



The election ends with a Trump victory. Now the real work starts.

Time will tell which campaign promises translate into policy reform

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One of the most tumultuous and unprecedented presidential election campaigns in US history is now over, with Donald Trump ultimately emerging as the winner and Republicans retaining their control over both the Senate and the House of Representatives. But while we know who won, we don't yet know what policy changes will come to fruition once the hyperbole of the campaign trail gives way to the reality of governing.

The 'art of the possible' and those devilish details

As we are often told, "politics is the art of the possible." President-Elect Trump laid out an extremely ambitious agenda during the campaign. However, despite the fact that he will be working with a Republican Congress, it is by no means sure that he will be able to muster the support necessary to enact the sweeping reforms he has proposed to areas across the policy spectrum, including immigration, trade, health care, energy, personal and corporate taxes and financial regulation, to name only a few. In this regard it is worth recalling that President-Elect Trump is certainly not a conventional Republican, and even during the campaign he at times openly disagreed with senior figures within his own party.

Given his apparently tenuous relationship with some Congressional Republicans, much will depend on the relative priority that the Trump administration ultimately assigns to its various policy goals, the amount of political capital it is willing to spend in order to achieve them and, perhaps most importantly, the political appointees entrusted with implementing the administration's policies. Moreover, public sentiment may shift once the details of President-Elect Trump's campaign proposals, such as the repeal and replacement of the Affordable Care Act, begin to be explored. In any event, it appears unlikely that President-Elect Trump will be able to implement the substantial changes he has proposed without making significant concessions to the more mainstream wing of his party, to say nothing of the Democrats who will undoubtedly fight against many of his proposals. And although he will have more latitude to enact administrative changes, Mr. Trump may choose to proceed more carefully in an effort to retain support for broader reforms requiring Congressional support.

All of that said, there may still be opportunities to seek consensus in some areas. For example, members of both parties have recognized the need

to rebuild and upgrade America's infrastructure, such as aging roads, bridges and power grids. Likewise, there appears to be broad support for some measure of corporate tax reform to lower rates and reduce the number of loopholes.

While the gridlock that has marked recent years has been a cause for frustration with the US voting public, the relative predictability that it produced may have been a source of comfort for the markets. Given the political uncertainty introduced by the election results, we expect to see continued market volatility during the coming weeks. We anticipate that this volatility will dissipate in the near term, however, as markets shift to a "wait-and-see" mode, digesting the new administration's policy announcements and assessing the likelihood of their implementation. Market reaction following the recent surprise Brexit referendum result serves as a helpful reference point in this regard.

Conclusion

As high-conviction, long-term investors, Invesco's investment professionals do not change their process or philosophy in response to elections or other short-term events; we believe investors would be well-served not to do so either. In our view, the best approach holds true no matter which party is in office: Work with a financial advisor to build a diversified portfolio¹ designed to meet your long-term needs, and stick to your plan over time. Update the plan when your needs change, and don't abandon it due to market volatility - after all, volatility often presents the opportunity for investors to buy quality stocks at cheaper prices. Discuss any fears or concerns with your advisor.

While we don't change our approach due to politics, we will certainly continue to keep a close eye on Washington over the coming months as we assess the likely ramifications of the incoming administration's policy goals for the US economy, global markets in general and certain market sectors in particular.

¹ Diversification does not guarantee a profit or eliminate the risk of loss.

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