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Here's One Way the Stock Market Balloon Could Be Popped in Trump's First 100 Days

Emily Stewart

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Investors might see their faith in the Trump rally tested during the president's first 100 days in office, and they'll have to learn to tune out the noise.

The real estate magnate came into the Oval Office signing a slew of executive orders, making unfounded claims of mass voter fraud and antagonizing one of the United States' friendliest allies. If President Trump's first week is any indication, we're in for a wild ride, and investors will need to know what to watch out for.

Wall Street is largely banking on the promise of tax cuts and accelerated GDP growth under Trump. And if the president and Congress are able to deliver, corporate earnings could rise 20% in a year, said Mike Bailey, director of research at Maryland-based FBB Capital Partners, which has $900 million in assets under management.

"It does seem a little heroic, perhaps, but it's possible," he said.

The **S&P 500** has climbed about 7% since Election Day and during Trump's first week in office gained around 1%. The president said in an interview Wednesday that he hopes the markets will continue to go "up, up, up."

"In our minds, there's probably more upside than downside for the general market," said Bailey. Assuming a "steady stream of pro-business moves and communications" over the first 100 days and no interest rate increases from the Federal Reserve, he estimates U.S. equities could climb by 5%.

Trump and Congressional Republicans appear to be moving closer to a consensus on tax reform in the wake of the GOP's huddle summit in Philadelphia this week,*Politico* reported, including on border adjustability. (The 20% tax on Mexican imports the White House floated appears to be a nod to the border adjustment tax.)

Mark Heppenstall, chief investment officer at Pennsylvania-based Penn Mutual Asset Management, which has $20 billion in assets under management, said that he sees a "positive mindset" among fixed income investors as well.

"Borrowing rates for corporations haven't risen by nearly the amount that we've seen the increase in the treasury markets, and that's representative of a more positive mindset for fixed income investors that the economy is going to continue to maintain a positive trajectory," he said.

The "X" factor in Trump's first 100 days, beyond his own actions and those of Congress, is the Fed, which Bailey described as the "pin in the balloon."

Trump while campaigning took an at times antagonistic stance toward the Fed, accusing Chair Janet Yellen of holding interest rates artificially low to prop up the economy for political purposes.

The president may walk a fine line on the Fed now that he's in office.

He has indicated he might want to borrow quite heavily to pay for infrastructure, defense and other projects, telling *Fox News'* Sean Hannity in an interview Thursday "you have to fuel the well to really get the economy going" when asked about whether he would seek to raise the debt ceiling. If the Fed begins to raise rates aggressively, it would hamper his ability to borrow and spend.

"My inclination is he's going to be a little more prone not to do anything to upset the financial markets because it could be a detriment to some of his plans to borrow and spend," said Heppenstall.

Rollbacks on financial regulations could also make investors' lives easier, but chances are, there won't be much movement on that front in the first 100 days.

"Other than the occasional mention of Glass-Steagall, Trump didn't really campaign on financial services issues, other than to remind us that Clinton was 'bought off' by Wall Street," said Mark Calabria, director of financial regulation studies at libertarian think tank the Cato Institute and a former staffer at the Senate Banking Committee.

House Financial Services Committee Jeb Hensarling has put forth a more than 500-page bill dubbed the Financial CHOICE Act to dismantle 2010 financial regulation law Dodd-Frank. Calabria said he believes it is likelier than not the Texas Republican gets the legislation out of committee by the end of April and, perhaps, the House, but getting it through the Senate, which would require Democrats to get on board, is a different story.

If the legislation were to make it through the Senate, it probably wouldn't wind up on the president's desk until 2018.

"Anybody who's hoping or fearing that we're going to deregulate the banking and finance industry is going to be quite surprised," Calabria said.

During Trump's first 100 days in office, the most important signal to investors will be who he puts in place in regulatory agencies like the Federal Communications Commission, the Commodity Futures Trading Commission, Consumer Financial Protection Bureau and the Securities and Exchange Commission.

"This is really an area of law in enforcement where personnel is policy," Calabria said.

Too much attention might be paid a president's first 100 days in office, said Tom Stringer, managing director at New York-based BDO Consulting. "As the first year gets underway and real substantive policy discussions can be had, that's where you'll start to see if some of the changes discussed will come to fruition and how they'll be implemented," he said.

But it is also a period when the president has perhaps the largest "reservoir of goodwill" from Congress and the American public, Rich Garon, former chief of staff for the U.S. House Committee on International Relations.

"I really think that it is very difficult to project where things are going to be at the end of 100 days," he said.

"You're going to see mini bounces of volatility as part of the way he governs," said Heppenstall.