# Economic update

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Now that Donald Trump is officially the president, can we expect a more pragmatic approach to economic policies? I think the answer is yes. If recent comments by Trump's cabinet picks are any indication, there will be a large gap between rhetoric and action. It is reasonable to assume that in the first year, the main action will be on the "easy" stuff. The following are our guesses regarding what he might or might not do in the first year.

**Will he go ahead with the promised corporate tax cut?** Yes. Given that it's early in the game, Congress will approve that action. After all, the logic here is that those tax cuts are expected to lift economic activity and thus will not lead to increased debt. That's probably nothing more than a wishful thinking, but for now, Congress will go with it.

**Will he implement the promised personal income tax cuts?** Yes. That's relatively an easy one and not very expensive. However, no less than 80% of that cut is expected to go to the top 10% of earners (with very low propensity to consume). This means that any GDP lift from that action will be very limited since most of that money will be saved.

**Will he implement the promised one-off cash repatriation tax holiday?** Yes. Again an easy one. But don't count on this money to boost investment and employment. In 2004, President Bush implemented something along this line and most of the cash that came back went to stock buyback activity as opposed to investment and hiring. There is no reason to believe that this time it would be different.

**Infrastructure spending?** The first year will be used to identify projects. We expect very little infrastructure money to actually be spent in 2017.

**Will he reduce regulation burden on financial institutions and the energy sector?** Yes and yes. We expect a significant modification to Dodd-Frank in the first year. The market is for sure counting on it.

Again, an easy one to implement. We also expect him to act fast on reducing environmental regulations on oil producers.

**Will he withdraw from the TPP?** Yes.

**Will he impose a border tax?** No. this idea is off the table.

**Will he impose tariffs on China and Mexico?** No. Given the complexity of the issue, it's very difficult to see the Trump Administration implementing such a move in the first year. The Administration will start a process of lengthy negotiations that will last well into 2018 and beyond.

**Will he kill NAFTA?** No. Trump has indicated that he will "kill" NAFTA only if he cannot negotiate a better deal. So first, he has to negotiate. The main focus in the first year will be on the dispute resolution mechanism, and more importantly, on some notable modifications to the country of origin formulation. That will take time. It's reasonable to assume that nothing will change in NAFTA in the first year. As the fog clears, the new NAFTA will be more beneficial to the US, marginally negative for Canada (mainly for dairy and lumber) and notably disadvantageous to Mexico.

**So what does it mean?** Currently, the US stock market is priced to perfection—expecting only good things. A quick glance at the list above suggests that the market might be getting what it wants as Trump will first implement the easy (good) measures. There is no question that at over 20 price-to earnings ratio, the US stock market is expensive. And in this environment, any future gains must come from earnings growth. The market is expecting close to 10% growth in the coming year. That's not an easy task given the recent surge in the value of the US dollar. But since most of Trump's immediate action will be to reduce the cost structure of corporate America, we might get close to that target—keeping the market stable or limiting any near-term downward potential.