

INSTITUTIONAL HOTLINE

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MACRO UPDATE

S&P 500 = 2246.19

REFERENCED CHARTS

The Trump Policy Narrative

I believe the historical record makes clear that the stock market is apolitical. I try to be as independent, and unbiased as I can in my analysis.

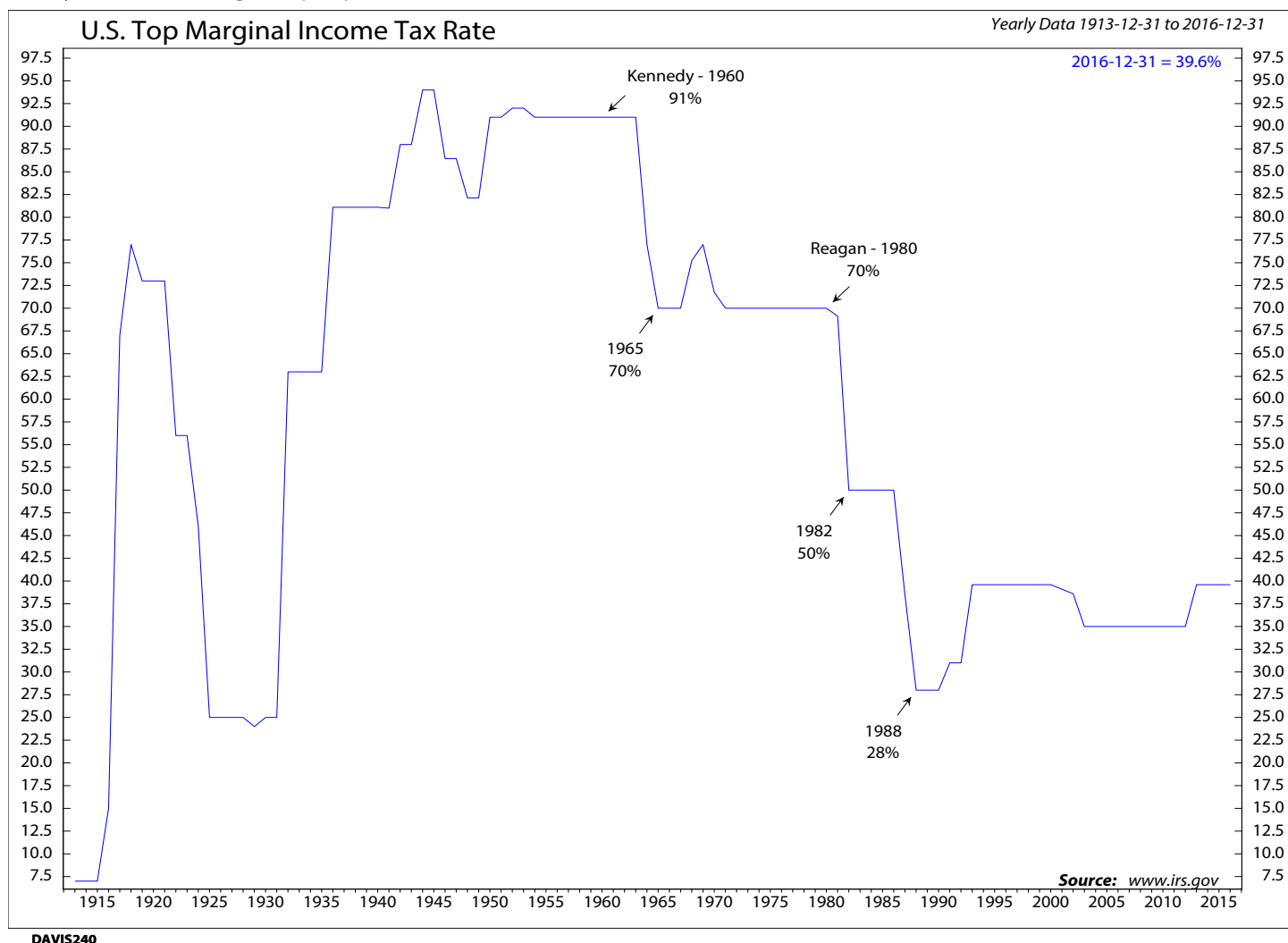
Nevertheless, I did like Ronald Reagan, and believed his policy was a miraculous success in a very inflationary and unsettled economic climate. A big part of his policy was deregulation, huge tax cuts (and tax reform), and a considerable buildup in defense spending, (which I felt helped break up the Soviet Union). Clearly, there are Reaganesque planks

in the Trump program in terms of deregulation, tax cuts (and tax reform), and a defense/infrastructure buildup. My guess is that many people thought about the Trump policies, and came up with quite the rational narrative that the future looks like Reagan Part II.

