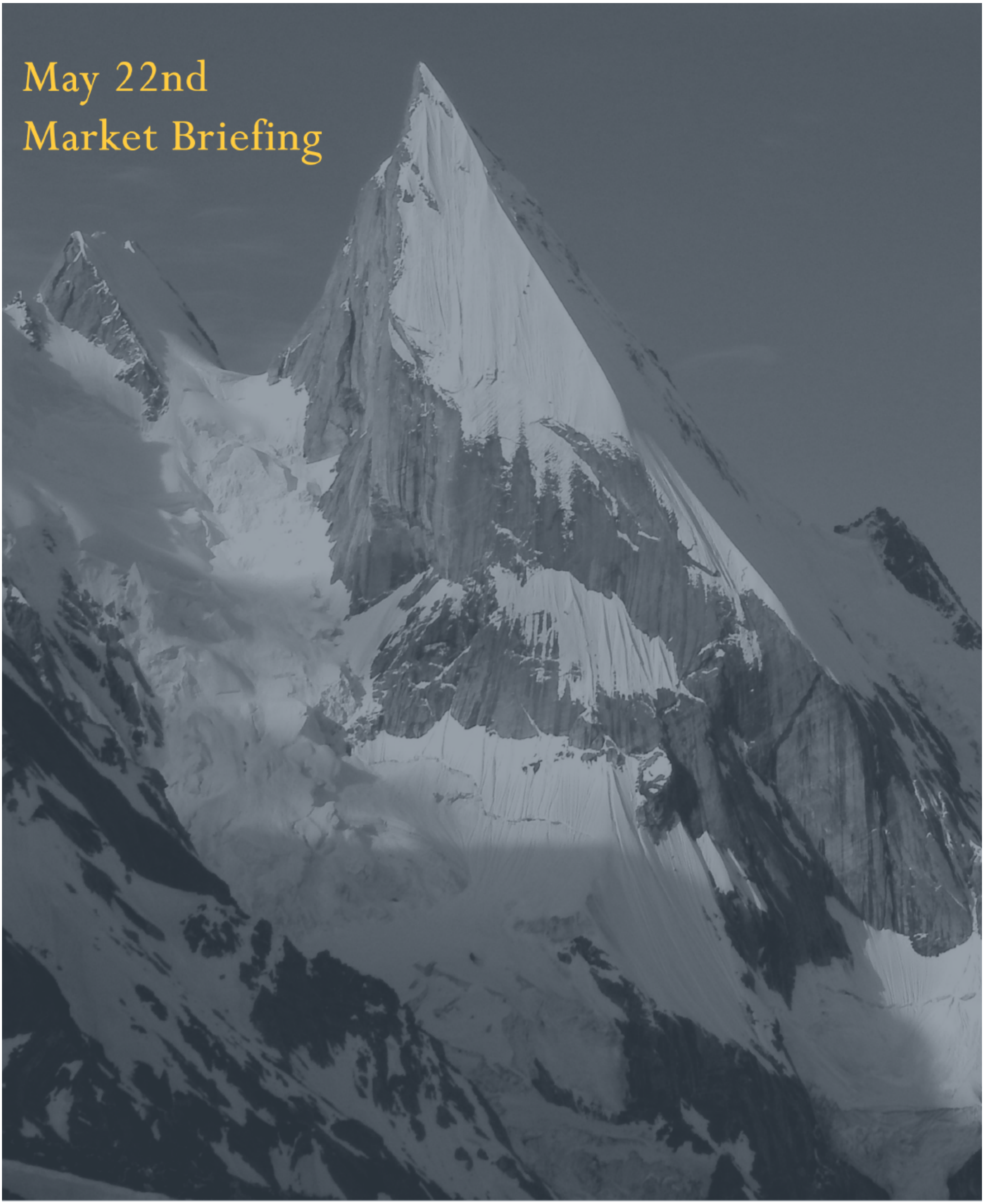

May 22nd
Market Briefing

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"Too fast to be true"

