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USexit – Contrary to the Polls

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In my last newsletter, I wrote about Great Britain (UK) voting to leave the European Union (EU). They call it "Brexit", short for British Exit. Most polls indicated little chance of the Brexit Referendum passing yet it did. Why? It has been speculated that when British voters were polled, they didn't want to appear "politically incorrect" but when they cast their secret ballots, they voted according to how they really thought. Brexit is a radical change for the UK and it will affect every part of their daily lives. Speaking of radical change, how about our presidential election? There are similarities with Brexit; I call it "USexit", short for United States Exit. Now, we are not exiting from the EU but, we are certainly exiting from the status quo. Like Brexit, USexit surprised almost everyone including me as the polls were overwhelmingly in favor of Clinton. Were there closet Trump fans hiding in the shadows? Brexit passed by a small majority of the popular vote while the USexit doesn't appear to have gotten the majority vote but, due to our electoral college system, the small population rural areas contributed the most electoral votes for Trump. Bottom line: Clinton won the cities and Trump won the rural areas.

So, how will this affect the US economy and investments? So far, since the election, we have seen interest rates go up and stocks rise. This is due to speculation that Trump's intentions to spend money on infrastructure, lower both personal and corporate taxes and reduce regulation will stimulate our economy, increase corporate profits and leave taxpayers with more money to spend. If this happens, then inflation should go up and increase interest rates.

The US Treasury yield went from an all-time low of 1.37% in early July to 2.5% by year-end. This is good for savers long-term, but if you owned the Bloomberg Barclays US Aggregate Bond Index in the fourth quarter you lost 2.98%. Bond funds can be a lot more risky than people think. This is because they never mature: the fund manager is always buying and selling bonds at a profit or loss. Most of my clients own individual bonds or CD's and hold them to maturity so that we don't need to sell them at a loss. Rising rates are good for my clients as we can finally earn some decent interest. Well, what about stocks? The S&P 500 Index was up 9.5% for the year. Small companies were up 21.6%, Emerging Markets up 12.2% and Developed International Stocks only returned 2.7% in dollar terms. European stocks did even worse, falling 0.47% because of the US dollar strength, whereas in their own currency they were up 7.2%.
Since the Brexit vote the British pound has lost 16% against the dollar.

Overall, the US dollar is up around 4% versus a basket of developed market currencies. The strength in the dollar makes it difficult to make money overseas currently but this could change at any time. For most people the best defense against the unknown is to know your risk tolerance and stay diversified. Feel free to call me anytime at (503)-668-2530.

Your Friend,

*Indices mentioned are unmanaged and cannot be invested into directly. Past performance is not a guarantee of future results.

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