Does Extraordinary Uncertainty Lead to Extraordinary Stock Market Risk?

On the eve of Trump's inauguration the stock market is up and many are enthusiastic about tax cuts, repatriated corporate cash and the fiscal stimulus associated with fixing much of America's broken infrastructure. We wrote about **stocks at risk** in the Trump years but there may be more. Lawrence Summers, former Harvard Prof. and Secretary of the Treasury during the Clinton years, believes that **markets are underestimating risks** associated with a Trump presidency. *Bloomberg* reports.

> *"This is probably the largest transition ideologically and in terms of substantive policy that we've seen in the U.S. in the last three quarters of a century," Summers told Tom Keene in a Bloomberg Television interview Tuesday. "Those kinds of transitions have to be – given the central role of the U.S. in the global system – matters of enormous uncertainty. I don't think that's fully recognized by markets."*

This concern is compounded by the people Trump has advising him. Peter Navarro (head of the White House National Trade Council) and Wilbur Ross (Secretary of Commerce) have written a report that Mr. Summers calls beyond voodoo economics and the economic equivalent of creationism because it is so far from responsible economic thinking. Summers does not believe that repatriated corporate cash will create new jobs.

> *"The vast majority of the companies who have large overseas cash also have substantial amounts of domestic cash," he said. "The reality is that cash that is brought home will be used to pay dividends, to buy back shares, to engage in mergers and acquisitions, to rearrange the financial chessboard, not to invest in large amounts of new capital. It is a chimera to suppose that there will be large increases in capital investment as a consequence of that repatriation."*

Summers believes that the Trump years will be ones of extraordinary uncertainty for the markets and lead to extraordinary risk.

Doing Business in the Era of Trump

It would appear that every business decision by every US company is now subject to a tweet from the incumbent president. A recent example is GM's need to increase production of its popular and hot selling Chevrolet Cruze. Orders are up and the main factory in Lordstown, Ohio cannot keep up with demand. One of the Cruze models is a hatchback made in Mexico and sold around the world. Out of 190,000 Chevy Cruze vehicles sold in the USA last year just over 4,000 were made in Mexico while 30,000 of the Mexican vehicles were sold around the world. It would seem to make good business sense to use an existing facility to catch up with increased demand rather than try to build a new factory in Ohio which would not be ready for a couple of years. But, according to *The Washington Post*, the next president **targets General Motors** over its plans to import a few thousand cars from Mexico.

> *President-elect Donald Trump reiterated Tuesday his threat to impose punitive new tariffs on imports, singling out General Motors for assembling some of its Chevrolet Cruze models in Mexico and selling them in the United States.*
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> *"General Motors is sending Mexican made model of Chevy Cruze to U.S. car dealers- tax free across border," Trump tweeted. "Make in U. S. A. or pay big border tax!"*

These strong man tactics may play well to the folks who voted for Trump but the extraordinary uncertainty that his tactics cause may well lead to extraordinary market risk.