



November 9, 2016

And now for something completely different

Dear Clients and Friends,

Voters and investors are waking up to a surprising outcome from last night's election, with Donald Trump winning the U.S. presidency and Republicans maintaining the House and Senate. Investors are voting with their feet as seen in volatile U.S. stock market futures. S&P500 futures fell as much as 5% Tuesday night, but have since rebounded and are down only ~2% in pre-market trading on Wednesday.

We believe markets are down because investors are uncertain about: 1) Trump's policy agenda, and 2) the impact of one-party rule on business. Heading into the election, we believed investors preferred divided government that could slow down new legislation and a president with more of a track record. However, as we've seen with the rise of Donald Trump, Bernie Sanders, and the UK's vote to leave the EU (the Brexit vote), sluggish economic growth is fueling a wave of global populism.

What's next?

Donald Trump's victory speech this morning hinted that the President-elect may moderate his views and policy goals. Our sense is Trump's advisors will encourage the President-elect to follow this line of reasoning.

Even if Trump softens his policy goals, we could still see winners and losers over the next four years. We believe most of healthcare will see a relief rally, with the exception of hospital stocks, which FBB has generally avoided. Rising trade barriers could hurt commodity exporters and retail importers, although the pressures could be isolated rather than widespread. Still, potential Trump tax cuts and new infrastructure spending could stimulate consumption, partially offsetting trade protectionism.

How is FBB responding?

We believe the surprising Trump win will follow a pattern we saw with the Brexit vote four months ago, where markets quickly stabilized after an initial violent reaction. The S&P500 fell about 5.5% from just before the late June vote until just after. However markets rallied 9% in July and August from the post-Brexit lows. Our sense is both the downside and upside will be less volatile following the surprise Trump win.

FBB is taking a cautious approach to managing client assets in the wake of the U.S. election. We believe there may be some investment opportunities amid the current market decline, especially for higher quality businesses that are likely to avoid new laws or regulations. However, we are taking a longer term view as we connect today's market volatility with the structural impact of rising populism worldwide. As we head toward year-end and begin to think about 2017, FBB continues to manage client portfolios with a focus on quality, income, and capital preservation.

With Best Wishes for year-end,

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