What If Scenarios for 2017

What If Scenarios for 2017

A variety of investment managers were asked how each of these potential scenarios could impact various asset classes in 2017.

The following potential scenarios were included in the analysis:

1. Potential Trump policies' effects on:
    a. Increased Inflation
    b. Tariffs
    c. Infrastructure Spending
    d. Corporate Tax Reform
2. China experiences a "hard landing"
3. The Populist movement continues with elections across Europe
4. U.S. growth picks up and brings global growth with it

1. Trump Policies

Trump Policies' Effect on...	Domestic Equity	Int'l Developed Equity	Emerging Markets Equity	Fixed Income	Interest Rates	Real Estate	Commodities
Increased Inflation	Negative to slight positive	Small positive already priced in	Small positive already priced in	Negative – Rates rise faster	Negative, but already priced in	Neutral to slight positive	Positive
Tariffs	Slight negative to neutral	Negative (Stagflation)	Large Negative	Neutral to slight negative	Negative (Stagflation)	Negative (Int'l bids go away)	Negative (reduced demand)
Infrastructure Spending	Slight positive	Neutral	Slight positive (commodity exporters)	Negligible impact	Slight negative	Negligible impact	Positive
Corporate Tax Reform	Positive, but likely priced in	Potentially negative (Euro banks hurt and reduced tax inversions) to neutral	No impact	Positive if tax deductibility is reduced	No impact to slight negative	Negative (if interest deduction reduced) to slight positive	Slight positive

Imposing tariffs could result in a deflationary environment.

Infrastructure spending could be challenging, the impact would depend also on timing and magnitude.

Corporate tax reform may be priced in to some degree but the impact will likely depend on the details. There is much talk about the potential incentive for U.S. corporations to repatriate cash and the implications around this.

2. China experiences a "Hard Landing"

	Domestic Equity	Int'l Developed Equity	Emerging Markets Equity	Fixed Income	Interest Rates	Real Estate	Commodities
China "Hard Landing"	Modest Negative Impact	Moderate Negative Impact (Consider a 5% drag on EAFE)	Significant Negative Impact (EME sell-off of up to 25%)	Positive for US Treasuries, Negative for spreads	Rates potentially drop 0.25% or more	Slightly negative (returns -1% from base case) to positive (Increased foreign capital flows into US Real Estate)	Significant Negative Impact (Commodities sell-off of up to 25%)

Does China have issues as deep as the U.S. had in the 2008 financial crisis?

3. The Populist Movement Continues with Elections Across Europe

	Domestic Equity	Int'l Developed Equity	Emerging Markets Equity	Fixed Income	Interest Rates	Real Estate	Commodities
Populist Movement Continues with Elections Across Europe	Neutral to slightly negative	Modestly negative to negative (up to 5% pullback due to policy uncertainty) Positive if it triggers policy easing	Estimates ranged from very negative to no impact to positive	Positive in Near term, as capital flows into the US Negative if the ECB winds down QE as a result; negative long-term (stagflation)	Negligible to slightly negative impact	No impact to slightly positive short-term (inflows) and slightly negative long-term (stagflation)	Slightly negative to slightly positive

4. U.S. Growth Picks up and Brings Global Growth with it

	Domestic Equity	Int'l Developed Equity	Emerging Markets Equity	Fixed Income	Interest Rates	Real Estate	Commodities
U.S. Growth Picks up and Brings Global Growth with it	Neutral (PE contraction and higher wages compress margins) to strong positive impact (S&P 500 up 10% over base case assumptions)	Very positive impact (EAFE up 15% over base case assumptions)	Very positive impact (MSCI EM up 15% over base case assumptions)	Negative impact on returns as clearer path to rate rise materializes	Rates will rise across the curve	Neutral (higher cap rates offset by higher rents) to positive (increase in returns of 5%)	Very positive impact, with commodities poised to rally 15%

Important Disclosures

- These materials have been prepared exclusively for a presentation and may not be distributed in whole or in part to any other person without the express written consent of Allium Financial Advisors.

- Statements within this presentation should not be construed as guarantees, warranties or predictions of future events, portfolio allocations, portfolio results, investment returns, or other outcomes.