The optimists could certainly be right. I hope they are. However, I have a skeptical nature. As I look at the background faced by Reagan and Trump, they look a lot like day and night to me. Therefore, I'd like to share with clients some of the

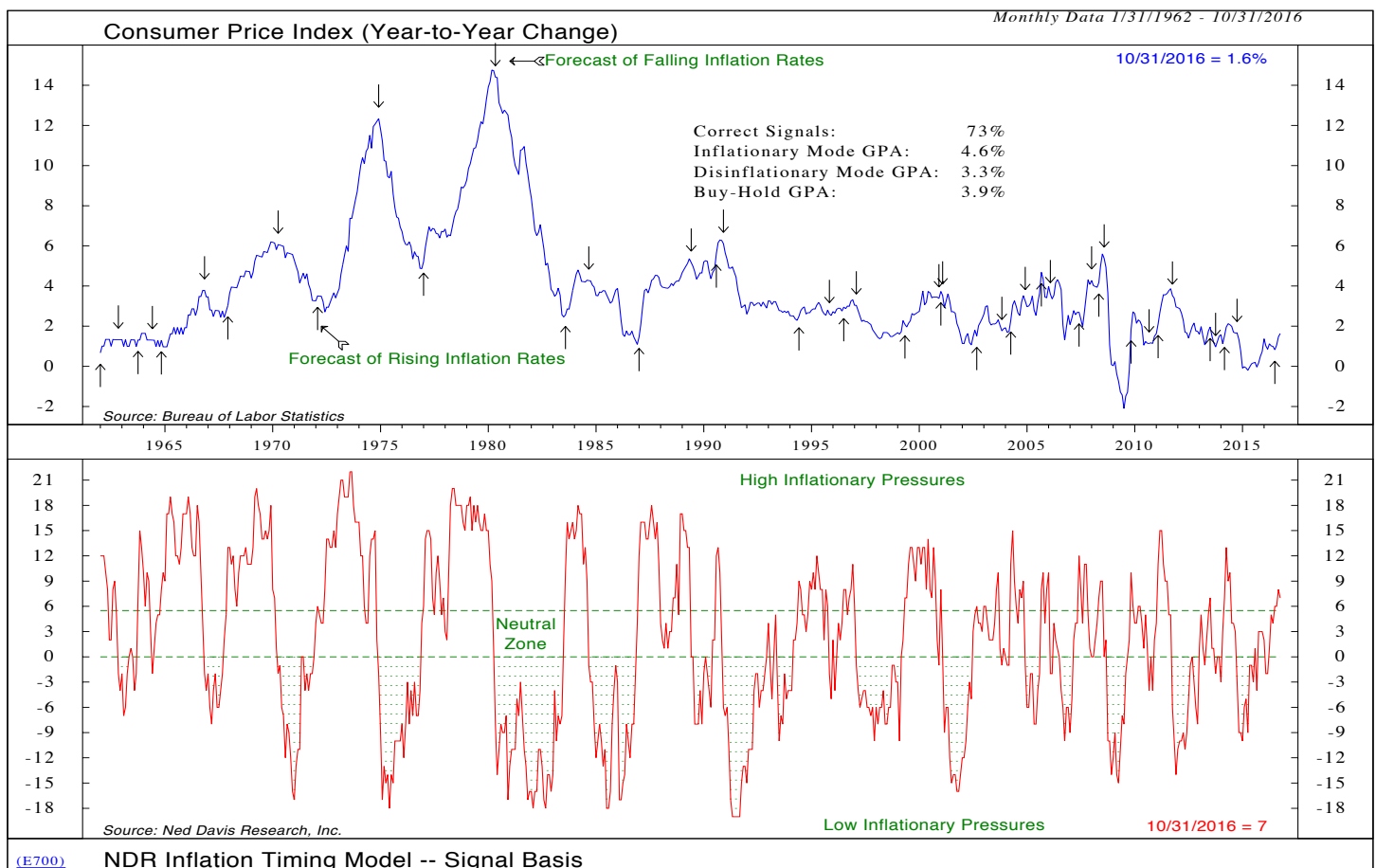
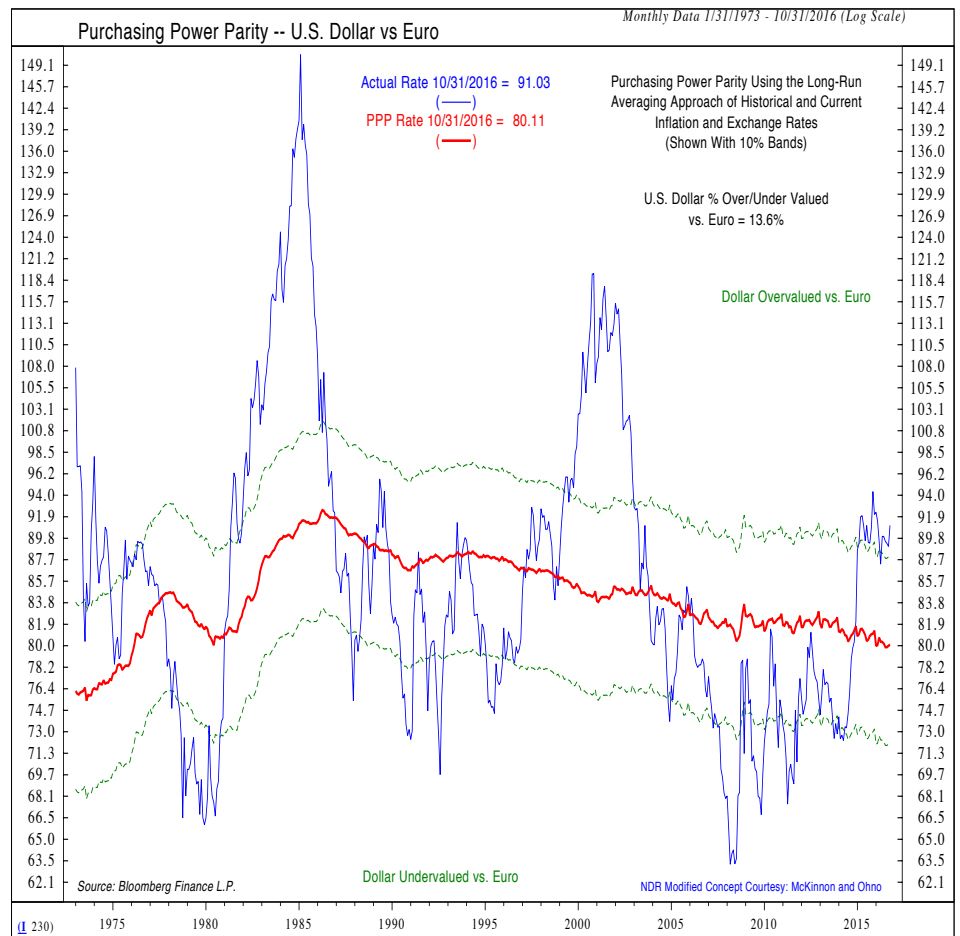
background factors facing Trump and Reagan. The clients can decide for themselves if my skepticism is warranted.

