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2016 Presidential Election—Impact on Investments

The outcome of the presidential election caught many by surprise and certainly elicited a strong reaction from the U.S. and world financial markets. There has been much speculation in the press and elsewhere regarding the policy changes promoted by President-elect Donald Trump. However, even during a time of transition for the U.S., Wespath continues to remain optimistic about the prospects of long-term global growth and will maintain its long-term investment strategy.

Impact on Financial Markets

The financial markets confounded experts who had predicted a sharp sell-off in equities and strength in the bond market on the heels of a Trump victory. Conventional wisdom held that the markets would have a negative view of the President-elect's economic and political agenda and eschew risk in favor of the relative safety of low-risk government bonds. However, although stock index futures on the night of the election initially indicated a significant decline, once it became clear that Trump had won, stocks closed the next day significantly higher and ended the week with the largest single weekly gain in the past two years. Furthermore, interest rates on fixed income instruments spiked, contrary to what had been predicted. In addition, the U.S. dollar surged relative to foreign currencies. It appears that financial markets concluded that the President-elect's policies would benefit U.S. companies, but might also lead to higher levels of inflation.

Wespath's Long-Term View Remains Optimistic

The long-term success of Wespath's investment strategies—in absolute and benchmark-relative terms—is largely reliant on our belief that the U.S. and global economies will continue to experience modestly positive growth rates, primarily driven by the developing economies of Far East Asia, Latin America, Eastern Europe, and Africa.

The outcome of the U.S. election has not changed our long-term belief regarding world economic growth.

There are several reasons why we remain optimistic for near-term accelerating economic growth. Both presidential candidates aggressively promoted an agenda for increased spending to improve the nation's infrastructure. Accordingly, it seems reasonable to believe that a bipartisan solution may be reached for increased infrastructure spending. Not only would this be a source of jobs, but improved roads, ports, and electrical grids would have long-term benefits for facilitating improved business conditions.

A second reason for optimism is potential changes to the tax code that might benefit middle income earners and companies that wish to repatriate foreign income, which have been precluded from doing so because of current tax policy.

A third reason for optimism is the President-elect's commitment to address government regulations. Many economists and investment strategists believe that U.S. business formation is restricted by current regulatory requirements. Streamlining regulations could provide greater confidence for business interests wishing to start a new business or expand their existing businesses.

Ultimately, over the long-term, U.S. companies will benefit from the macro-economic factors occurring throughout the world, notably the growth of the middle class in developing countries. U.S. companies that lead the world in technology, health care, and numerous other industries will benefit from the increased demand for their products as they become affordable to the world's burgeoning middle class.

Performance of Wespath Funds

In the days following the election, Wespath's U.S. Equity Fund performed much better than the overall U.S. stock market, largely due to its overweighting of small- and mid-sized company stocks. The potential for accelerated growth in the U.S. would favor smaller companies that rely primarily on U.S. businesses and consumers as sources of revenue.

Wespath's bond funds and International Equity Fund declined roughly 2-3% in the week after the election. Bond prices naturally suffered from the fear of rising interest rates (bond prices decline when interest rates rise). Inflation-protected assets fared better than traditional bonds, as markets perceived that the President-elect's proposed policies may be inflationary. For example, restricting competition from less expensive foreign goods and services would likely increase prices for domestically produced goods and services. International stocks declined for the same reason: fear that restricting competition in the U.S. from foreign goods and services will adversely affect foreign companies, and that currency weakness relative to the U.S. dollar will adversely affect developing countries that have issued U.S. dollar debt.

While the International Equity Fund's benchmark-relative performance has been in-line with the fund benchmark, the Fixed Income Fund modestly underperformed its benchmark in the week after the election, primarily due to its holdings of bonds denominated in foreign currencies. The Inflation Protection Fund has shown modest outperformance relative to its benchmark, primarily due to factors unrelated to the market's reaction to the election.

Staying the Course

Wespath's response to the election results is similar to our response to prior events of market anxiety and uncertainty. Many decades ago, we adopted a consistent, long-term, disciplined strategy for managing a diversified investment program. We avoid making hasty investment decisions in response to short-term market volatility or other market-changing events. No one—even the most skilled financial experts—can consistently predict the near-term direction of the U.S. and world stock markets. We have followed this strategy in both *up* markets and *down* markets—we believe that it has successfully stood the test of time. We are confident that it is, and will continue to be, a prudent approach for meeting our participants' and institutional investors' needs.

Sincerely,

David H. Zellner
Chief Investment Officer