HOT TOPIC

Three Financial Issues to Watch Under the New Administration

On January 20, 2017, Donald J. Trump will be sworn in as the 45th president of the United States. Between now and then, attention should largely focus on efforts to facilitate an orderly transfer of power, but there will be no shortage of conjecture over what may happen after the inauguration. While changes are likely, the specifics and scope will take time to unfold. For now, here are three key financial issues to watch.

Affordable Care Act

Since its enactment in 2010, the Patient Protection and Affordable Care Act (ACA), commonly referred to as Obamacare, has faced intense partisan conflict. The ACA became a central issue during the presidential campaign, with Trump vowing to "repeal and replace" the legislation.[1] In the late days of the campaign, criticism of the ACA was underscored by news reports of rising premium costs and health-care providers leaving the exchanges.

It seems likely that Obamacare will be among the new administration's early priorities, but full repeal and replacement may be complicated. One GOP senator recently estimated that it could take two years.[2] Some 20 million Americans have obtained coverage under the ACA, and Trump has signaled interest in keeping some popular provisions, such as ensuring that people with pre-existing conditions continue to have coverage, and extending coverage to dependents up to age 26 on their parents' insurance plans.[3–4] Many other provisions, including the individual and employer mandates, may be changed or eliminated.

Although Republicans will control both houses of Congress and the White House in 2017, they will lack the needed 60 votes in the Senate to overcome a Democratic filibuster. The ACA originally passed over a similar level of Republican opposition through a simple majority vote under a process called budget reconciliation. The same process might now be used to chop away at Obamacare.

Tax Policies

Some degree of tax reform also appears likely. In early 2016, House Republicans published a tax reform "blueprint," a summary of policies that could form the basis of new legislation in 2017.[5] Trump also campaigned in part on the promise of large-scale tax reform.

Significantly, late in the election cycle, the Trump campaign released a revised tax plan that moved the candidate's proposals closer to the House Republican plan.[6] While it's impossible to predict exactly what new tax legislation will look like, it may make sense to focus on provisions common to both the Trump plan and the House GOP blueprint, which include:

- Reducing the number of income tax brackets from seven to three (12%, 25%, and 33%)
- Increasing standard deduction amounts and limiting use of itemized deductions
- Repealing the federal estate tax, alternative minimum tax, and 3.8% net investment income tax
- Lowering the business tax rate from 35% to 15% (Trump plan) or 20% (House Republican plan)

There are significant differences between the two plans, and Senate Republicans may not be in full agreement on either one. Some Republican leaders see the possibility of bipartisan cooperation with their Democratic counterparts to enact lasting tax reform.[7]

Investment Climate

To the surprise of many observers, Trump's unexpected victory sparked a moderate stock market rally, and stocks trended higher following the election. This suggests that investors may be optimistic that his promised pro-business agenda could help continue the upward market trend of the last few years.[8]

On the other hand, bond prices — led by the benchmark 10-year Treasury note — fell steeply the day after the election and continued to trend downward. This, too, was a surprise because Treasuries are seen as a safe haven in times of uncertainty, but investors were more interested in selling Treasuries than buying them.[9]

In this initial stage, money flowing out of Treasuries suggests that bond investors may see a Trump presidency as leading to higher inflation and higher interest rates due to a combination of more protective trade policies and heavier government borrowing to fund infrastructure spending and reduce taxes.[10]

These are early impressions, and there could be many market swings as investors try to understand what the new administration's policies might be, how much support they have from Congress, and how they might affect the broader economy. Moreover, government policy and political debate are only two of many factors that can create market volatility. The most stable approach in changing times is generally to maintain a well-diversified portfolio using a strategy appropriate for your time frame, personal goals, and risk tolerance.

Diversification does not guarantee a profit or protect against investment loss. The principal value of stocks and bonds may fluctuate with market conditions. Stocks, when sold, and bonds redeemed prior to maturity may be worth more or less than their original cost. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest.

1, 6) donaldjtrump.com, 2016
2–3) Yahoo News, November 17, 2016
4) CNNpolitics.com, November 12, 2016
5) better.gop, 2016
7) *The Washington Post*, November 17, 2016
8) CNN.com, November 14, 2016
9) MarketWatch, November 10, 2016
10) CNBC.com, November 9, 2016