The [chart](#) (below) shows the marginal tax rate for income tax. When Kennedy proposed cutting taxes, the top rate was 91%, and when Reagan did it, it was 70%. Lowering that to 28% was an incredible incentive to work and increase income. I am not sure if a drop from 39.6% to 33% has the same kick in terms of incentive.



With inflation soaring, and the U.S. dollar weak in 1980, interest rates also soared making our currency "King Dollar." This helped greatly to bring inflation down. See [I230](#) (at right) with an undervalued, multi-decades low U.S. dollar in 1980, versus a strong and overvalued dollar currently.

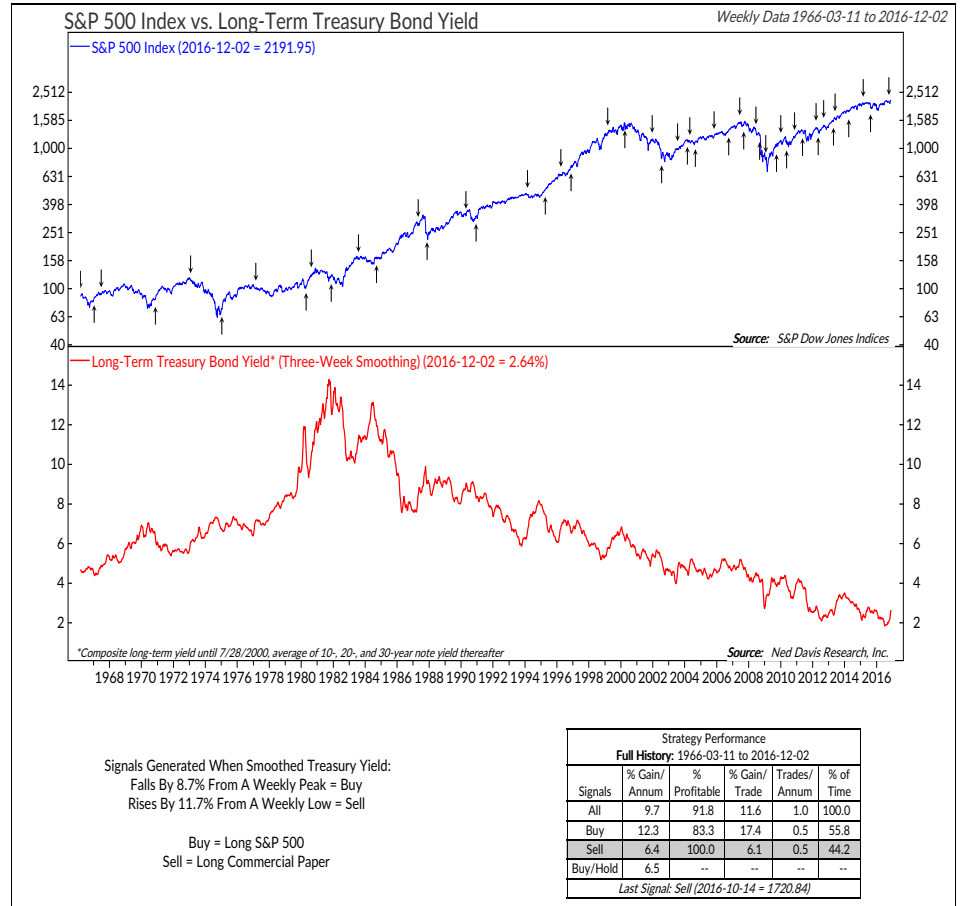
Also, inflation started to plunge in 1980 (see [E700](#), below), but it seems to be on the rise, increasing from -0.2% in April 2015 to 1.6% currently.



