



ALPHA CUBED INVESTMENTS

Post-Election Investment Analysis

November 15, 2016

We wanted to wait for the dust to settle a little bit before sending out election commentary. We saw stock futures sell off 4% during election night as expectations for the new administration dramatically shifted. But as stocks opened the next day we saw the market move resoundingly higher. The sectors that drove the stock market upwards were healthcare, financials, materials/infrastructure, and defense. Healthcare and financials advanced based on the assumption that companies in these sectors may be less regulated. Infrastructure and defense stocks moved as these were two main talking points in Trump's growth plan. Silicon Valley stocks like Facebook, Amazon, Netflix and Google (the so called "FANG" stocks) suffered initially as investors focused on potential sector rotation and the possibility of some political backlash against the generally anti-Trump sentiment from this sector during the election. We came in right after the election prepared to buy into stocks if the market were to fall hard on emotional selling. But the market quickly drove the Trump sectors higher and we felt it best not to chase this emotional rally. Interest rates on the benchmark 10-year Treasury Bond shot up unexpectedly after falling all night on the election news. The 10-year Treasury rose from 1.87% right before the election to @ 2.2% today or roughly 17% higher. That is a substantial rise based on the assumption that Trump may grow the deficit which could lead to higher inflation and marks the first time since January that the rate exceeded 2%.

No matter what your political viewpoint, elections can be an emotional event and can produce impulse reactions which is why we are taking a more measured approach. What we saw in the last week was a stock market rally based on optimism that Trump can generate better growth in the economy than had been previously forecast with less regulation and lower taxes. However, the stock market valuations were already stretched and interest rates were on the rise creating headwinds for stocks that have not gone away. There are many new unknowns for the market based on Trump's election that were not present last week: How will our trade policies change and which companies will be most affected? Will Janet Yellen be replaced as head of the Federal Reserve? What will be our foreign policy? We believe the initial emotional reaction will subside once the expectations meet up with the realities of policy implementation. Our portfolios are already well diversified and we generally have some cash as a cushion or margin of safety. We have many names in the portfolios that focus on healthcare, financials, materials/ infrastructure and defense and other sectors that should do well under the new administration's stated economic goals.

“We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals. We’re going to rebuild our infrastructure, which will become, by the way, second to none. And we will put millions of our people to work as we rebuild it.”

Donald Trump, November 9, 2016

Trump had unveiled a plan to lower taxes while at the same time spend \$550 billion on infrastructure over the next 5 years which could boost GDP but also lead in theory to increased government spending. It will be a while before any of this takes place as there are no “shovel ready” programs on the shelf and nothing has come close to being proposed in Congress. While inflation over the past seven years has been below 2% this move could ultimately push us over 2% which was the baseline that had limited rate increases. The markets were already pricing in an 82% probability of an interest rate hike by the Federal Reserve in December and that probability remains roughly the same.

One of the strengths of the US political system is that the wheels of democracy grind slowly. There will be economic sector winners and losers in a Trump administration but things will take time to sort out and there will be plenty of old fashioned political “horse trading” to get things done – just as there has always been. Since election night, we have seen a decidedly more Presidential tone than during the election which bodes well for a country that needs to come together as usual to get things done.

As we approach year-end, we will make sure that everyone receives their required IRA distributions on time and that we selectively sell to create tax losses as appropriate. As always call us with any questions or concerns or just to talk about the election and its implications. Look forward to speaking with you soon.

Sincerely,



Todd & the rest of your Alpha Cubed Portfolio Management Team

Source: Data presented herein was sourced November 15, 2016 from Bloomberg database.

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