



## MANAGED ASSET PORTFOLIOS

### Post-Election Commentary

November 9<sup>th</sup>, 2016

Globally, financial markets sold off on the news that Donald Trump won the Presidential Election in the early morning hours. Once the knee-jerk reaction wore off, losses have been trimmed. Investors seemed to have approved of Trump's "presidential" acceptance speech, and not the man they heard on the campaign trail.

While this year's election has provided the press with a never-ending supply of material, we believe the long-term implications for the markets are less than the press may lead us to believe. We believe any proposals too draconian will not make their way through Congress.

Healthcare is one industry mostly likely impacted by the election. We have already seen material pullbacks in pharmaceuticals, bio-tech and other health areas. We think some names in this space are beginning to look attractive, and we may look to this area for select opportunities.

Election issues aside, we believe the economy is going to face headwinds. From a historical perspective, following a two-term presidency, 100% of the time, the following president has been faced with a recession. Given that this period of economic expansion (albeit weak) is currently the fourth longest since World War II and will become the second longest if it lasts another year, odds favor an economically challenged environment.

As we have discussed in the past, our portfolios are positioned defensively from an economic perspective. We are underweight economically sensitive industries such as manufacturing, materials, chemicals and financials, while being overweight industries that are not as economically sensitive, such as consumer staples.

In short, we are not expecting to make any radical shifts in our portfolios post-election. We do not believe it is in our clients' best interests to make herd-following, knee jerk reactions. The markets response to the Brexit vote is a perfect case in point. Recall, that following the surprise outcome of the Brexit vote financial markets immediately tumbled, only to make up lost ground over the ensuing weeks. While not implying this will be repeated, we do believe that over the ensuing months, equity prices will be higher than they are today. Under normal circumstances, investors would be jumping for joy with a Republican sweep. Lower taxes and lower regulations are music to the ears of investors. But, as we have witnessed over the past few months, these are not "normal times."

The biggest issue facing investors now is the fear of uncertainty. Earlier this year, prior to Cruz and Kasich dropping out of the GOP race, Bloomberg took a poll of portfolio managers and economists. The poll questioned which candidate would be best for the economy and the markets. Kasich won the poll, with Clinton taking second place. This was unusual for a Democrat to score this well, considering the group being polled is usually leaning to the right. The thought process was that although Clinton's views clash with those of investors, at least there was certainty. Whereas, with Trump, there would be an elevated level of uncertainty. Over time, we believe the uncertainty will diminish and investors will become more comfortable. Historically, market moves the day after the election have not been indicative of the market's direction 12 months later. Looking at 22 elections since 1928, the S&P 500 has fallen 15 times the day after the election for an average loss of 1.8%. Nine of those times, stocks were higher 12 months later.

As we have seen time and time again, the market can be irrational at times. Case in point, one of our recent purchases has been Asaleo Care. A manufacturer of tissue and personal care products in Australia and New Zealand. The stock sold off over 4% today on the election news. We fail to see how the outcome of the U.S. Presidential election impacts the demand for tissue half way around the world. We cannot change market actions, but we can use such volatility as an opportunity to find value for clients.

Thank you for allowing us to service your investment needs. Please do not hesitate to contact us with any questions or concerns.

Managed Asset Portfolios' Investment Team,

Michael Dzialo, Karen Culver, Peter Swan, John Dalton, and Zachary Fellows

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