

 Investment Note

2 December 2016

Post-Election Outlook For US Large Cap Equities

US stocks have done well since the US Presidential Election. As of November 30, the S&P 500 has gained more than 3% in three weeks. Manulife Asset Management's Senior Managing Director Sandy Sanders believes that as large US banks have the highest levels of capital in over 30 years, strong balance sheets, and have passed the Fed's rigorous stress tests four straight years, the possibility of higher interest rates and lower regulation would be significant tailwinds for the sector.

This was a game changing Presidential Election for US large cap equities. We believe we are now in a wholly positive, pro-growth environment – that is excellent news for the asset class.

For some years we had been seeking out high-quality companies in an environment of high regulation, low growth and bearishness in the chief financial officer community.

Now, with the promise of reduced regulation, possible repatriation of between \$2.5 – \$3 trillion of capital¹ and lower taxes (for corporations and consumers), we have the strong possibility of a multi-year investment flurry that could motor significant gross domestic product growth – from the meager 1-2% seen at times in the last 24 months² to a more normal and robust 3-4% level. That's a much more positive environment for large cap stocks.

The outlook is further enhanced by strength seen before the election, namely in the consumer and housing. The US consumer drives more than two-thirds of US GDP³ and is being buoyed by full employment, decade-low levels of debt and debt service, and roughly 3% year-on-year wage growth. Consumer confidence is rising given the wealth effect from jobs, stock markets, and real estate prices (up, but still 16% below the 2006 peak on a risk-adjusted basis⁴). US Housing starts in October rose to a 1.3 million annualized rate, still below the long-term average of 1.5 million⁵.

Large US banks have the highest levels of capital in over 30 years⁶, strong balance sheets, and have passed the Fed's rigorous stress tests four straight years. The possibility of higher interest rates and lower regulation would be significant tailwinds for the sector.

¹ New York Times: [A Stranded \\$2 Trillion Overseas Stash Gets Closer to Coming Home](#), November 4, 2016

² US Department of Commerce: [Press Release \(Chart: Percent Change From Preceding Quarter\)](#), November 29, 2016

³ All economic data sourced from the Federal Reserve Bank of St. Louis as of November 30, 2016 unless otherwise noted

⁴ Wall Street Journal: [Home Prices Recover Ground Lost During Bust](#), November 30, 2016

⁵ US Census Bureau, US Department of Housing and Urban Development, Manulife Asset Management, as of November 30, 2016

⁶ Manulife Asset Management, Factset Research Systems, as of November 30, 2016



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