CHILTON TRUST

Donald Trump's Surprise Victory

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Equity Market Impact

Donald Trump's surprise victory will cause volatility in the equity markets, though it may be temporary. Markets do not like surprises, and this was certainly a surprise. In addition, Trump ushers in more uncertainty than Clinton would have since he is an outsider with an agenda for change. In Trump's victory speech, he stuck to the script, honored his opponent, and talked about leading all Americans, suggesting temperance as a starting point which is welcome. Much will be learned in the coming weeks about Trump's governing priorities as he appoints cabinet members.

Speaking purely from a portfolio management perspective, there are reasons to be cautiously optimistic about what change may be enacted in the next 2 years. With both the Senate and the House retaining GOP-majorities, he will likely be able to accomplish the policies that have broad agreement between his agenda and his party's: corporate tax reform, foreign profits repatriation, infrastructure spending, and revising or replacing the ACA ("Obamacare"). We believe that much of this could be positive for many companies in our portfolios. How soon he moves on immigration reform and trade agreements is a question since he may not have broad support from his party, and these are likely to require more of a political fight, which could be messy. Companies who do a lot of trade with Latin America or have much of their manufacturing footprint in Mexico or other emerging markets are the most vulnerable on this. We do not believe that we have excessive exposure in this area.

If Trump starts with the priorities where there is agreement with the GOP, we believe many of the consumer discretionary names in our portfolio could benefit. Retailers and restaurant companies are bearing the brunt of a 35% corporate tax rate because they are not global entities. Relief here would be welcome and would likely help offset some of the pressure these businesses have borne from higher labor and healthcare costs over the last few years. Infrastructure spending, which Trump speaks about with passion given his experience as a developer, has the ability to spur consumer confidence and better job growth in the heartland. Foreign profits repatriation will probably be a mechanism to fund this infrastructure spending and would be welcome to tech and pharmaceutical companies especially who have cash trapped overseas. Materially revising and/or replacing the ACA may be tricky and create more uncertainty in the healthcare sector, but the pharmaceutical sector has been strongly beaten down because of fears over price controls that Clinton talked about throughout her campaign. Our guess is that the worst case is unlikely to materialize under Trump and a Republican-led Congress given that price controls are not embraced by most of the GOP. In addition, the strains of the large premium increases from the ACA which have materialized this year have added to consumer anxiety for middle and low income Americans. We believe Trump and Congress will move quickly to alleviate this, which would be a cause for better consumer confidence.

It is of course difficult to assess exactly how the next administration's governing priorities will unfold. We have a good sense for what policies in Washington will affect our portfolio companies as part of our ongoing and continuous research process, and we will iterate the influence of these policies as needed. Trump is unorthodox and can be a wild card; our system of government provides checks on any one executive's power, and we believe these will see us through. As always, we are on our toes and looking for opportunities that may unfold.

Fixed Income Market Impact

After an initial flight-to-quality rally, US Treasury yields have moved higher, discounting the prospect of higher inflationary expectations and the potential for higher growth. The most important question near term will be whether the Federal Reserve will follow through with its much anticipated December rate rise or whether it will elect to wait until the Presidential transition of power is completed in January. We believe the Fed will likely proceed with an interest rate hike in December 2016 as it seeks to remain in synch with existing growth and inflation trends.

Moreover, we see Chairwoman Janet Yellen remaining at the helm of the Fed through the expiration of her term in 2018, despite her being a lightning rod for Trump criticism throughout the campaign. Trump will also have the opportunity to influence the policy direction of the Fed through the nomination of two candidates to fill open seats on the Federal Reserve Board.

Under Trump, fiscal policy is expected to become much more expansionary. Proposed tax cuts may result in an annual Federal budget deficit in excess of the $1 trillion mark and raise US debt / GDP levels closer to 100% from the current 75%. In reaction to the Trump victory, we have witnessed a widening of the risk premia, leading to a steepening of the US Treasury yield curve, with the 10 Year now exceeding 2%-- a level last touched in January 2016. In such an environment, the US dollar may continue to rally.

Municipal Market

Municipal bond rates have so far followed Treasury rates higher, in line with historical patterns. In addition, given Trump's plan for reducing marginal tax rates, municipal bonds may begin to underperform. Specifically, under Trump's current proposal, marginal tax rates for top earning wage earners would be reduced from 39.6% to 33% and with those in the 28% tax bracket dropping to 25%. As such, the municipal bond tax exemption may become relatively less attractive, driving yields higher. Finally, in the context of any tax reform policy discussion, Trump has also asserted that certain tax deductions and exemptions may be capped. It remains to be seen whether this would include the municipal bond tax exemption itself, which has not been discussed in the campaign.

Corporate Market

Despite the back-up in Treasury yields, the corporate bond market is performing well overall as both high grade and high yield spreads have tightened. This reflects investor sentiment that Trump's proposed policies will largely be pro-growth. Industrials, materials, construction, energy, financials and healthcare (predominantly pharma) are out-performing, while healthcare (predominantly hospitals) is somewhat underperforming. Corporate bond supply may dip as yields increase and elevated antitrust uncertainty slows the pace of M&A activity in certain sectors