

ELECTION POST-MORTEM ANALYSIS

NOW THAT WE HAVE THAT OUT OF THE WAY, TIME TO GET ON WITH OUR LIVES. WELL, NOT REALLY. WITH SO MUCH UNCERTAINTY SURROUNDING PRESIDENT ELECT DONALD TRUMP'S POLICIES, THERE WILL STILL BE SIGNIFICANT PUBLIC INTEREST, AND WITHIN CAPITAL MARKETS, VOLATILITY, IN THE COMING DAYS, WEEKS AND EVEN MONTHS.

WHAT HAPPENED?

Donald Trump unexpectedly won the US Presidential election, but additionally, Republicans took control of the House and Senate, effectively known as a "Republican Sweep." This "sweep" likely creates a more accommodative government for Trump to enact his policies. However, given his divisive campaign comments toward Republicans, it's unclear how he'll engage Congress and if the relationship will remain combative.

HOW DID MARKETS REACT?

Initially, exactly how market prognosticators expected: a 5% drop in S&P 500 futures, a 2.1% decline in the USD Index, and a 15 bps drop in UST 10Y yields, and a 4.9% spike in spot gold. However, as the US trading session progresses and investors continue to digest last night's events, acceptance (and even optimism?) has overtaken fear.

- The USD is broadly higher against major currencies. Even the Yen, which rose ~3.9% v the USD in the wake of results, has traded back close to even for the session.
- Spot gold has relinquished all overnight gains.
- UST 10Y yields have swung nearly 30 bps points and are trading above 2%, a level not seen since January '16.
- US equity markets are now firmly in positive territory.
- Major European indices traded higher into the close with gains of +1% in several markets. Asian equities closed lower but should see a rebound if US markets close higher.
- The VIX is markedly lower for the session.

What does such a reversal imply for future returns?

Most likely, very little, as there is still too much unknown about a Trump administration and its intentions to stick to campaign promises. With that said, a positive market reaction the morning-after assuages fears of a panicked Trump sell-off without further provocation by the President Elect.

WHAT DOES IT MEAN FOR POLICY AND OUR PORTFOLIOS?

You may have heard it before, but Trump is a bit of a wildcard. It's equally uncertain what a Republican sweep means with a President that's not a traditional Republican, has no experience in public office, and is prone to 'adjust' his own policy views. Our thoughts below, informed by the views of our research partners and history, reflect a mix of traditional Republican policy and Trump campaign promises.

ISSUE	IMPACT
TAXES	Trump has proposed sweeping tax reform, with lower personal and corporate taxes the likely result.
TRADE	Trump will attempt to renegotiate trade deals. Protectionist policies could have negative impact on global growth.
MONETARY POLICY	Likely higher public debt levels but tighter monetary policy. His true view of the FED is largely unknown.
HEALTH CARE	ACA could face repeal and likely fewer people will be insured. Uncertainty looms about what could occur if ACA is repealed, but Trump has been clear he will push for change.
OTHER KEY SECTORS & INVESTMENTS	<p>ENERGY - Energy independence will continue and increase. Likely that an increased focus on fracking and offshore drilling will occur.</p> <p>DEFENSE - Trump has been clear on the need to boost our military. Increased spending to occur.</p> <p>HOUSING - Reduced immigration and deportation could be a detriment to the rental market (select regions) and higher interest rates could be problematic for mortgage rates.</p> <p>INFRASTRUCTURE - Spending is anticipated to increase to help rebuild America's infrastructure.</p> <p>BIOTECH - Biotech has been under pressure for 1.5 years and with deregulation related to pricing (and alleviating concerns of Clinton's presidency), biotech may have better prospects going forward.</p>

FINAL THOUGHTS

WHILE MANY PUNDITS (AND US) ARE DISSECTING WHAT ROLE MR. TRUMP WILL PLAY IN MARKETS GOING FORWARD, WE MUST REMEMBER - INVESTING AND PERSONAL FINANCES ARE A “LONG-TERM GAME.”

WITH THIS IN MIND, WE WANT TO REMIND YOU OF A FEW KEY ASPECTS:

- Too early to tell - Donald Trump’s inauguration will not occur until January 20th. Even then, the policies and impact of our new President will be unknown. While markets will react in the near term, we must remember, investing is based on long term assumptions and goals, and we must not be impacted by short term volatility.
- Financial Planning - Clients that have a trusted financial advisor, who has developed a sound and detailed financial plan can trust that near term market gyrations should not greatly alter their long term goals, objectives and outcomes.
- Diversification - Diversification matters and in an era of higher volatility, investors must be “truly” diversified. True diversification requires investors to diversify across asset classes (stocks, bonds, real estate, commodities, metals, etc.), regions (US, international, emerging markets), sectors (financials, industrials, health care, etc.), types of strategies (active and passive), and investment methodology (growth, value, momentum, etc.). This detailed and multi-faceted diversification allows investors to “ride out” the volatile periods.
- Active Management - Active management has been under pressure in recent years, but we believe that in an era of increased uncertainty and volatility, coupled with significant changes to sector leadership, the need for active management has never been higher.

We have been, and continue to be, cautious on markets. In our equity portfolio, we have held above average levels of cash and a bias towards high quality companies. In fixed income portfolios, we have held lower duration fixed income securities, reducing interest rate sensitivity.

To discuss this commentary further, please contact us at 914-825-8630.

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