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November 12, 2016

Comments on Recent Events

Just thinking about events of the past week. Almost incomprehensible. Stocks are 5% higher yet there remain so many questions, unanswerable at the moment. The new president is disliked by many and his policies are feared. His agenda will face fierce opposition from some quarters. There will be more protests, some violent. So surely there may be a temptation to lock in gains now and go home for a while awaiting greater clarity. I know the feeling. But let's not ignore the longer term possibility this election might represent the turning point many have been waiting for for the past generation and that a better economy and the best of this bull market is yet to come.

In the very short term, investors may defer realizing gains as these will be taxed at a lower rate next year if tax reform, a high priority for Trump, is enacted, adding to the current bull market sentiment. Keep this in mind for your and your family's portfolios. Beyond the next six weeks, seasonally the strongest period of the year for equities, it will be a while before the new economic agenda is put in place and the real economy begins to see the benefits of the tax cuts, regulatory reform, etc.

Over the intermediate term, the inevitable setbacks and shortfalls from expectations that are inherent in a democratic society will prompt scary, market-cleansing pullbacks that have been largely absent in recent years. These punches in the gut are basic to the self-correcting process necessary to sustain the economy and the markets.

Longer term, there is now more than a ray of hope that a new economic agenda will promote the beginning of the long-awaited virtuous cycle, unleashing the elusive Keynesian "animal spirits" of which I have written for years.

The new economic agenda will mean greater reliance on fiscal policy and the gradual withdrawal of central bank accommodation in the US. Expect rising inflation expectations, larger deficits, higher interest rates, a steepening yield curve, and a challenged bond market. The dollar's rise may continue for a while but, as foreign central banks first slow and then reverse their easing, the dollar is likely to face some headwinds.

I have had a career-long view that over the long-term stock prices inevitably reflect underlying corporate profits, which have plateaued along with stock prices in the past few years. The market seems to be sensing that the coming normalization of interest rates, healthy higher inflation, an investment-driven tax policy, regulation simplification and the coming fiscal stimulus will fuel the next up leg in business profits and carry stock prices with it. Time will tell. Patience will be rewarded. We'll experience sharp corrections (one may be just around the corner) and moments

of euphoria. My advice remains stay the course, keeping as much as you can, given your risk tolerance, in equities despite their inevitable volatility and corrections.

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