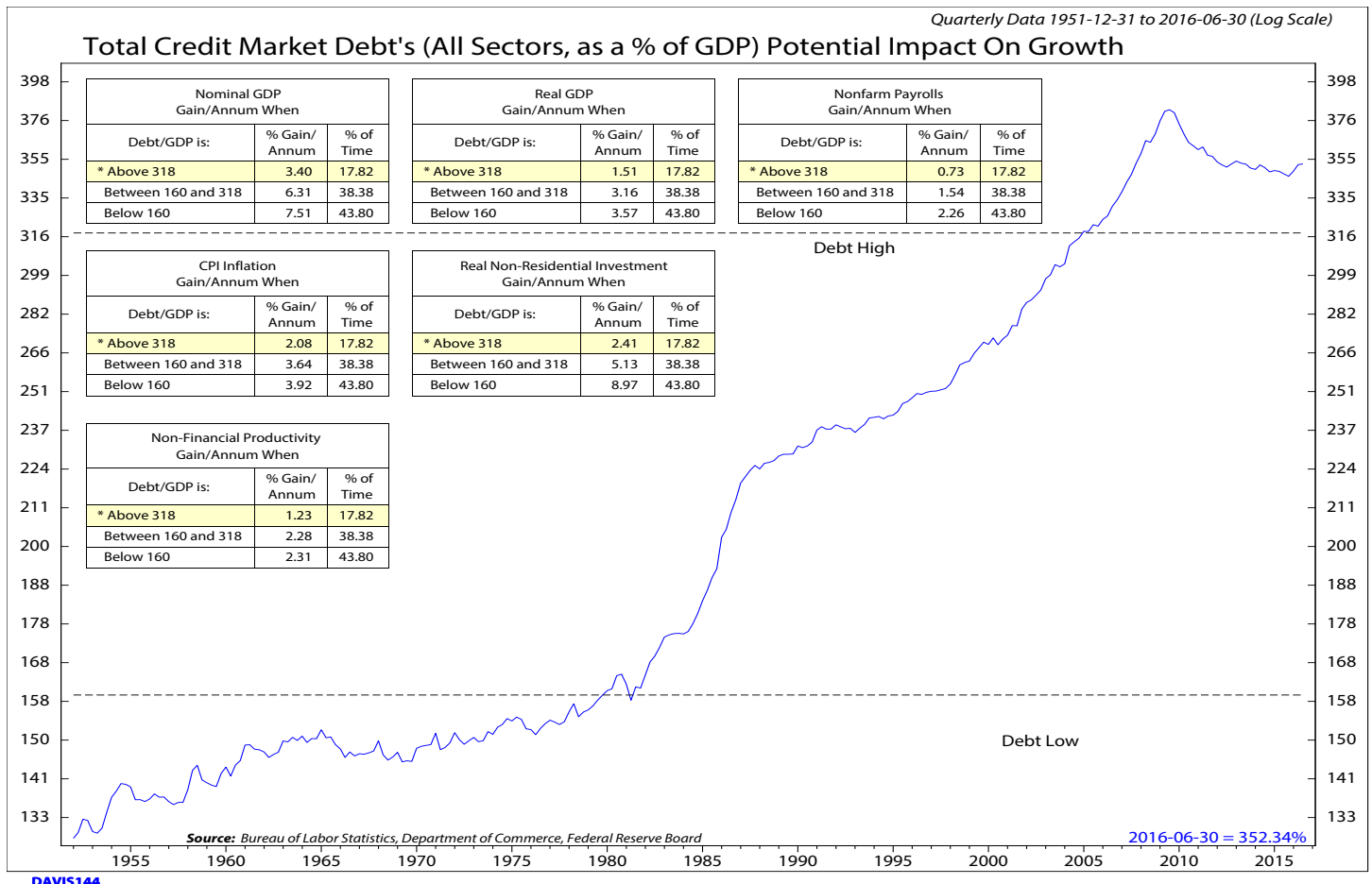
With inflation breaking, long-term interest rates plunged from nearly 14% when Reagan took office to below 2%. They currently appear to be on the rise though, as featured on [S947](#) (at right).

[DAVIS144](#) (below) shows that the total credit market debt was quite low when Reagan took office. It did rise under Reagan, but debt is now already at very high levels. We also have some \$100 trillion of unfunded, mostly entitlement liabilities, not yet included in this total that are supposedly coming.

