**January 2017 - Trumponomics 101**

Since our last market outlook, equities have resumed their upward path, while bonds have continued to sell off. YTD international equities have performed the best of all developed markets with the EAFE region up 3.3% on hopes that inflation is beginning to take hold, specifically in Europe. The S&P 500, while up 1.9%, seems to have hit stall speed post-election as investors take a "wait and see" approach with respect to US policy. The TSX has been the laggard, but is still up over 1%. Driving TSX returns are materials and banks. The gold miners have been recipients of a weaker US dollar and investors hedging against US policy risk. While policy misstep remains a concern, we could see investors generously compensated for political risk, much like we saw in 2016 across global developed markets.

The question remains, is the level of optimism on Trump's pro-growth policies warranted? While it appears Trump has made significant change thus far, he actually hasn't done anything from an economic policy standpoint. In fact, he has signed fewer executive orders over the same time frame compared to Obama in his first 100 days. As such, we remain cognizant that Trump is skilled at managing short term optics and therefore we need more policy detail before buying into hopes and dreams alone. True, his proposed corporate tax reform could provide a much needed boost to the US economy and therefore equity investors, but the 15% proposed tax cut seems to be a difficult target to achieve. Nonetheless, if we factor in a more conservative 5% tax cut (even more conservative than the GOPs proposed ~10% cut), 2017 EPS growth (on the S&P 500) could increase by 5-6%. So, despite the somewhat grandiose and unachievable nature of Trump's promises, even a fraction of his tax policy surviving congressional votes could be positive. The same goes for his infrastructure plans (think walls, pipelines, roads, bridges etc.) which have garnered less attention by investors, if only because the roll-out would take much longer than tax reform. Still, any improvement in ailing US infrastructure is a positive for companies and equity markets.

Less encouraging, however, are Trump's trade policies and views on immigration, both of which are leaving a funk in the air with those in touch. Leaving the backward immigration policies and their negative economic implications alone for the time being, the US could receive a short-term boost from Trump's protectionist trade ideas. In the long run, however, protectionism is a proven loser of a policy. Ultimately the US consumer would end up paying more for goods, from shoes to iPhones. Import tariffs would catalyze bad inflation (the kind that outpaces wage growth) which would hurt economic growth and potentially set the stage for stagflation. Trump's 45% tariff on China, for example, could cut Chinese exports by 50% (a conservative estimate) causing significant harm to global economies. His suggested 35% Mexican tariff would usher in more of the same, with both the US and Mexico (oh, and Canada) losing out in the longer-term. Luckily, all members of NAFTA remain highly dependent upon each other which will make eradication of free trade more challenging than Trump suggests. Also, Republicans by nature support free trade which makes the GOP backing Trump on protectionism unlikely. A more likely scenario is Trump's hardline talk is simply a bullying tactic which walks a fine line between improving US terms of trade and protectionism, without (hopefully) inciting a global trade war.

In terms of positioning the Active Balanced Portfolios, we have reduced some of our broad based exposure in the S&P 500 for an increased investment in US REITs. All other asset classes remain benchmark neutral. This offers us some upside participation without taking on excessive risk in an expensive market wrought with uncertainties.