenda and Financial Markets



Common Purpose. Uncommon Commitment.

**Scott D. Knapp, CFA**  
Managing Principal – CUNA Mutual Fiduciary Consultants

During the past few months, we've commented about the impact of the 2016 presidential election on financial markets. Our thesis was pretty straight forward:

- Markets liked the Trump agenda of tax cuts, infrastructure spending, and regulatory reform
- Expectations for implementation of these pro-growth policies were too high
- Rich valuations suggested stock markets had plenty of room to correct after any indication that progress toward Trump's pro-growth agenda will be stopped or slowed

Some analysts postulated that the election wasn't a contributor to the recent record-setting run. Instead, the rally was already baked in the economic cake before the election. We disagreed, but parts of their thesis had some merit. **We're at the tail end of a pretty terrific earnings season, which suggests financial markets were indeed reflecting existing strength in the economy.**

But the bond market – a.k.a. the stock market's smarter brother – didn't buy it, at least not for long. Yields initially burst higher after the election, but have since fallen back to levels that suggest the slow growth that we've experienced during the past several years will stick around for a while.

At the same time, the stock market experienced an internal whipsaw among sectors with financials, cyclicals, and energy climbing higher after the election only to give back much of their gains in recent weeks. Said another way, the Trump trade lost some of its luster, even as markets continued to rise and valuations became increasingly extended.

On May 17, stock markets tumbled on news that the Trump administration could spend much time and energy on defending itself rather than pursuing its pro-growth agenda. The selloff validated our thesis that recent market enthusiasm was directly connected to Trump's election.

**With valuations still rich and political uncertainty on the horizon, our counsel to be cautious about financial markets remains intact. But let's not overdo it.**

We'll meet the analysts with whom we formerly disagreed half way: The recent stock market rally was due to enthusiasm about the Trump agenda and stronger economic conditions that set the stage for solid corporate earnings.

**With that in mind, let's assume the Trump agenda is frozen in time. What are we left with? A modestly strengthening U.S. economy and improved corporate earnings. Not bad.** Add recent improvements in developed economies overseas and we end up with a situation that is anything but apocalyptic.

In spite of recent news, we believe some version of Trump's agenda will make its way into the policy mix. That would strengthen an already improving economy. But the situation is fluid, so estimations of the likelihood of any new pro-growth policies could change often and markets would likely respond in kind. For now, we're mostly left to ponder really high valuations.

---

**Richly priced markets look for a reason to correct. They got one on May 17. There will likely be more, and investors should be emotionally ready for meaningful declines. But nothing on the current horizon, including news out of Washington, should dissuade investors from implementing or staying committed to a prudent long-term plan.**

The views expressed in the communication represent the current views of the author and do not necessarily represent the views of the management of MEMBERS Capital Advisors, Inc. or CUNA Brokerage Services, Inc.

CUNA Mutual Fiduciary Consultants is a marketing name and service of MEMBERS Capital Advisors, Inc., 5910 Mineral Point Road, Madison, WI 53701, the registered investment advisor affiliate of CUNA Mutual Group. MEMBERS Capital Advisors has assets under management of more than \$17.3 billion\*, including the general account of CMFG Life Insurance Company. Visit [www.cunamutual.com/CMFC](http://www.cunamutual.com/CMFC) for more information. \*As of April 30, 2017

**Securities sold, advisory services offered through CUNA Brokerage Services, Inc. (CBSI), member FINRA/SIPC, a registered broker/dealer and investment advisor. CBSI is under contract with the financial institution to make securities available to members. Not NCUA/NCUSIF/FDIC insured, May Lose Value, No Financial Institution Guarantee. Not a deposit of any financial institution.**

CBSI,MCAEC-1801488.1-0517-0619