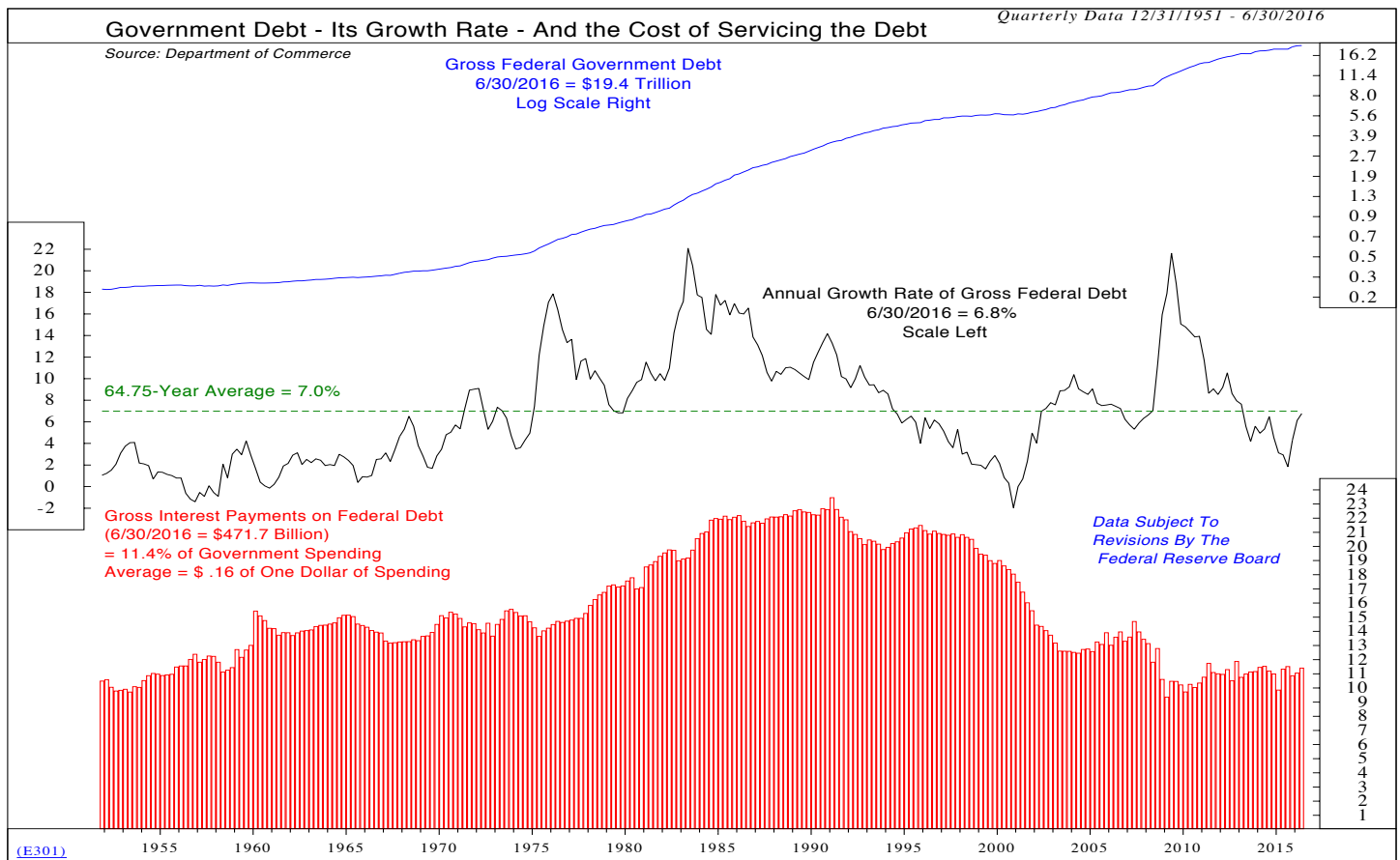
National Debt (Government) was \$930 billion when Reagan took office. It will be over 21 times that amount (see [E301](#), top, page 4) when Trump takes office.



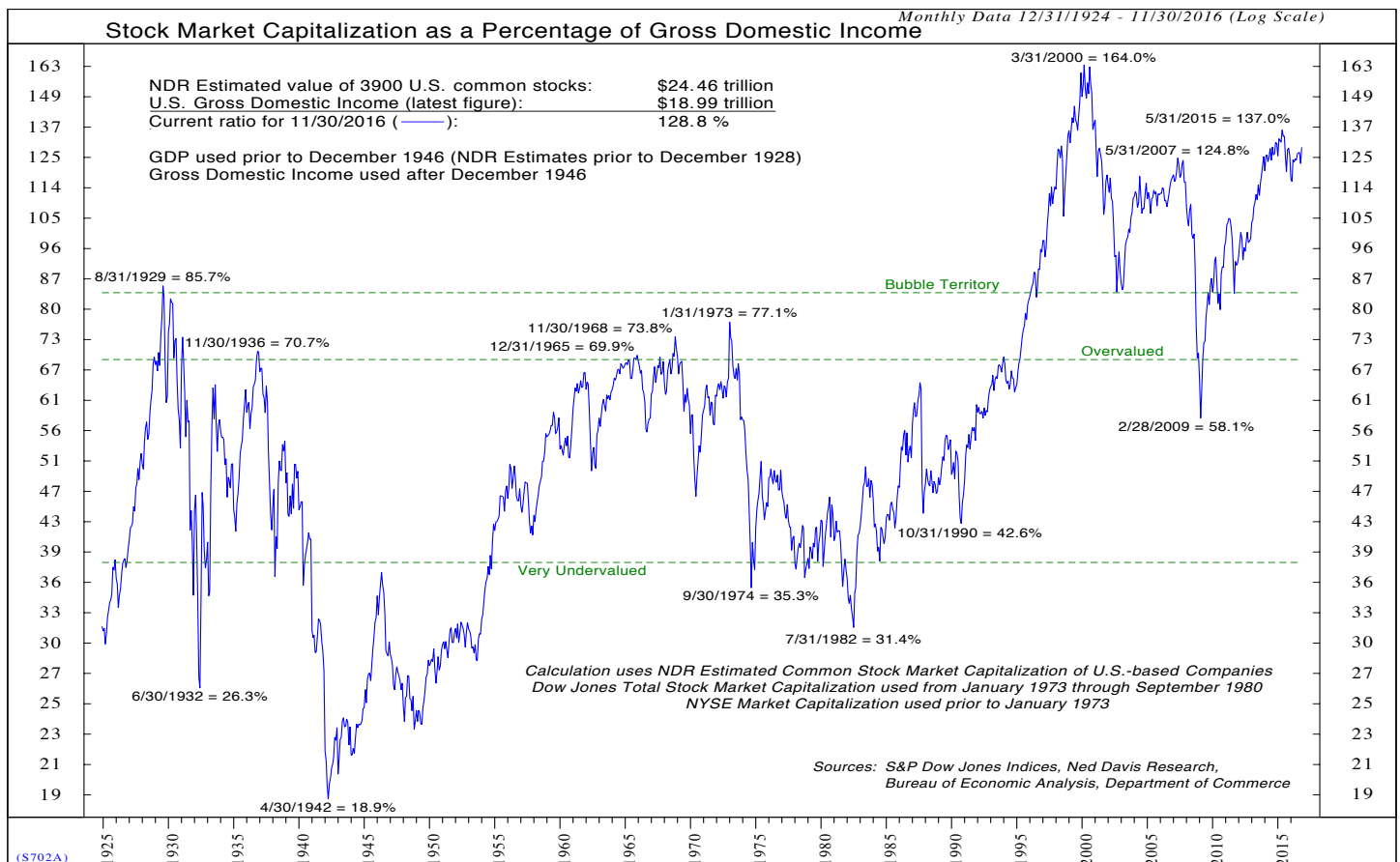
[S947](#)



