

CONSUELO MACK | WEALTHTRACK



Program #1321
Broadcast: November 11, 2016

On this week's show, the impact of the election. Lessons from the past and strategies for the future with noted financial historian Richard Sylla and leading investment strategist Jason Trennert.

RICHARD SYLLA
Professor of Economics Emeritus
Stern School of Business, New York University

JASON TRENNERT
Chief Investment Strategist
Strategas Research Partners

COPYRIGHT, LEGAL NOTICE AND DISCLAIMER

Copyright © 2016 MackTrack. All rights reserved worldwide. All materials contained on this site, including without limitation any transcripts, are protected by United States copyright law and may not be reproduced, distributed, transmitted, displayed, published or broadcast without the prior written permission of MackTrack Inc. [info@WEALTHTRACK.com].

Re-printing of these materials, including any transcripts, for educational or citation purposes is allowed with proper attribution.

The opinions expressed on Consuelo Mack WEALTHTRACK are those of the guests and do not necessarily represent the views or opinions of Consuelo Mack or MackTrack, Inc.

CONSUELO MACK: This week on WEALTHTRACK, what history has to teach us about this year's presidential election results and what they mean for the economy and markets. Noted financial historian Richard Sylla and leading investment strategist Jason Trennert are next on Consuelo Mack WEALTHTRACK.

Hello and welcome to this edition of WEALTHTRACK, I'm Consuelo Mack. The election results are in. The uncertainty is over. In a tightly contested race, and a stunning upset, Republican candidate Donald Trump prevailed and will be the 45th President of the United States. Republicans held onto a slim lead in the Senate and retained control of the house.

As we recover from one of the most contentious elections in recent history, it might be helpful to recognize there have been other contests in this great country's past that were even more bitter and divisive and yet the republic stands.

One of the most vicious election in the earliest days of America occurred in 1800. Alexander Hamilton turned on fellow federalist and then president John Adams publishing a pamphlet calling him "...emotionally unstable, given to impulsive and irrational decisions, unable to coexist with his closest advisors and generally unfit to be President". Then Vice President Jefferson's enemies accused him of being "a godless nonbeliever, a radical revolutionary... conducting vivisection and bizarre ritualistic rites at his home, Monticello."

We'll discuss the impact of brutal campaigns on the economy and markets with financial historian Richard Sylla in a moment.

If more recent history is any guide, since 1900 the worst market performance during an election year occurs when an incumbent party loses the presidential election, as just happened. The Dow clocked in with an average loss of more than 4% for the year. Who has political control matters too. When the White House and Congress are controlled by the same party, as they are now, the gain is around 7%. We'll see which outcome prevails this time.

What are the market ramifications of this election? And what are the lessons to be learned from history? Joining us are two experts in the financial markets.

Jason Trennert is Founder and Managing Partner of Strategas Research Partners, a top macro research firm in economics, investment strategy and policy. Jason is considered to be a leading investment strategist and a financial thought leader.

Richard Sylla is Professor of Economics Emeritus at New York University's Stern School of Business. From 1990-2015 he was Professor of the History of Financial Institutions and Markets there. He is the co-author of the now classic book, *A History of Interest Rates* and the author of the just published *Alexander Hamilton: The Illustrated Biography*.

I began the interview by asking Jason Trennert about the aftermath of the election – with the uncertainty over is there a sense we can get back to normal?

JASON TRENNERT: We're not quite sure it can get back to normal that quickly, but by the same token, I think the market action recently probably had a lot to do with the acceptance speech of Donald Trump and the concession speech of Secretary Clinton, which were both in my opinion rather gracious and suggested that both sides, at least for the time being, might want to work with one another. I also that the fact that Donald Trump has both the House and the Senate probably makes his life a little bit easier in terms of getting sort of early wins in terms of getting the economy moving again.

CONSUELO MACK: Dick, put on your historian hat and there are two kind of marked features of the campaign. One was the divisiveness and kind of the viciousness in some respects of the campaign, and the other was that we had a populist candidate who just upended the Establishment. So let's take them one at a time. Looking back historically, there have been other divisive campaigns in this country. Do they inflict long-term damage on the country? What should we expect as an aftermath of this kind of a campaign?

RICHARD SYLLA: Well, we've had this kind of divisive campaigns going back to the beginning of the Republic. I mean, not George Washington but under, in 1796 with Adams running against Jefferson, 1800 the same thing, Jefferson and Adams, those weren't pretty. They called each other names. And I think after the election, some of that goes away. You know, the hard feelings don't persist except sometimes, I believe. In the election of 1824, Andrew Jackson felt cheated, spent four years angry, and then ...

