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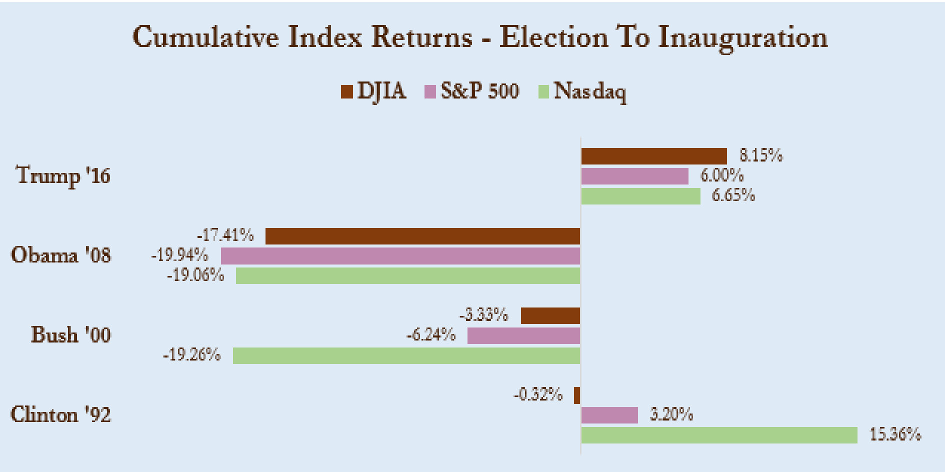
Street Wise

"We must recognize, however, that intrinsic value is an elusive concept." – Benjamin Graham



Do the markets reflect confidence in a growing economy under Trump? The DJIA, S&P and Nasdaq have shown exceptionally positive returns since Election Day. The overall market performance surpasses the returns for the three president-elects prior to Trump; the markets' performance since Trump's election even exceeds the strong returns following President Clinton's victory in 1992, when markets were also recovering from a recession. This election's market rally can likely be attributed to the markets' confidence that Trump will reduce corporate taxes and abolish regulations in order to enhance corporate profitablity. The rally also hints at anticipated, even though potentially uncertain, changes in economic policy.

Individual Americans' confidence in the economy surged immediately after the election and remains higher than at any time since the Great Recession. Gallup's U.S. Economic Confidence Index attributes this to Republicans finally joining Democrats in strong economic confidence once their candidate won. Small business owners have also become more optimistic, believing that business conditions will improve drastically under Trump.

Despite the positive news, concerns remain nearly universal among economists that Trump's policies will hurt the American economy and the average U.S. worker.

Spotlight: M&A Outlook Post 2016 Presidential Election

Bullish view on M&A activity under Trump: 2016 saw a near record-breaking $3.84 trillion in M&A transactions, and a Trump presidency could signal even more M&A activity in 2017. By lowering the repatriation tax rate from 35% to 10%, President-Elect Trump hopes to encourage companies to bring home off-shore cash. Technology, pharmaceutical and industrial companies have the largest off-shore accounts, and they could potentially deploy the available cash on company growth via M&A. Trump's pro-business agenda has pushed the DJIA to a record high, boosting both CEO confidence and stock currency to fund more acquisitions.

Bearish view on M&A activity: Trump's presidency could result in companies being overvalued. Several industries such as banking and consumer electronics have seen their stocks soar, which often leads to inflated valuations and less M&A activity. Trump's easing of repatriation tax policies may increase M&A domestically in some industries, but deregulation in others industries, such as banking, may curtail M&A activity as Trump's policies may embolden companies to go it alone.

Things to Watch for in 2017

Late in 2016, AT&T announced its acquisition of Time Warner in a massive $85.4 billion deal. The proposed deal immediately drew criticism from politicians on both sides of the aisle as the possibility of a massive media conglomerate could signal increased prices for the everyday consumer. President-Elect Trump quickly expressed his disapproval for the deal; 2017 may see a coalition of both parties to block the mega-merger.

Investment Banking Terminology:

Accretion/Dilution – An M&A modeling method used to evaluate the effects of a transaction on shareholder value and to determine whether Earnings Per Share ("EPS") will increase or decrease after a deal closes.

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