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Tweeting Future Policy Impacts Mindsets Today

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President Elect Donald Trump has a multi-faceted plan to "Make America Great Again". And he's not afraid to Tweet it! He is advising companies not to build their plants abroad to benefit from lower foreign labor costs only to then import product back into the United States at a higher profit margin than producing it here.

He is also warning U.S corporations that importing cheap goods from abroad from other manufacturers rather than purchasing domestically may be taxed at the border; and finally, that producing goods here and exporting them abroad may receive favorable tax treatment.

If you were management and/or a board member of a domestic or foreign corporation considering future capital expenditure plans and you sell product in the United States, don't you think that you would strongly consider building additional capacity to serve the United States here rather than abroad? Consider the cumulative effect of such a decision: you would buy the materials and machinery here to build the facility; hire construction firms here; then staff the plant here and finally produce the product here.

If you also expect regulations to ease, cutting the red tape to build here, then that decision is made all the easier. If you decide to build here to fill domestic demand and also export product abroad then the total impact would be to boost the trade export numbers while reducing imports. Can you imagine the boost to domestic GNP and job creation?

The President Elect clearly plans to reduce taxes for individuals and corporations early in his term. He will offer a plan for corporations to repatriate several trillion dollars held overseas; he will begin overhauling Obama Care removing the most onerous provisions immediately that impede job creation and replacing insurance policies with better coverage at lower rates within two years; he will introduce a major infrastructure plan rebuilding America; he will rebuild our modern day military and open trade deals to make them fairer and more balanced than current ones. His cabinet and advisor choices show how intent he is on keeping his promises made during his campaign to "Make America Great Again." But be patient, as it all won't happen overnight.

Everyone here and abroad appears to have gotten his message. Consumer and business optimism is rising everywhere. Did you happen to notice the yuan last week? China is clearly listening.

On the other hand, I was disappointed but not surprised about how foolish both sides in Congress sounded last week. Listening to both parties discuss their positions on Obama Care was childish and discouraging. Both sides recognize the problems but seem to be justifying their own positions rather than sitting down together and removing the obvious failures of the program with something better for Americans that really is affordable. Unfortunately, President Obama is more concerned about his legacy than also admitting his failures and being part of the solution.

Trump and his team will need all of their negotiating skills to get things done in Congress or watch the number of executive orders Trump will issue. He will continue to use Twitter even when in office to get his message across and serve notice to those that may be in his way that he will succeed and accomplish his mission with this team to "Make America Great Again."

Let's look at the events last week that support an accelerating global economy and the need to look through the windshield rather than the rear view mirror.

1. The United States remains our primary focus as it is the leader in change and will clearly be the growth engine in the world. The key data points last week were: 156,000 new jobs were created with average hourly earnings increasing 0.39% over November and up 2.9% from a year ago, the best annual gain in more than seven years; the Fed minutes came out citing "considerable uncertainty" about Trump's impact on the economy supporting our contention that the Fed will stay one step behind the curve; the ISM index for manufacturing rose to 54.7 in December, the highest reading in 2 years; U.S. auto sales hit a new annual record of over 18 million units in 2016 and consumer/business confidence continued to rise. I am pleased that the pundits continue to believe that this move in the stock market is NOT sustainable and many believe that the top will occur on Inauguration Day. On the other hand, my former partner and now Vice Chairman at Blackstone, Byron Wien, came out with his forecast for 2017. Clearly he has been reading my blogs as he mentioned many of the same things that we have been discussing for months. He sees a 2500 market this year similar to our view led by the reflation beneficiaries. He and I made a pretty good team as Co-CIOs at Century Capital Associates.

2. Economic activity continued to surprise on the upside throughout the Eurozone including in the U.K. In fact, the U.K. service sector grew at its fastest rate in December in over two years. I continue to believe that pessimism about the impact due to Brexit on Britain's economy and that of the Eurozone is overdone. It was also interesting to see that Eurozone consumer prices rose at their fastest annual pace in more than three years in December raising a flag that ECB actions are closer to ending than generally believed. Consumer and business confidence continues to improve here. Watch the elections and government actions in 2017 to see if shifts in fiscal, tax and regulatory policies occur to offset the rise in populism.

3. While China's government is doing everything in its power to sustain economic growth above 6% for the foreseeable future, the key growth driver remains the strength of its exports so take their rhetoric, regarding Trump's tweets against them, with a grain of salt. Trump has been calling them currency manipulators, which they fiercely deny, but did you happen to notice the strength in the yuan this week? Actions speak louder than words.

4. Growth in India and Japan has been surprisingly good, as actions of both governments to stimulate domestic growth appear to be working. I have raised my targets for Japan's growth in 2017 and remain very positive about the future of India. Growth in Australia has picked up too as evidenced by its first trade surplus in several years as commodity exports have accelerated.

Let's wrap this up. Global growth is in the process of bottoming and will accelerate in 2017 into 2018 along with the pace of inflation. Fears of deflation are behind us.

Continue to look through the windshield when considering capital allocation, risk controls and investment emphasis. Continue to sell the old winners including all bonds and reposition for growth and steepening yield curves. The surprise in 2017 and 2018 will be the rate of earnings growth after years of stagnation. The more cyclical companies have been pruning operations, cutting costs and reducing their breakeven points over the last eight years so even they do not realize how strong the positive operating leverage will be to rising volume growth and improved pricing.

Analysts and portfolio managers have not factored in yet an accelerating global economy beginning next year and will be constantly raising their earnings estimates for the reflation beneficiaries' after years of cutting numbers. Banks are included too as prime beneficiaries of a steepening yield curve and increased loan growth. You can also own industrial commodities as demand exceeds supply, inventories are drawn down and prices rise. Oil prices will be capped near the $55-$60/ barrel, a level that will bring a rapid increase in shut in shale production.

Finally patience will be needed as the timing of passage of his pro-growth agenda unfolds throughout 2017 into 2018. Keep looking through the windshield and look over the horizon to the impact of all the Trump policies, many of which will be emulated abroad, will have on economic growth. The Trump administration should lead off with its tax, regulatory and infrastructure agenda while working to repeal and replace Obama Care and improving our trade deals.

Remember to review all of the facts; pause, reflect and consider mindset shifts; review your asset allocation and risk controls; do in depth independent research on each investable idea…and

Invest Accordingly!