The Pen and the Sword

November 18, 2024

We observed recently that stability was key to maintaining a viable economic growth rate. Keeping interest rates at current levels for longer can avoid complicating the approach executives/owners take in running their enterprises. Recently, a mix of good economic news, including a reasonable level of inflation, seems to have put the Fed on hold concerning lowering interest rates. We cannot mention the importance of this stability given the historic rapid rise in interest rates from March of 2022 to July of 2023 (17 hikes) and subsequent shocks to the economy.

Since the election almost two weeks ago, President-elect Trump has been selecting professionals to fill key positions in his upcoming administration. Given that he has much more influence now than in 2016, many of his proposals will be on the front burner when he takes office on January 20th. As we discovered during the first day of President Biden's and Trump's administration, many changes can be made by executive order. The pen is mightier than the political sword. No doubt, President-elect Trump will take up the pen and reverse many of the executive orders that Biden reversed in 2020 after he took office.

Some of the initial plans of the new administration involve shrinking, if not eliminating, several federal government agencies where regulations have spiraled out of control for years. We know from history that the reduction of government regulations tends to favor individuals and corporations in the private sector. Some economists argue that cutting government costs could result in higher unemployment and higher inflation. From our perspective, lower tax rates for both individuals and corporations will stimulate growth, investment, and lower inflation. More importantly, the question on investors' minds is: How will these issues affect financial markets?

In the early days, investors will be challenged by the potential for volatility that changes could bring. As with our belief in a stable interest rate policy, the new team in the White House should implement decisions that benefit the economy over the long term but cause minimal disruptions in the short term. Recently, a well-known Wall Street Journal editorial page contributor called for the outright elimination of at least six major agencies! Can you imagine the impact such a change might have in the short term? While economists and politicians have warned about the power that agencies exercise, caution should be taken in implementing such across-the-board transformations to prevent systemic shocks. Moving too fast may do more damage than good since financial markets do not like uncertainty. We will continue to monitor events surrounding the shifts of power in Washington DC, and how they affect the economy and financial markets. Stay Tuned!

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