CONSUELO MACK: At John Quincy Adams.

RICHARD SYLLA: ... yes, John Quincy Adams won and Jackson called it a corrupt bargain. And then, in 1828, Jackson win and he was very angry about it. And so, that was the case where the kind of hard feelings of 1824 persisted for four years.

CONSUELO MACK: So sometimes it can make it harder to govern, right?

RICHARD SYLLA: I think so, yes, yes, because the Jackson people were so angry, they made it difficult for John Quincy Adams to do anything.

JASON TRENNERT: Right. So what about the populist aspect? And again, the fact that this, at least analysts are saying that this was as much an anti-Establishment vote, an anti-political-elite vote as anything else.

RICHARD SYLLA: Yes. You know, at the beginning of the week, I thought I was going to come in and talk about an Establishment figure defeating the populist because ...

CONSUELO MACK: You and all of us, most of us.

RICHARD SYLLA: ... that's what the polls told us.

CONSUELO MACK: Right.

RICHARD SYLLA: And then we were all surprised when the populist defeated the Establishment candidate. So I had to think of different examples, and I think my favorite example is 1828 when Andrew Jackson, the angry populist defeated the Establishment. Who could be more Establishment than John Quincy?

CONSUELO MACK: Than John Quincy Adams.

RICHARD SYLLA: His father was President, he had been Secretary of State, interestingly enough, just like Mrs. Clinton, and Jackson defeats him, and then Jackson goes on. I mean, this, you know, I'm a little worried I'm going to watch what Trump does very carefully because Jackson went on to get rid of our central bank, unleash a big inflation in the early 1830s, financial crisis in 1837, another financial crisis in 1839, Jackson's out of office by then but it's all part of a bad decade. In 1840, the Bank of the United States fails as a private bank; 1841, 1842, nine U.S. states default on their debts, American credit is bad. So in that case, Jackson, some people consider him to be a strong President. But as an economist, I have to say he did a lot of damage to the U.S. economy.

CONSUELO MACK: Right, so a President can do a lot of damage ...

RICHARD SYLLA: That's right ...

CONSUELO MACK: ... to an economy.

RICHARD SYLLA: ... especially one who is so very self-confident, you know?

CONSUELO MACK: Right.

RICHARD SYLLA: And sort of some of us look at Mr. Trump and say he's very self-confident.

JASON TRENNERT: Yes.

CONSUELO MACK: We hope that this office can make people more humble. You never know.

JASON TRENNERT: Yes, one would think.

CONSUELO MACK: Yes. So Jason, populism, it is not isolated and unique to the U.S. There are populist movements going on in Europe and elsewhere around the world. So talk to me about how significant that is to economies and markets.

JASON TRENNERT: Well, I think you've got some sense of that obviously earlier in the year with Brexit ...

CONSUELO MACK: Brexit.

JASON TRENNERT: ... clearly. And I also think that what you're having, I think, is a little bit of a backlash against political and intellectual needs. There are a lot of things that PhDs from both parties have told regular people are good for them. So the Republicans started talking about nation-building and free trade, quote, unquote, and I think the Democrats, we talk about open borders or the Affordable Care Act, or central bank, talking about negative interest rates, all of these things that average people are saying, gee, I'm not so sure this has been so good for me. This is ...

CONSUELO MACK: And in fact ...

JASON TRENNERT: ... you keep telling me this is good for me and I'm just a person without a lot of political sway, and this has actually been harmful. I think that's playing out. Of course, the biggest experiment is the European Union itself, the biggest example of something that was driven by the elites.

CONSUELO MACK: Of elites?

JASON TRENNERT: Of elites, something that there wasn't a groundswell of support for, and I think that will probably be put to the test unfortunately in 2017. We have an Italian referendum in a couple of weeks. We have also elections in France and Germany next year, and there are clearer parallels between our populism and the populism you may see in Europe.

CONSUELO MACK: Right. And so, Dick, this questioning of the Establishment and the existing order. We have certainly seen that in this country, but again, are there parallels that are particularly apt that you can think of where we saw this kind of unrest and pushback by votes?

RICHARD SYLLA: Immigration was a big discussion in the current campaign. Well, in the late 19th century, immigrants were really coming into the United States from Eastern and Southern Europe, and even a bit earlier, it was the Irish. And the people already here tended to look down on the immigrants and say bad things about them. And we even cut off Chinese or Asian immigration in the 1880s while we kept having it from Europe. So it's kind of a consistent theme in American history that the people who are already here don't, they look down on the immigrants and somehow they're ...

CONSUELO MACK: Right, on strangers, right.

