Weekly Market Summary

13th of January 2017

Trump's Upcoming Inauguration and Policy Actions
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Donald Trump's next big day is scheduled for next Friday, January 20th when he will be sworn in on the steps of the US Capitol at noon.

Presidents have been inaugurated on January 20th since Franklin D. Roosevelt took the oath of office in 1937, moving up from the previous day of March 4th. The swearing-in is just one of the day's activities; Presidents have usually started the day with a morning worship service. Then the President and President-elect traditionally travel together to the inauguration. The Vice President - in this case Indiana Governor Mike Pence - will be sworn in first. Then it will be Trump's turn, when he will take the traditional oath: "*I do solemnly swear (or affirm) that I will faithfully execute the office of President of the United States, and will to the best of my ability, preserve, protect and defend the Constitution of the United States*."

With one week left for this widely anticipated inaugural ceremony, and markets craving for more material/evidence relating to Donald Trump's lavish £14,000 a-night Ritz hotel room stay(s) in Russia, below is an interesting Bloomberg column by Mohamed A. El-Erian that summarizes the challenges awaiting financial markets in days/weeks ahead.

Trump Rally Needs More Fuel From Policy: Mohamed A. El-Erian (Bloomberg)

Financial markets are in the business of pricing not just current circumstances but also future events. As a result, they tend to be impatient. These days, they are eager to hear more details of what has been widely interpreted as the pro-growth policy agenda of President-elect Donald Trump. Without such specifics, the Trump rally in stocks will soon run out of fuel!

After the surprise election of Trump on November 8th, markets eagerly embraced the prospects for an expansion of nominal gross domestic product driven by higher growth and higher inflation. Equities surged, the dollar strengthened and interest rates rose on signals that the new administration would pursue deregulation, tax reform and infrastructure spending. The market moves were amplified by indications that, for the first time since 2011, Congress would try to enact presidential policy initiatives rather than seek to block them. It is also helped that, in contrast to a year ago, conditions in the rest of the world were relatively calm.

The Trump rally had evolved in textbook manner, both at and within the asset-class level. Initially led by financials, it developed breadth internally (with tech stocks catching up) and among the advanced economies (with Europe closing the gap that had developed in both equites and bonds). Now it is looking for further impulses, which many hoped would be provided by Trump news conference on Wednesday.

As it turned out, questions at an unusual and, at times, contentious press conference focused primarily on issues relating to Russia, the intelligence services and potential conflicts of interest presented by the president-elect's intensive business holdings. That left little time for the details of the policy announcements that are music to markets' ears, and in particular the focus on deregulation, the proposed new level of corporate taxes and other aspects of tax reform, new rules governing the repatriation of corporate cash held abroad and higher infrastructure spending.

With central bank effectiveness no longer the main driver of valuations, markets will be particularly interested in what they hear from the new administration and Congress. Most investors are hoping for a more rapid transition from policy announcements to detailed design and implementation on Capitol Hill. Without credible and encouraging signals on this transition, stocks will struggle to move higher in a determined fashion, the recent 30 basis points decline in 10-year Treasuries will be harder to reverse and the yield gap with respect to Europe will narrow further.

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