

Markets Press the Mute Button

There seems to be another scandal in the Trump administration each and every time one turns on the news. The White House has been putting out fire after fire, and the media has been focusing on worst case scenarios, ignoring to a large degree the fact that Trump and his associates may just as well be found to have had no involvement or meddling with Russia and the campaign at all.

Regardless of one's opinions or political affiliation, what is certain is that the outcome of this pending investigation remains unknown. **However, the market does not seem to be worried about all the noise.** Volatility has retreated back to historic levels and markets have recovered their short-lived losses.

Has anything changed? Is there more clarity as to Trump's potential involvement with Russia? Is there any evidence whatsoever to justify the market climbing back up? Either the market has a short memory and investors are being greedy, or **the market just happens to be in a healthy position with strong fundamentals to support it.** Our view is the latter, as long as policy and reform work together as catalysts to reinforce the state of the economy: a "Goldilocks" economy that is neither too hot nor too cold.

We believe the market does not care much for Trump or what he says, **what truly matters is policy enactment and actual reform.** Trump is simply the chauffeur driving a car (policy) from one destination (the floor of congress) to another (signed into law). The change is what matters, not who is driving the car, and the important thing is to get there. So far there have been many potholes and speed bumps along the way, some may even argue that there have been minor collisions, but what the government needs to focus on is getting back on the road and pushing forward. One of these implications is understanding how Republicans will respond to the noise.

The Thinking Man's Approach



Ignacio Pakciarz, CEO
Salvador Juncadella, Analyst

May 2017 | BSP Series #49

- We've always believed that the United States offers the greatest ecosystem for investment, given the efficient integration of both a strong economy and stable political system.
- The "noise" surrounding the investigation into Trump's campaign is a political issue, not a legal one, and does not pose a fundamental risk for the economy.
- Republicans see an expiration date to their majority in Congress if this long investigation proves to end badly, therefore instead of being slowed down, legislation will be pushed even faster.
- The bull market is propelled by the Republican agenda, not the agenda of Donald Trump.
- For more on how we are positioning our portfolios, please contact your investment advisor or email: ideas@bigsurpartners.com



It is common to hear from news pundits that Trump's actions have distracted the administration from drafting and passing new legislation. Many analysts beg to differ, stating that some Republicans see an expiration date to their majority in Congress if this long investigation proves to end badly, therefore instead of being slowed down, legislation will be pushed at an even faster rate. The purpose of this is to make sure that there is a large enough headcount in Congress to pass laws, particularly those relating to tax, healthcare, infrastructure and energy reforms. Republicans want to do as much as they can before their opportunity comes to an end.

Democrats will oppose Republicans rushing to push their agenda through. A notable example of this was seen during the healthcare vote in the House, but it was made clear that Republicans have a rare opportunity to get what they want regardless. [The nomination of Robert Mueller as special counsel](#) overseeing the Russia investigation also [plays a very positive factor](#) in easing tensions between the two parties, given that he is highly respected by both sides of the aisle. It helps in lowering the political temperature, further giving the Administration the green light to act quickly on its policy agenda. Top legal analysts suggest that Mueller's appointment will in fact benefit Trump, given that Mueller is a person who would try to avoid leakage of information, the proceedings will happen out of the public eye, and it is more likely than not that Mueller will find no evidence of a crime. Additionally, Richard Burr (the Republican chairman on the Senate intelligence committee) and Mark Warner (its ranking Democrat) have vowed to see the investigation through to its conclusion. Thus far, they have both shown earnest bipartisanship, acting as partners and allies in these sensitive moments.

In terms of investigation outcomes, it is important to understand the "i" word and its implications. [Firstly, impeachment is a political, not legal, process.](#) These proceedings can be initiated by the House for whatever crime it deems worthy. As long as Republicans control the House, it is unlikely that they will call for impeachment hearings unless they begin to feel that the risk of continuing to support Donald Trump outweighs the risk of abandoning him. Only then will they begin to turn on him and jump ship. Their support is likely to hold firm so long as Trump's approval rating among Republicans remains high.

This political calculation should not be mistaken with loyalty — many Republican politicians privately are in opposition to Trump. [The party's true loyalty is to a conservative agenda that includes tax cuts, deregulation and the repeal of Obamacare.](#) For the markets, the significance of the political news is what it means for economic policy. At the end of the day, classic fundamental determinants of the markets —inflation, Fed policy, government



deficits, foreign demand, value of the dollar, equity market valuations and volatility—appear much more important than any of Trump's potential wrongdoings.

The idea of “President Pence” became popular among those who favored Trump policies without the accompanying personality and character. Wharton finance professor Jeremy Siegel predicts that if President Donald Trump is driven out of office, the Dow could jump by 1,000 points, or 5%, even before Mr. Pence were to take over the White House. That's because [the bull market is potentially propelled by the Republican agenda, not the agenda of Donald Trump.](#)

In conclusion, although we are experiencing political risk, we believe there is no increase in systemic risk. Since inception, our view at BigSur has been that [the United States offers the greatest “ecosystem” for investment](#), given the efficient integration of both a strong economy and stable political system. The U.S. has one of the strongest forms of “checks and balances”, therefore we will soon see a resolution regarding this investigation, and unlike in other countries, we will not remain in a “limbo” situation indefinitely. We believe we are at the late stage of the economic cycle and of the bull market in the United States. However, [this bull market has one or two more legs](#), especially after these political uncertainties are resolved. We recommend clients with low equity allocations to take advantage during the summer (where we see a range traded market) to buy on weakness. And no doubt that some short-term market weakness could come with negative political noise.



