



Andrew Macken says the market needs to have a closer look at possible winners and losers. **Daniel Munoz**



by **Vesna Poljak**

The Dow Jones Industrial Average set a record high for an 11th session in a row, raising the stakes ahead of United States President Donald Trump's major congressional address this week which markets are counting on for details of his promised tax cuts.

The winning streak on Wall Street, [capped by the longest record-setting run for the Dow since 1987 on Friday](#), sets the markets up a nervous few days ahead, with the upward move made in anticipation of Mr Trump's ability to reduce company taxes, ease regulation and fuel an infrastructure boom.

When Mr Trump speaks on Tuesday night, or Wednesday for Australians, investors will look for details of concrete policies welcomed by the Republican Party. If the President cannot deliver on fairly optimistic expectations, shares may fall and the optimistic mood that greeted Mr Trump's election victory may fade.

The Dow Jones Industrial Average added 11 points, or 0.05 per cent, to 20,821.76 and the S&P 500 advanced 3 points, or 0.15 per cent, to 2367.34 points on Friday. Australian stocks are headed for a 16-point, or 0.3 per cent drop, on Monday, futures indicate, [after closing at 5739 points last week](#). Brent crude oil fell 1 per cent to

\$US55.99 a barrel and the Australian dollar declined half a per cent to US76.76¢ on Friday.



US President Donald Trump will address Congress on Tuesday. **Bloomberg**

"I think there is a possibility that whatever Trump announces creates a set of winners and a set of losers," said Andrew Macken from Montgomery Investment Management ahead of this week's reckoning before the joint session of Congress.

"The reason for that is basically Trump can't do whatever he wants to do with respect to tax reform, he needs the Republican-controlled Congress to approve this. There is a large movement within the Republican Party to keep any tax reform to being revenue-neutral in a sense. Any form of tax cuts for some will be offset by increases in tax for others so the game investors should be focusing on is 'Who could win and who could lose?', as opposed to 'Will we all win or will we all lose?'"

The best example of this is the border tax adjustment designed to boost American production. "If it goes ahead, it will absolutely create a set of winners and a set of losers. Therein lies the challenge for investors to position their portfolios," the global equities manager said.

Steve Mnuchin, US Treasury Secretary, [has already revealed the White House is considering issuing ultra long-dated bonds out to 50 and 100 years to take advantage of low borrowing costs, and is also looking at a "very aggressive" timeline on tax reform.](#) Aside from that, few details of the Trump administration's policies are known.

Market valuations show that US stocks are expensive relative to earnings because all of the gains booked since the Trump rally began in November have come without a commensurate increase in earnings forecasts. The S&P 500 has added more than 10 per cent since November 8.

Citigroup argues that cuts to company tax rates in the US could affect mergers and acquisitions activity worldwide by funnelling that cash home and fostering domestic deals at the expense of offshore transactions. But if the tax deductability of interest payments is removed, then that could hurt debt-financed deals and specifically private equity buyouts.

Unlike over the past eight years, Washington can now have a meaningful impact on business in the US, finds RBC, which was previously reliant on the Federal Reserve.

Tax reform can "flip" the secular stagnation thesis "on its head", argues chief US economist Tom Porcelli.

Mr Macken said Mr Trump's presidency has made investing harder.

"Clearly the market has focused on those more optimistic possible scenarios and has de-emphasised the more negative scenarios which are still possible. What might they be? It is far more possible now that the US and China end up in some sort of armed conflict than before the result of the election. It is far more possible now that major economies end up in a tat-for-tat trade war, the market hasn't really focused on those negatives.

"You can't take all your risk off the table in this environment because we just don't know what's going to happen. It would take a brave person to try to predict the outcome."