Market briefing

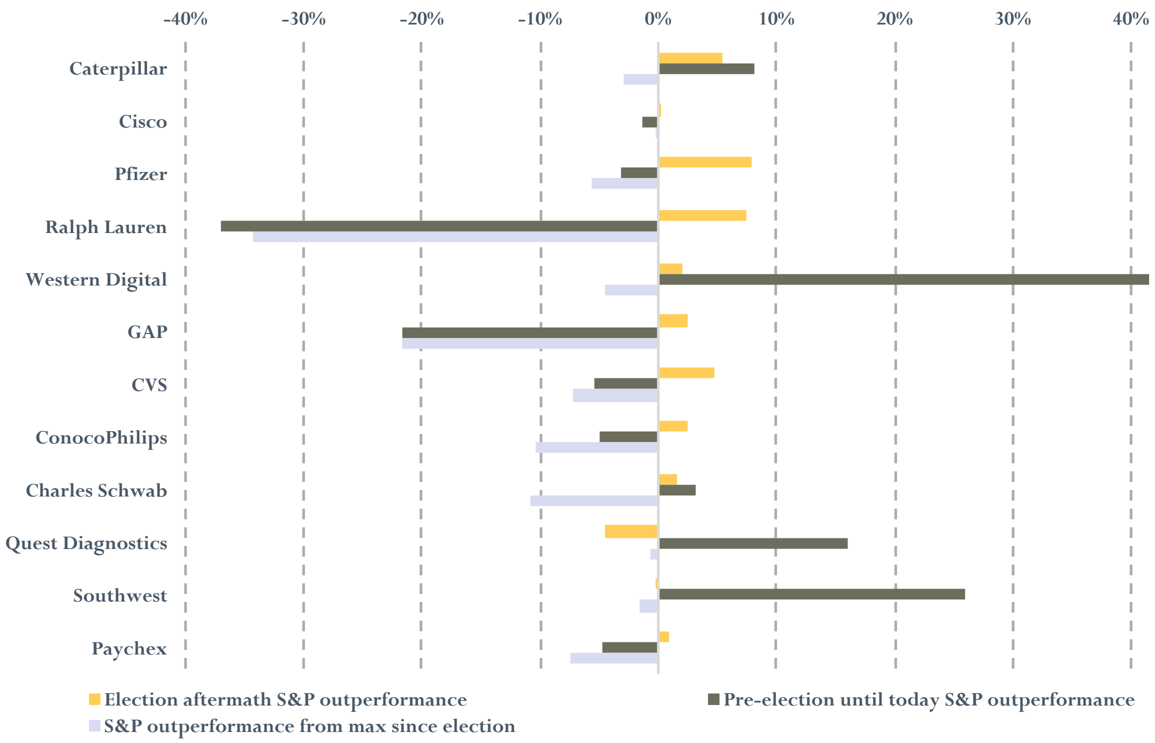
- When Donald Trump was elected president back in November the 8th 2016 it was a surprise.
- Markets don´t like uncertainty but do love surprises since these are an opportunity to buy or sell.
- Stock traders ran to adjust their exposure to take advantage of what was promised during the campaign.

In the aftermath of Mr. Trump's election as president of the U.S. Markets reacted positively and shown clear gains. The US dollar joined the mood and also appreciated against the major currencies. Experts mounted each other to claim that the entreprenurial style of the newly elected president has encouraged markets to believe in a better future for the US economy. Given the mixed messages Mr. Trump delivered during the election campaign truth is that it wasn´t easy to make up a defined plan of where to invest, but all sectors were expected to benefit from one promise: Lower corporate tax. Is easy to imagine stock traders rushing to find out which companies were going to profit the most from the materialization of this promise.

Did stock prices incorporated too fast the expectation of a cut in US corporate tax?

Together with the promise of lowering corporate tax Mr. Trump also promised that he would promote the repatriation of cash by US based corporation. This promotion was expected to be implemented by some kind of tax scheme. All together, if one believed Mr. Trump was going to fulfil his promises, it was worth to search for those companies with high reserver of offshore cash as well as those companies considered "high tax rate" ones. As per Strategas Research Partners the top five of US based companies with the highest percentage of their profit as offshore cash we found: Caterpillar, Cisco, Pfizer, Ralph Lauren and Western Digital. On the second group, companies with high tax rate, as per Goldman Sachs Reserach we found: GAP, CVS, ConocoPhilips, Charles Schwab, Quest Diagnostics, Southwest Airlines and Paychex.

How had performed the clear winners of Mr. Trump's promises compared with the market?



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In the previous page graph we can see that, with the sole exception of Caterpillar, the best performers until today had a discreet (within this group) performance in the afterpath of the election. In other words, what happened just after the election was not a good indicator of what was going to happen six months later. On the other hand we see that the best performers just after it was known that Mr. Trump was elected president (Pfizer, Ralph Lauren and CVS) have had until today a market performance way below the market. The last comparison in the graph, which is the stock price performance from the maximum price reached between November 8th and today compared with the S&P 500 Index same measure, shows an interesting market behavior: Despite the absolute gains posted and indepently of how well the stock price has performed, all these stocks showed somewhere between today and the election day an overshooting moment compared with the market.

Interesting enough is that of the top three perfomers until today since the 2016 US presidential election result was known, two of them lagged the market the day after. Also only three out of twelve (Caterpillar, Western digital and Charles Schwab) have both a positive return the day after the election as well as a positive return since then until today.

It will be easy to say that the observed evidence is a consequence of non-fulfiled promises. Really? We think it is not the case, but instead we believe the explation is that investors rushed too fast to what was told was going to be the future. The possibility, just the chance of a potential corporate tax cut was incroporated as a given fact.

All the companies analysed were victims of investors moving too fast. That all these companies had underperformed the market from their peak-price shows that not all companies were victims of the same. Not even the "average" of companies was victim of the same. Investors were not only confident that President Trump was going to improve the economy, the believed he was going to do it in the way he announced although there was no clear plan. The market, taking bits of information from different speeches made up a plan. Listening, with some degree of attention and care, to the President's public announcements it wasn't that hard to find out that there was not a plan. Any plan.

We all know there are no right answers when it comes to "why did you do that?" within the framework of stock-picking. Only time will prove of we are right or wrong, and in each case - looking backwards - we will always find the right answer to confirm or to excuse our expectations. But it calls out attention that investors did believe "literally" in what Trump promised, but not because he shouldn't be trusted (we leave that up to you) but because he was a politican campaigning for an election. Simply because of that.

But, once again, investors have shown a certain degree of irrationality, despite the easy availability of evidence suggesting to be, at least, cautious. What now? Well, as of today there is no clear evidence that the promised corporate tax cut will be approved nor - if it does - when that could happen. And the market is reflecting just that, the confirmation that the post election market move was too fast to be true.

Shall chances of the tax cut increase have no doubts that the stocks we see in the graph as underperfomers will jump, on average, well above the market. Again.

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