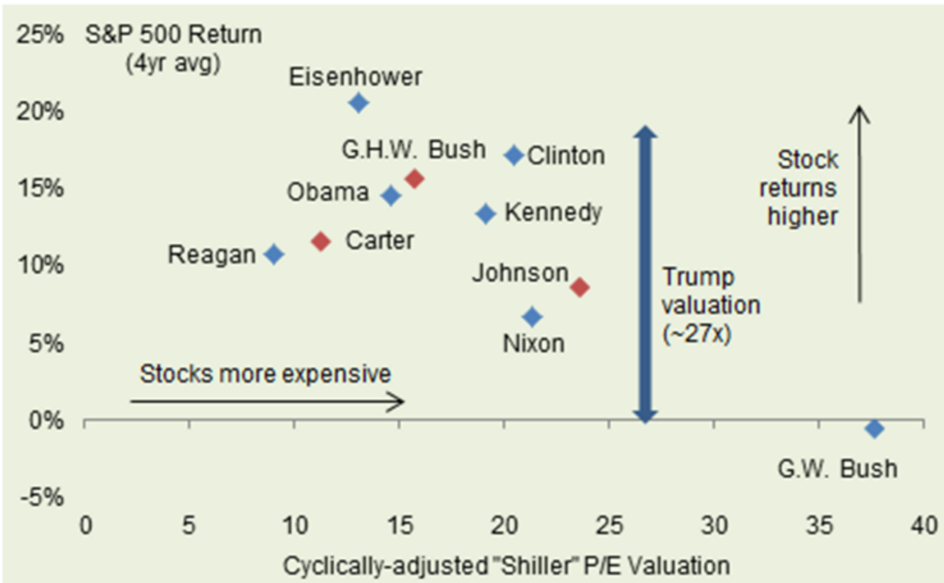
Investing Perspective: Will the "Trump Bump" last?

Stocks moved up sharply after the election due to hope that Trump's promises to cut taxes, particularly corporate rates and reduce regulations would spur accelerated economic growth. The S&P 500 rose 11.5% from the close



on election day through March 15 giving rise to the idea that it was due to the "Trump bump." It has moved down since then, and if it continues to decline those pundits who can't resist rhyming will be talking about the "Trump slump." Taking a longer-term view, it is reasonable to ask about stock market behavior during the first term of a presidency.

In late November, Brian Nick writing in TIAA Global Asset Management Insights posted an article with the graph shown here.

History and the level of a cyclically adjusted P-E ratio indicate the "Trump Bump" may become the "Trump Slump"

The horizontal axis is the Shiller's P/E measure that is the average over the last ten years adjusted for inflation. It has been given the acronym of CAPE. The returns shown are the compounded annual returns over each president's four years after his first election, except for Kennedy's two years and ten months. Those shown in red were defeated running for re-election. (Bush 41, Carter, and LBJ who was running in 1968, but withdrew in March after disappointing primary results.)

With the exception of the second Bush, the 43rd president, all of the returns are positive. He took office as the technology bubble was in the process of deflating. Even so, S&P pretty much broke even during his first term. (It did a lot worse during his second term due to the financial crisis that resulted in stocks bottoming out in less than two months after he left office.)

Valuations according to the CAPE measure were extremely high when Bush 43 took office, which was one way of seeing the technology bubble. As the graph shows, lower valuations tend to be associated with better stock performance, which is hardly a significant insight. The CAPE is still rather high, so its value for Trump is higher than when all of his predecessors since Eisenhower in 1953, with the exception Bush 43, took office.

As I have written, perhaps too many times, I view the rise in stock prices that began eight years ago to be a cyclical bull market, albeit an exceptionally long one, in a longer term secular bear market that began in 2000. If so, and in light of the elevated CAPE, it is quite likely that stock prices will drop considerably before Trump's first (and my hope is only) term is over. As I have also written, the above does not affect how I manage accounts. I rely on well researched mechanical models to decide when it is a good time to own or not own stocks, either broad market indices or specific sectors, due to a favorable or unfavorable anticipated rewards versus risks trade-offs.