Prepared Comments from 11/10/2016 Conference Call

As investors, what should we make of the results from Tuesday's elections?

Let's begin with some ground rules. The campaign is over, and political posturing and Monday morning quarterbacking is for other calls. **This call focuses on the implications for investors.**

Second ground rule. **We don't know.** No one knows what the coming years will bring to the US and the global economies, and to the US stock and bond markets, and the global markets. We have WAY too little information to know much. I will instead offer some limited insight.

As a former President reminded us, **It's the Economy**. So let's begin with **how is the economy doing?**

The US economy continues to grow, and its anemic pace has been picking up lately. GDP growth is rising above a 2% real level, and unemployment is at very low levels, below 5%. We have recovered from stumbles in recent quarters tied to energy prices. I often use a baseball analogy to describe recoveries. Given its length, you could argue that we are in the 8th inning. However, given the low rate of growth during this recovery, and given that we have nearly zero signs of an overheated economy, I would suggest that a cricket game is a better analogy. We are in the second very long day, and this game could take a week.

Foreign economies are generally positive, too. China has slowed down sharply from a decade ago, but it appears to have successfully avoided a recession. Europe, while far from an economic powerhouse, has largely escaped from the Greece crisis of a few years ago. It has many hurdles ahead of it, not the least of which the UK's Brexit move, but its forward progress appears steady.

So how is this likely to change under a Trump Administration? We don't know. Here is what we suspect. President-elect Trump, in his acceptance speech, appeared much more statesman-like, and reinforced priorities with notable economic ramifications. These ramifications are likely to produce both winners and losers in the investment world. Here are the early guesses on winners and losers.

Winners—Trump emphasizes infrastructure spending. This is significant, for infrastructure spending helps not only construction companies, but also a wide net of providers of services that support large construction projects. One conservative economist I have followed states that infrastructure is the one government program that warrants adding to the federal debt, due to the combination of economic growth it creates plus the long-term life of infrastructure projects which have lasting positive impact on the economic environment the projects create (faster delivery times due to better highways and bridges, for instance).

The healthcare and the financial industries expect reduced scrutiny and increased profits under Trump. The same is true for the energy industry, and coal producers in particular.

Foreign economies benefit from a strong US economy. This is because US workers, with more money in their pockets, purchase more foreign goods. China helped to pull the global economy off the brink in late 2008 and early 2009. A rising US economy could help pull Europe free of its on-again, off-again doldrums.

Losers—Some industries which rely on government support which is likely to be reduced by a Trump Administration and Republican Congress. Green energy is one prime example. The technology and the biotech industry could face hurdles if the H1B visa program is reduced, these industries in particular could be harmed.

Quality bond investors could be losers. A strengthening economy could hasten the pace that the Fed adopts to raise interest rates to more normal levels. Furthermore, a large infrastructure program could lead to an increase in the issuance of federal debt. As supply of quality bonds rises, their prices should fall, and interest rates rise.

However. Our country has an extensive set of checks and balances. Executive, legislative, and judicial branches are designed to provide this. In this unorthodox campaign, President-elect Trump owes few favors to Congressional leaders, and conversely, Congressional leaders owe few favors to Trump. There is little reason to believe that President Trump will be able to easily enact his policy initiatives.

You may have noted my implications that government spending is set to rise in the Trump Administration. This is very likely to meet harsh resistance from those who are already alarmed by the current level of the federal debt.

While President-elect Trump was elected on a populist wave, as an avowed outsider, with calls to “drain the swamp” of Washington DC, Congress has many members of the establishment, in both parties. Republican establishment Senators and Representatives will not easily permit an acceleration of the growth of the federal debt.

By its very nature, Congress, even with a Republican majority in each house, will serve to dampen the pace of anything and everything that Trump proposes. That is the nature of our checks and balances, and our Congress has proved to be an expert at moving slowly, if at all.

This pace has a potential negative impact of causing companies to delay decision-making until the fog lifts and they can see what the next two years will really bring. If this becomes widespread, it could hamper our economic growth.

In summary, we don’t yet know all of the implications from Tuesday’s elections. The US stock market has reacted favorably, as it has noted that there are many apparent economic winners from this coming administration and Congress.

At Mallard we will remain measured and deliberate, always checking politics at the door and focusing on the economy, company profitability, interest rates, both in the US and abroad. We recognize that the fog is thick right now, however we are hoping that it will gradually and steadily lift, and we can continue to make rational investment decisions for our clients during the coming weeks, months, and years.

Questions?