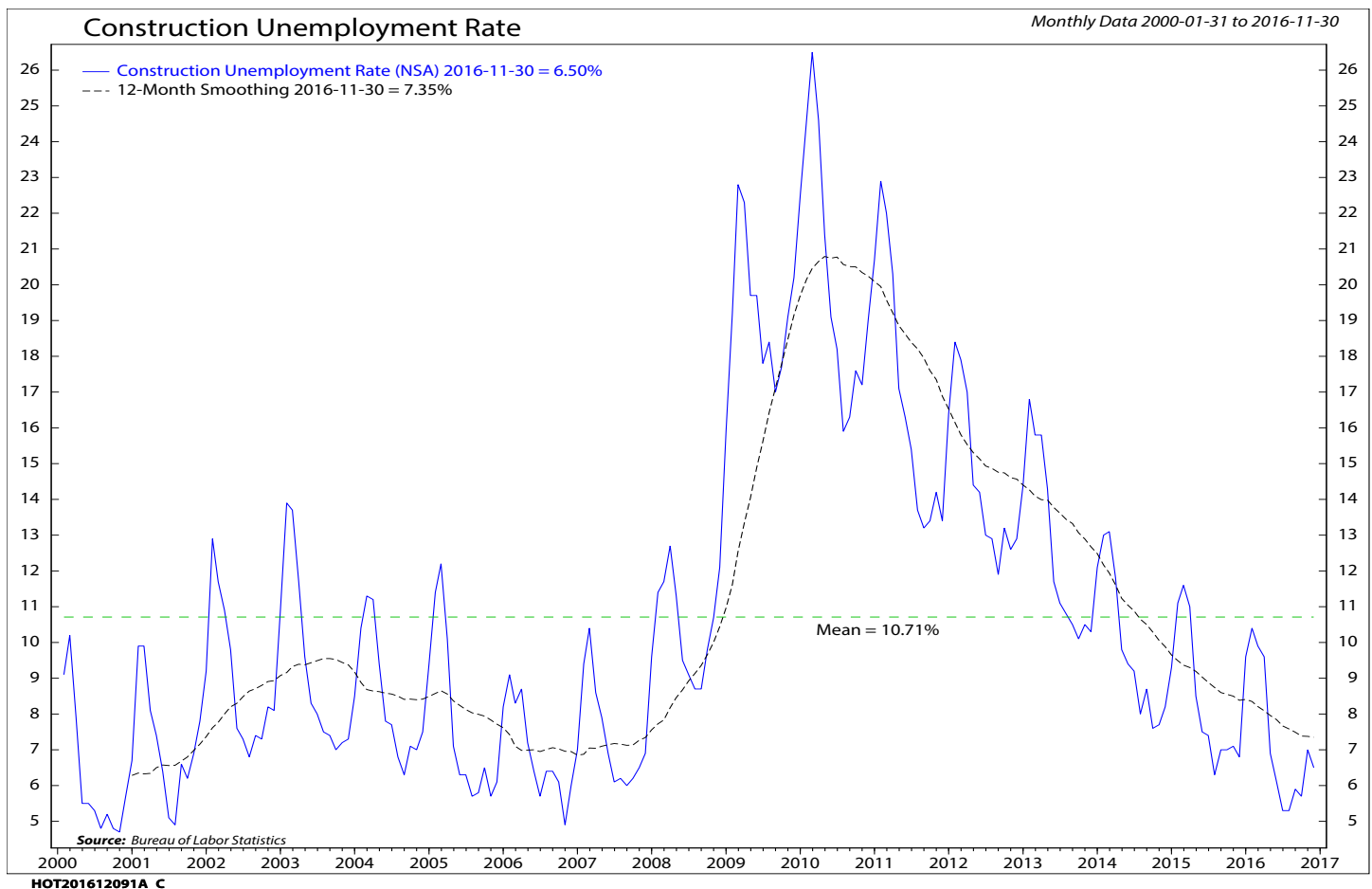
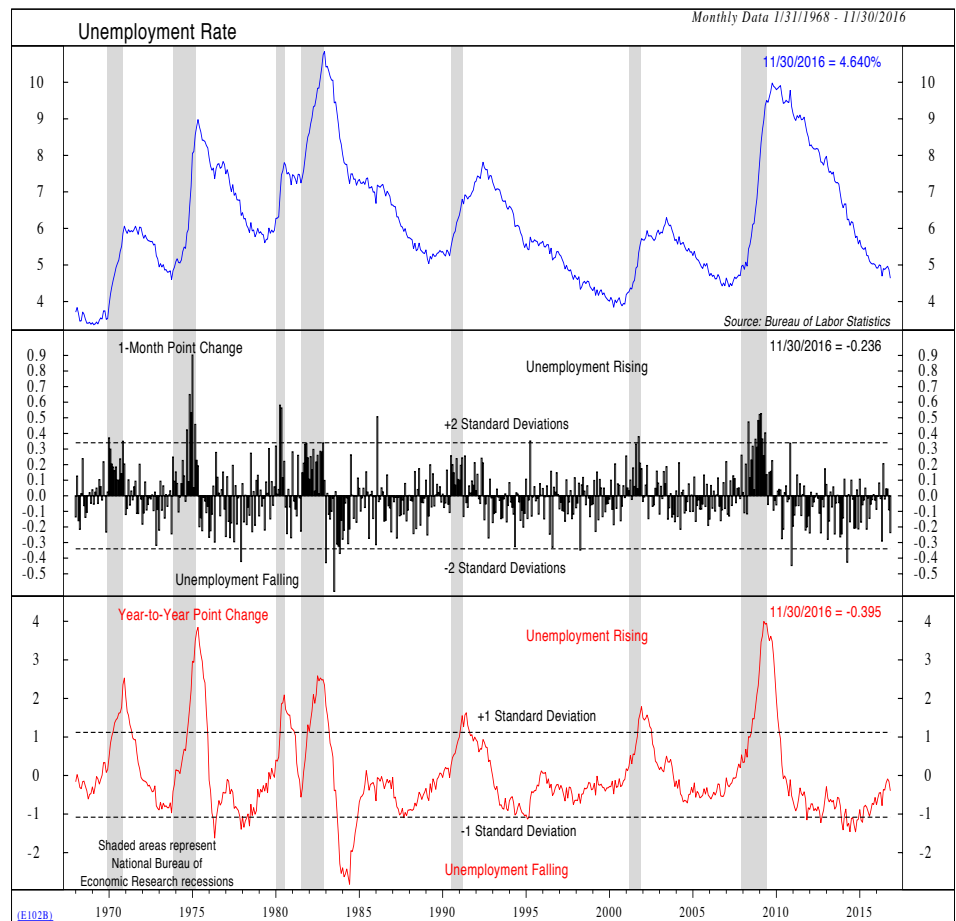
DAVIS144



