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AR SCHMEIDLER & CO
INVESTMENT ADVISORS
A Pine Street Asset Management Company

THE OUTLOOK

# The World is at an Inflection Point – Update

Our October 13th Outlook was titled “The World is at an Inflection Point” as we believed that the global anti-establishment sentiment had become so strong that we were closer to major shifts than many had realized. The Trump win combined with the Republican sweep of the Senate and House was the strongest statement yet of the anger and dissatisfaction with the status quo. The United States election results reflected the frustration of large segments of the population who were left behind and felt underserved by government institutions. While many details of the new administration’s economic and foreign policy initiatives remain unknown, it is our expectation that long-awaited fiscal and structural reform is coming. We have long believed that such reform is necessary to support accommodative monetary policy. There are several policy responses under discussion which, if implemented, will stimulate growth, including increases in infrastructure and defense spending, reductions in corporate and personal taxes, a reduction in regulatory burdens on companies, and the repatriation of approximately $2 trillion dollars of cash held overseas by U.S. corporations. The effect of these initiatives would lead to increases in corporate investment, consumer spending, employment growth and wages. For some of these policies to be effective, the new administration needs to dial back its anti-trade rhetoric.

Overseas, the U.S. election outcome is being viewed as a wake-up call for government leaders to act to avoid similar election results. Consequently, investors should anticipate shifts in policy initiatives by European governments, especially in Germany, as anti-establishment pressures continue to build. Investors should also expect market volatility over the coming months as the impact of the U.S. election unfolds and as we learn which campaign slogans become actual policy initiatives. Failure by governments to follow through with substantive change could lead to further economic, social and political stresses. However, if in fact the U.S. and Europe begin to embrace fiscal reform, it could prove to be the most defining moment of the post-crisis period for the developed and developing worlds.

The United States remains the largest economy, and the collective strengths of the nation should help keep the U.S. in that position. It is now time for political ideology to be put aside and to get on with fixing the areas that need fixing. The current record-low interest-rate environment has been giving governments, both at home and abroad, a unique opportunity to use low-cost debt to make the needed investments essential to foster a return to a stronger growth environment. The opportunity will not be with us indefinitely and now is the time to capitalize on this low interest-rate structure. Importantly for investors, if this inflection point results in our addressing our needs through the implementation of effective fiscal policy and the structural reforms mentioned in our recent Outlooks, the economic prospects for the U.S. would change dramatically.

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