RICHARD SYLLA: ... they're dangerous. But in our current situation, I mean, it seems to me that, you know, I'm an economist and we study, economists tend to be for free trade and what you find out in free trade is that, well, there are winners and there are losers, but what the winners win is greater than what the losers lose. And so, therefore, we should all be for free trade but the winners should sort of do something for the losers. I think what's happened to us to explain populism here today, maybe even in Europe, is that the winners forgot about doing something for the losers and the losers are sitting there saying, I'm a loser. I'm going to back somebody who says he's going to straighten this all out.

CONSUELO MACK: And you disagreed with that, I mean, just agreed with that ...

RICHARD SYLLA: I do.

CONSUELO MACK: ... that that is a sense that you have as well.

RICHARD SYLLA: Yes, I think the TPP, the Trans-Pacific Partnership, to my knowledge is 5000 pages. It's two-and-a-half million words. As an economist myself, that doesn't sound very free to me, you know, free ...

CONSUELO MACK: Yes.

RICHARD SYLLA: ... and something that's really free trade agreement might be like a page.

CONSUELO MACK: Right. And are all those pages rules and regulations and the way it's being governed?

RICHARD SYLLA: They're rules and regulations. And then, they tend to benefit the most politically powerful, the corporations, other institutions that have a lot of sway. And so, I think Professor Sylla was quite right, I think the people that are somewhat dispossessed that don't have access to the levers of power start to question some of these policies and really wonder how pure, let's say free trade, most economists are for free trade, almost all economists. But I do think that there are losers.

CONSUELO MACK: So maybe it's a good thing that there is some pushback. I mean, maybe it's not a bad thing that we look at agreements that we just assumed are going to be positive and that we actually look at what's in those thousands of pages.

RICHARD SYLLA: I think you saw that with the Affordable Care Act. I think again, if another ...

CONSUELO MACK: Right, right. Remember no one had read it. They just said we're going

to pass it. We'll read it afterwards, Nancy Pelosi's famous ...

JASON TRENNERT: ... right, and of course, all of these things are driven by wonderful intentions. I mean, I don't think anyone is acting in bad faith. It's just that again, once you have legislation that's that large, the original intent can sometimes get lost.

RICHARD SYLLA: The Dodd-Frank Act was like 2000 pages. It's a big stack of paper.

CONSUELO MACK: And we're just now feeling the effects of it and we're going to feel it for, the regulators are at work, so we're going to feel it for many, many years to come. Jason, what can we expect from the new Administration and what do we know that you're actually telling clients?

JASON TRENNERT: Well, I think there are two things I think you know with a fair amount of certainty. One is that I do think certainly Mr. Trump is talking infrastructure spending. I think that's a very good bet, and I think the Lord knows we need it. He's also talking about a tax cut on repatriated profits. There seems to be some bipartisan support for that, certainly a lot of support among Republicans for that. So I think that's something else you can look for. I also think defense spending, there's been a lot of talk about that actually on both sides of the aisle about rebuilding the military. So those are three, I would say, things that could probably get done relatively quickly where there is some reservoir of support. The more difficult things come in my view when you start really getting into the nitty-gritty of the tax code. And certainly, Mr. Trump wants to cut corporate taxes and personal income taxes, but that might prove to be a little bit more difficult. It's a very complex system.

CONSUELO MACK: And Dick, I know you're concerned about the deficit growing under a Trump Presidency. And when I hear about infrastructure spending, which that's another one of those things everybody said, oh, that's great, we really need infrastructure spending, well, where is the money going to come from and how quickly, how shovel-ready is the infrastructure spending that anyone talks about?

RICHARD SYLLA: Well, I think that Mr. Trump, remember, he was a real estate guy and ...

CONSUELO MACK: Yes.

RICHARD SYLLA: ... real estate guys thrive on borrowing money, I think ...

CONSUELO MACK: And building...

RICHARD SYLLA: ... probably even more than both candidates talked about infrastructure programs. I think Trump had the more ambitious program and he sort of thinks it's just like building a building. I go to the banks and they lend me the money. Well, now I'm head of the government, the Treasury will just borrow the money I need. And it worries me a little bit

because 15 years ago, we actually had budget surpluses and where people are saying maybe we can pay down the national debt.

CONSUELO MACK: Yes.

JASON TRENNERT: But then, George Bush came in, cut taxes, and launched spending programs in Iraq ...

CONSUELO MACK: And war.

JASON TRENNERT: ... and Afghanistan, right. So we had more spending, lower taxes, and the budget deficits grew and grew and grew. Then we had the financial crisis and they grew even more. Now Mr. Trump, with the national debt being I think slightly larger than the GDP, is coming in and saying, oh, we can do all these good things and I'm going to cut taxes, so we'll just borrow the money. And I'm going to watch that because my guess is the national debt is going to go up under Mr. Trump because that seems to be his plan.