Stocks were very cheap relative to Gross Domestic Income in 1980-1982. [S702A](#) (below) now shows they are very high. Stocks are overvalued. Reagan started at the end of a **major** bear market period. Trump comes in after a major bull market.



Next, the Unemployment Rate was very high in 1980 and 1982, as featured on [E102B](#) (at right). Thus, the Reagan stimulus was able to create jobs without forcing upward pressure on wages. Now the Unemployment Rate is fairly low, and companies complain they cannot find skilled workers. Where will we find the skilled construction/defense workers? See [chart](#) (below).



Finally, I am not going to try a complicated interpretation of the last two charts, except to note that [S01727](#) (top, below) shows that the "working age" population was destined to soar with "baby boomers" starting around 1980, and while NDR thinks U.S. demographics are in relatively good shape looking forward, clearly the population is "more mature" now.

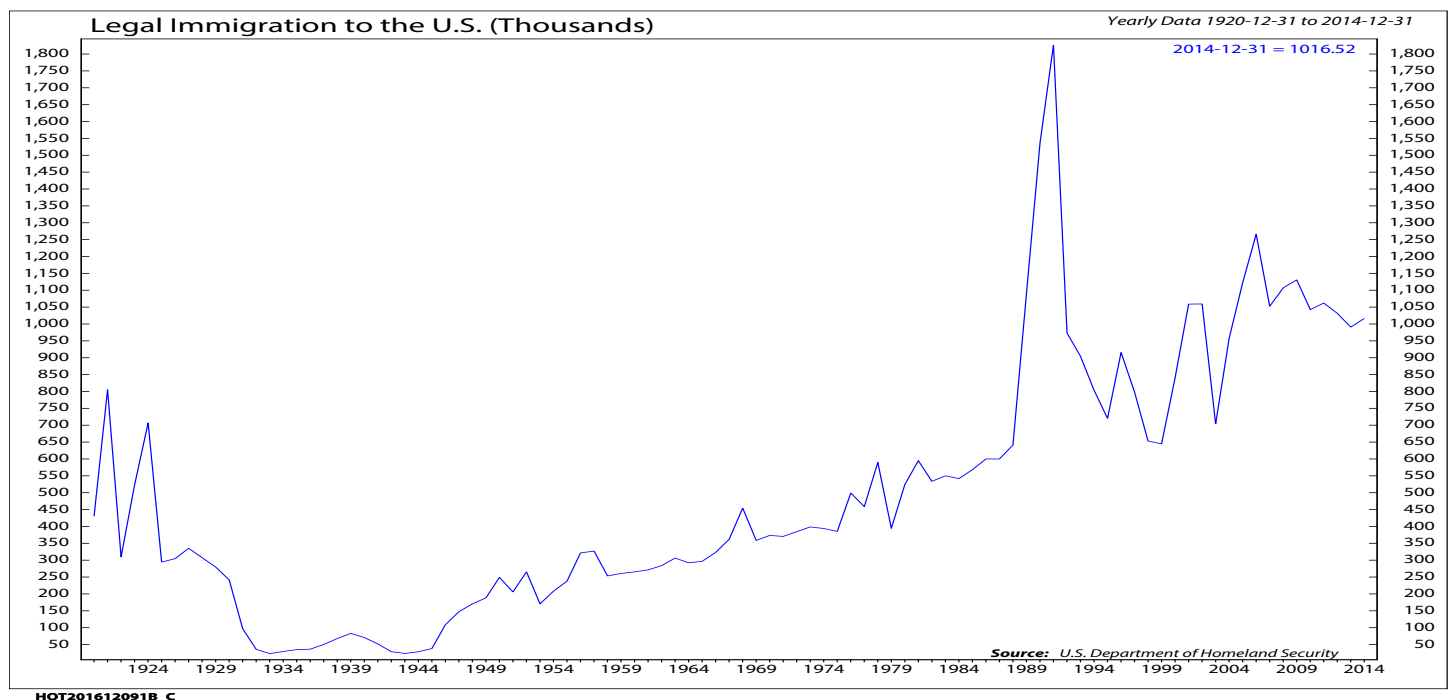
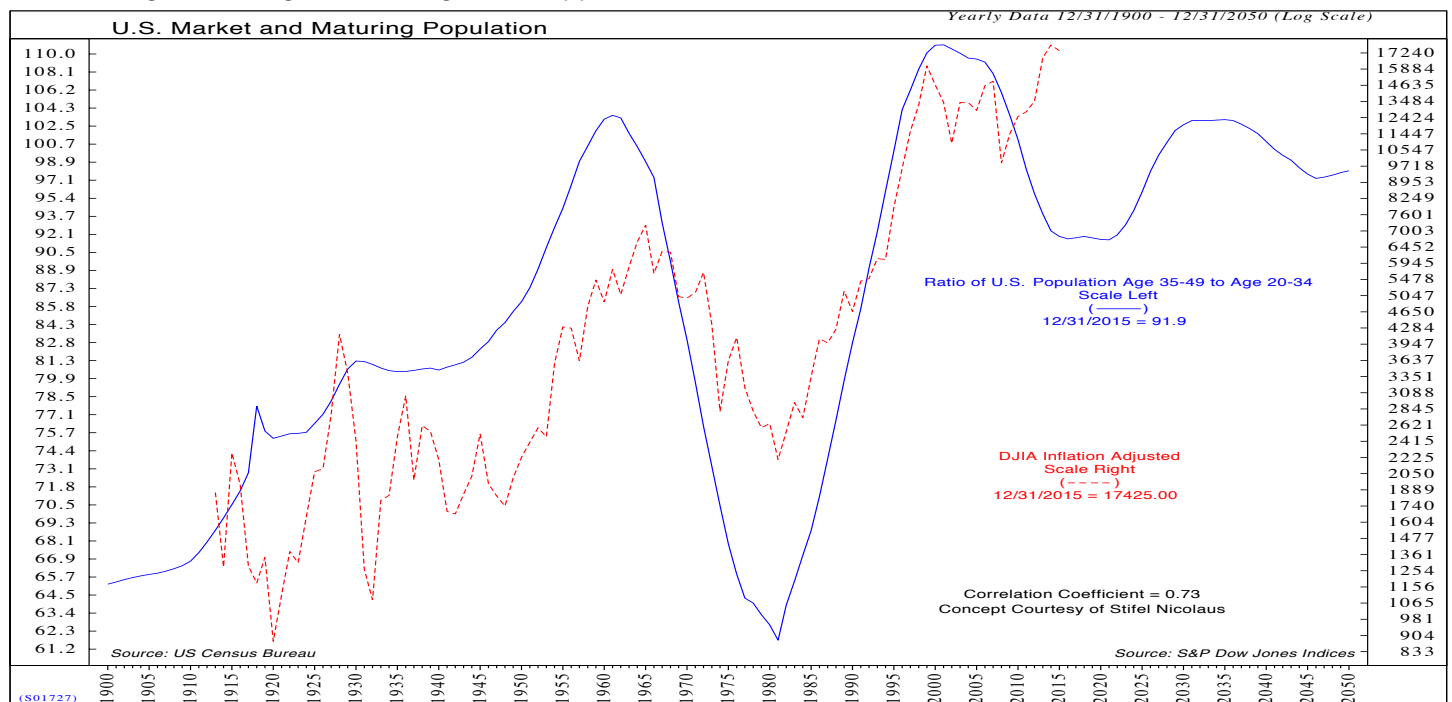
The last [chart](#) (below) shows legal immigration to the United States since 1920. A surge in immigration during

the 1980's-early 90's (considered pro-growth at the time--due to both a Reagan amnesty and George H. W. Bush's immigration reform) probably also helped keep wages down, and inflation pressures falling. The Trump program could see less immigration.

I get it that the world changed after the 9/11 terror attacks, and Trump says there will be doors in his "wall," but Reagan was pretty much for free trade and immigration. Trump says almost the opposite.

For further study on whether or not "working age" population growth corresponds to GDP growth and productivity globally, see [IE821A](#) and [IE821B](#).

In conclusion, the bullish Trump narrative is rational, and has a successful historical analogy. Nevertheless, the facts indicate the backdrop is very different from 1980-1982. I am skeptical if that will produce similar results, but I hope I'm wrong.



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