

## What to Expect in the First 100 Days

Campaign promises and bluster notwithstanding, change takes place far more slowly in Washington than the candidates would have us believe. Don't expect large crews to show up in El Paso to start work on the infamous wall nor is Obamacare likely to be replaced by something even better in short order. That is the rhetoric of political campaigns, nothing more.

We continue to expect further increases in interest rates, though it would be a stretch to think that even several years down the road they'll get much above mid single digits. More likely, they will be lower.

What is likely to change, however, is taxes. Corporate rates will probably come down and so will rates for individuals. But lower rates mean higher budget deficits so there will most assuredly be offsets as a result of more limited deductions. Whether that will put more money in one's pocket remains to be seen, but at least the administration will be able to say that it kept this campaign promise.

Reduced corporate taxes will lead to higher bottom lines at many companies, but is that a valid reason for higher stock prices? Quite possibly not. The reality is that even if Corporate America *appears* to be in better shape, there will be no change in its pace of activity and no change in earnings before taxes. If we compare pretax income from one year to another, there would be no change unless operations accelerated. So why place an increased value on the bottom line?

A more substantial reason for higher stock prices would be a quickening of the pulse of business. The earliest reports for the December quarter began to show evidence of an improvement, but we would have far greater confidence in such an uptick if it were sustained. One good quarter isn't enough to move the needle.

Much of the post-election rally took place during the weeks just after. More recent market action seems to have settled into yet another extended period of marking time. That's just as well, especially since prices occasionally move well beyond the level of reasonable valuation. They are a bit rich at the moment, though not overly so.