Len Boselovic's Heard off the Street: Presidential politics make investors nervous

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With the presidential election a month away, market wags are analyzing Donald Trump's and Hillary Clinton's stated positions to assess which candidate would be the best for Wall Street and the economy.

But they are taking the campaign rhetoric with a grain of salt.

"I put no credence in anything they're saying at this stage of the game," said Chris Wiles of Rockhaven Capital Management in Mt. Lebanon.

Mr. Wiles explained that Ms. Clinton and Mr. Trump are no different than other candidates: what they say before the election and what they do once they are in office are often two different things. Moreover, the outcome of Congressional elections could have a significant bearing on how much traction the next president's proposals get.

“Trump can’t do anything, Hillary can’t to anything unless there’s a big change in the Senate,” said Greg Melvin of C.S. McKee, Downtown.

The two presidential candidates’ stated policies differ on a number of fronts. Ms. Clinton’s idea of a 4 percent surtax on the wealthy and increasing the capital gains tax would be bad for investors and the economy, said Charlie Smith of Fort Pitt Capital Group in Green Tree. But even if she won, some version of her proposals would face a difficult hurdle clearing Congress, he said.

The market views Mr. Trump’s trade policy — particularly renegotiating the North American Free Trade Agreement and other trade pacts — as negative, Mr. Smith said. He believes Mr. Trump’s policies would have more trouble clearing Congress than a tax reform measure and faces the additional hurdle of getting by the nation’s trading partners and the World Trade Organization.

Any prospect of post-election change unsettles the market because it keeps many business from making long-term plans until the dust settles. From that standpoint, Ms. Clinton’s election might be better for investors, according to Mr. Wiles.

“In the near term, it’s about the status quo. If Hillary is elected, we’re probably going to have more status quo and the market would see that as better,” he explained.

Mr. Smith’s biggest concern is what Mr. Trump might do with the Federal Reserve board. The central bank’s low interest rate policy has fueled the stock market’s recovery even if it hasn’t generated more than lackluster economic growth.

Mr. Trump has accused the bank of keeping interest rates low to favor Democrats, singling out Fed chairwoman Janet Yellin. A Trump victory raises the prospect of upheaval at the Fed and “I think that’s where the market gets the most jittery,” Mr. Smith said.

“The Fed has had the morphine drip going for seven years now, which has dampened volatility,” he said, referring to the low interest rate policy that has sent investors toward stocks and other riskier investments.

No matter which candidate wins, two facts are unavoidable: the stock market’s ascent since bottoming out in March 2009 makes this the second longest bull market in history; and many believe a market correction or a recession is overdue.

“It is likely that whoever wins office and, assuming they stay eight years, will face a recession,” said Matt Yanni of Yanni & Associates in Franklin Park.

While many believe the economy is strong enough for the Fed to begin raising interest rates soon, “Nobody expects an aggressive rate hike at this point,” Mr. Yanni said.

Mr. Wiles agrees. He noted that based on the ratio between the gross domestic product and the total value of stocks, the stock market has only been more highly valued at one time: before the tech bubble burst in 2000.

The high valuation alone doesn’t mean there will be a correction, Mr. Wiles cautioned. But it does mean investors shouldn’t expect robust returns ahead given how far the market has climbed.

No matter what the election’s outcome, advisers say the impact is most likely to be short term. Keep your focus on your investment objectives and time frame as well as your tolerance for risk, they say.

“We’re telling people that they’re probably going to encounter volatility in the upcoming several months, but that it’s still best to maintain a long-term approach,” Mr. Yanni said.

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