Important Disclosures

This material is distributed for informational purposes only. The discussions and opinions in this article are for general information only, and are not intended to provide investment advice. While taken from sources deemed to be accurate, BigSur Wealth Management, LLC (“BigSur” or the “Adviser”) makes no representations about the accuracy of the information in the article or its appropriateness for any given situation. Any statements regarding future events constitute only subjective views or beliefs, are not guarantees or projections of performance, should not be relied on, are subject to change due to a variety of factors, including fluctuating market conditions, and involve inherent risks and uncertainties, both general and specific, many of which cannot be predicted or quantified and are beyond our control. Future results could differ materially and no assurance is given that these statements are now or will prove to be accurate or complete in any way. This article may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as “believe,” “estimate,” “anticipate,” “may,” “will,” “should,” and “expect”). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements. BigSur shall not be responsible for the consequences of reliance upon any opinion or statements contained herein, and expressly disclaim any liability, including incidental or consequential damages, arising from any errors or omissions.

Please note this material includes BigSur’s “Strategic Asset Views”, which seeks to identify and reflect the Adviser’s views (opinion) regarding the potential portfolio withstanding of various asset classes. When developing its Strategic Asset Views, BigSur analyzes numerous other factors related to the markets in general and to the implementation of any specific assets class and trading strategy should only be determined via assessing these factors with each individual client’s overall characteristics. Therefore; BigSur provides its Strategic Asset Views for information purposes and for client considerations and prior to any client taking actions based upon these views such activity should be discussed with your individual BigSur advisor accordingly. The companies discussed herein, are for illustrative purposes only and do not represent past or current recommendations by BigSur. This article is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific investor.

Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor. Any securities or products referenced BigSur believes may present opportunities for appreciation over the subsequent time periods. BigSur closely monitors securities discussed and client portfolios and may make changes when warranted as a result of evolving market conditions. There can be no assurance that the securities and performance included or referenced in the article will remain the same and investment strategies, philosophies and allocation are subject to change without prior notice. Specific securities or companies identified and described may or may not be held in portfolios managed by the Adviser and do not represent all of the securities purchased, sold, or recommended for advisory clients.

The reader should not assume that investments in the securities identified and discussed were or will be profitable. BigSur may change its views on these securities at any time. There is no guarantee that, should market conditions repeat, these securities will perform in the same way in the future.

Any referenced securities and their respective returns reflect the reinvestment of income and dividends, but do not take into account trading costs, management fees, and any other applicable fees and expenses. Please refer to Part 2A of BigSur’s Form ADV for a complete description of fees and expenses. Actual client performance will vary based on a variety of factors, including account restrictions, guidelines, the timing of investments, and cash flows. Hypothetical performance results may have inherent limitations, some of which



are described below. An investor's actual return will be reduced by the advisory fees and any other expenses that may be incurred in the management of an investment advisory account.

The returns and references to the S&P 500 index are provided for informational purposes only. The S&P 500 Index is a market-capitalization weighted index containing the 500 most widely held companies chosen with respect to market size, liquidity, and industry. The index is calculated on a total return basis with dividends reinvested. In addition, the volatility and securities of the index may be materially different from an investor's.

The S&P 500 Index was selected and is referenced to allow for comparison of the performance of any referenced securities or overall market to that of a well-known and widely recognized index. Comparisons to indexes in this material have limitations because indexes have volatility and other material characteristics that may differ from the referenced strategy or security. Therefore, actual performance may differ substantially from the performance of any referenced index.). Investors should be aware that the referenced benchmark funds may have a different composition, volatility, risk, investment philosophy, holding times, and/or other investment-related factors that may affect the benchmark funds' ultimate performance results. Due to these differences, indexes should not be relied upon as an accurate measure of comparison and are for informational purposes only. Unless noted otherwise, all index returns are denominated in U.S. dollars.

Target exposures included in this article may differ between clients based upon their investment objectives, financial situations and risk tolerances. Investments in general involve numerous risks, including, among others, market risk, default risk and liquidity risk. No security or financial instrument is suitable for all investors. Securities and other financial instruments discussed in this article, are not insured by the Federal Deposit Insurance Corporation ("FDIC"). The income and market values of the securities stated on this article may fluctuate and, in some cases, investors may lose their entire principal investment. Past performance is not indicative of future results.

There is no guarantee that the opinions expressed herein will be valid beyond the date of this article. Certain information included in this article was based on third-party sources and, although believed to be reliable, it has not been independently verified and its accuracy or completeness cannot be guaranteed. This information is highly confidential and intended for review by the recipient only. The information should not be disseminated or be made available for public use or to any other source without the express written authorization of BigSur. Such distribution is prohibited in any jurisdiction dissemination may be unlawful. Please contact your investment adviser, accountant, and/or attorney for advice appropriate to your specific situation.

BigSur Wealth Management, LLC

1441 Brickell Avenue, Suite 1410
Miami, FL 33131
Office (Main): 305-740-6777 ext. 8006
Fax: 305-350-9998
<http://www.bigsurpartners.com>