CONSUELO MACK: And interest rates are at historic lows so that the pain of paying the interest on the national debt is much lower than it would be if interest rates went up. How does a Trump Presidency affect the Federal Reserve and potential interest rate hikes?

JASON TRENNERT: Well, you're right, about 50 percent of our debt in the United States actually matures in the next three years, and the weighted average cost to our debt is below two percent. So what Professor Sylla is talking about is potentially very painful for the budget because if just the interest rates do go up, interest rates, they will eventually go up, that will consume a greater and greater portion of the budget. And so, that's something where it puts the Fed in an awkward position as well, it could at some point. I think for now, I'm not particularly worried about it. I think the Fed probably will probably tighten in a dovish way if that's possible. But if interest rates and inflation start moving up meaningfully, the Fed could be in a very difficult spot.

CONSUELO MACK: Do you see any impact, Dick, on the Fed from a Trump Presidency?

RICHARD SYLLA: Well, I think they'll be, if he carries out his spending programs and his tax cuts, then he's going to be borrowing a lot of money and he probably is more tolerant of inflation than the Federal Reserve is. And so, I think the Fed will probably see rising interest rates. And if he borrows money, I mean, we know the national debt is \$20 trillion, one percent rise in interest rates raises the deficit by \$200 billion.

CONSUELO MACK: Wow.

RICHARD SYLLA: A one percent increase. I think interest rates are probably going to go up. And so, this is going to be a problem. I mean, it's right where we can finance the

infrastructure of spending at low costs now, but when the economy starts growing faster, we get a little bit of inflation, those interest rates are going to go up. In fact, there are already some signs of upward pressure on interest rates.

CONSUELO MACK: So unless we get the much vaunted pickup in growth that the President-Elect Trump talks about, that's going to be a problem.

RICHARD SYLLA: I believe so.

CONSUELO MACK: Yes. Jason, as far as the other aspect of this election, of course, was that the Republicans held onto the Senate and they held onto the House. But Donald Trump is a very independent candidate.

JASON TRENNERT: Yes.

CONSUELO MACK: So what is possible that you can think about in his agenda that would pass both the Senate and the House? And where do you think he, what are nonstarters?

JASON TRENNERT: Well, I think the spending I think, it's pretty easy to spend money at these interest rates as Professor Sylla said. So I would kind of count on that. Again, I think the tax cut on repatriated profits would be quite possible, increases in defense spending as we talked about quite possible. I think some of the other talk and chatter about lowering corporate taxes is potentially very difficult. One of my partners talks about the budget as almost a giant game of Jenga.

CONSUELO MACK: What's Jenga?

JASON TRENNERT: So it's very difficult, you have to pull out certain building blocks and if you're not careful, the whole thing ...

CONSUELO MACK: Thing collapses.

JASON TRENNERT: ...falls, collapses. So yes, and there's three-and-a-half million words in the U.S. tax code, so it's again very, very complex. So I think those are the easy things. I think some of the other things that he is talking about, particularly I think as it relates to governance which I'd like to see as far as term limits, all those things, I think that they might prove to be much more difficult for President Trump.

CONSUELO MACK: What about rolling back regulations. Again, with the Republican Senate and House, well, the Senate has a very probably has a very slim majority, but is that possible? Could we see some rolling back of some regulations?

JASON TRENNERT: I certainly hope so as it relates ...

CONSUELO MACK: Affordable Care Act was mentioned.

JASON TRENNERT: ... certainly as it relates personally and maybe ...

CONSUELO MACK: That's a law.

JASON TRENNERT: ... selfishly I would say, I'd like to see some rolling back of regulations particularly on financial institutions because in some ways, I think the regulatory burden that we've imposed on banks has largely sterilized the monetary easing that the Fed has provided, which it hasn't been as effective. It's been very effective in increasing financial asset prices but hasn't done a lot I think again for the average person, the forgotten man, if you will. And I think easing financial regulations might help in that regards.

CONSUELO MACK: Dick, are there examples of independent Presidents who did not follow the party line, and if there are, any lessons there?

RICHARD SYLLA: Oh, yes. I think, I mean, a classic example, we had two candidates from New York easier in history. We had Theodore Roosevelt who was a New Yorker, and he was very independent and a lot of the Republican leadership didn't trust him. Republicans were the business party. Teddy Roosevelt was a trustbuster, and so, he kind of alienated some of his own party by pursuing large corporations, breaking them up. They thought a good Republican President should be pro-business and not sort of break up companies. So he was definitely somebody who bucked the sort of center of his party.

CONSUELO MACK: Right. And the longevity of a President that bucks the Establishment, I'm just wondering, I mean, how long did they last in office?

RICHARD SYLLA: Well, I think he was popular. He wasn't really a populist but he attracted a lot of sort of maybe middle-of-the-road people, maybe even some Democrats because of his stance. And of course, he became President when President McKinley was assassinated in 1901, but he was very popularly elected then in 1904, and so, basically had two terms in office. Then he tried to win again in 1912 but he lost then, but he had an Independent party. So that shows you what a maverick he was: if his party wouldn't nominate him for a third term, he started his own party.

CONSUELO MACK: And that certainly could be a possibility for Mr. Trump.

RICHARD SYLLA: Certainly. One would think given the divisiveness of the campaign that he might pursue some easy wins, which is some things that a lot of people could agree on to, in his wins, bind the wounds that were inflicted during the campaign. And that might allow him to be somewhat more ambitious with some of the other things that he's talking about. I think trade is the one issue where I have to say, and I agree with Professor Sylla, I mean, this is something where I tend to think of Donald Trump as bullish for stocks and bearish for

bonds. The one thing that could change my perception in that regard might be more, I guess, turning the thermostat down a little bit on the protectionist sentiments that he has expressed during the campaign. I think it's okay to be a little bit tougher on trade, but certainly a trade war would be manifestly inflationary, be very bad for bonds, and I think eventually bad for stocks.

CONSUELO MACK: Would you agree with that?

JASON TRENNERT: Yes, and I think Trump is a bit of a maverick like Teddy Roosevelt. And you know there are a lot of people, there are even Republicans in Congress both in the Senate and the House, don't like these budget deficits. Trump is going to push things that are probably going to increase the budget deficits. So I think we keep our eyes open for a little clash between the White House and the Congress, and both of them being Republican.

CONSUELO MACK: Now, at the end of our WEALTHTRACK, we ask our guests for one investment for a long-term diversified portfolio, but in this case, I'm asking you for an investment kind of based on this election. So what would it be for a portfolio, what would you have us own some of, Jason?

JASON TRENNERT: I like aerospace and defense stocks. There's power shares aerospace and defense ETF PPA. I think certainly in the United States, we're going to spend more on defense. I think another part of Mr. Trump's agenda is to have our allies spend more on their own defense as well, so take no pleasure in saying this but I think defense spending as a growth industry globally. And certainly, I think given some of the challenges that we're facing internationally, you might see greater defense spending worldwide.

CONSUELO MACK: Dick, what would your one investment be?

RICHARD SYLLA: Well, I am a historian of interest rates and I happen to know that our interest rates seem to trend for very long periods, two, three, maybe even close to four decades. And what I've noticed is that from 1946, the end of World War II, to 1981, that's 35 years, interest rates generally rose a lot and some of us older people remember interest rates were 15, 20 percent in 1981. Then starting in 1982, interest rates came down. It's 2016 now, that's almost another 35 years, interest rates have been trending down. Of course, they go up and down, but the trend has been down, and now, they're about as low as they ever get. I've seen what rising interest rates can do to bond values. So like Jason says, I'm very wary of bond investments now. Portfolio people will say, well, you should have 60 percent stocks and 40 percent bonds, or 50-50 depending on your age. I'm saying right now I'm really worried about that bond component of the portfolio, and I almost think a better investment might be to hold cash.

CONSUELO MACK: Interesting. All right, thank you both so much for being with us on WEALTHTRACK, Jason Trennert from Strategas and Richard Sylla, author of a new book

about Alexander Hamilton.

RICHARD SYLLA: Thank you.

JASON TRENNERT: Thank you.

At the close of every WEALTHTRACK we try to give you one suggestion to help you build and protect your wealth over the long term. This week's action point is: Stay the course with your financial plan. No matter how you feel about the election results, whether positive or negative, the fact is America's economy and capital markets are strong, diverse and resilient. Good businesses will continue to do what's best for their stockholders, employees and communities. Our founding fathers were beyond wise in having three branches of government to provide checks and balances on each other. If you were comfortable with your financial plans before the election you will be confident in them again as Americans get back to business.

Next week, award winning portfolio manager Bill Priest explains how he chooses companies that are capital allocation champions for his MainStay Epoch Global Equity Yield Fund.

To see this program again and hear more insights from Dick Sylla and Jason Trennert please go to our website on wealthtrack.com. Also feel free to reach out to us on Facebook and Twitter.

Thank you for watching. Have a great weekend and make the week ahead a profitable and a productive one.