

# Donald Trump, Camelot, and the Ghost of the New Frontier



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The title of my talk today is ‘Donald Trump, Camelot, and the Ghost of the New Frontier.’ I believe if we are to best understand the opportunities and risks immediately before us, we need to understand that the President who is most like Donald Trump is John F. Kennedy. This may seem curious: Trump is a Republican and Kennedy a Democrat. Trump is the oldest man elected President, and Kennedy the youngest. Yet there is no doubt in my mind that JFK is our Donald Trump Doppelgänger, and not just because they both vacation in Palm Beach. Today, I will explain how the history of the first hundred days of Kennedy’s Camelot, the initiatives of the New Frontier, will tell us what we need to know to think critically about the future immediately before us.

First, a disclosure: the views expressed here are my own. I am the chief investment officer of Fiera Capital’s US subsidiary, I hold an MBA in Finance and an MA in history. It is my work as a historian that provides me with my perspective today.

This is a non-partisan outlook that suggests the months ahead will witness increased geopolitical tensions and regional conflicts. We will also likely see increasing inflation pressures (Buy TIPS), rising Treasury yields (though a flatter curve), a meaningful correction in stocks, and continued dollar rally destabilizing to emerging markets.

Yet, market volatility and corrections are always good news for opportunistic investors and getting set-up for this scenario could be very profitable. If the Kennedy road map to our future is accurate, after the stock correction, we will likely witness the birth of a very long bull market, one that is built on military Keynesianism, infrastructure investment, and tax cuts.

## **The comparisons between President-Elect Trump and President Kennedy are striking.**

- In the 1960 election, the democratic primaries began with a crowded field. There was hope the establishment candidates of the party could derail Kennedy’s momentum. The establishment resented the upstart Kennedy and wanted him stopped.
  - In the 2016 election, the Republican primaries began with a crowded field. The establishment resented the upstart Trump and wanted him stopped.
- Kennedy’s opponent, Richard Nixon was Eisenhower’s Vice President, and represented the status quo.
  - Hillary Clinton was President Obama’s Secretary of State and represented the status quo.
- Kennedy wanted to get “America moving Again.” Trump campaigned on the slogan, “make America great again”. Both viewed the prior eight years as a period of sluggishness that eroded national greatness.
- Underestimated by their opponents, both Kennedy and Trump waged unconventional campaigns. Kennedy used a new medium called television to speak directly to the American people in a way never before done by a candidate.
  - Trump used a new medium called social media, specifically Twitter, to speak directly to the American people in a way never before done by a Presidential candidate.
- Kennedy was a disrupter, who challenged President Eisenhower’s foreign policy, which he viewed as slow moving, and not in keeping with the demands of the times.
  - Trump is a disrupter, who challenged President Obama’s foreign policy as slow moving, and not in keeping with the demands of the times.

- ▶ Kennedy campaigned as a hawk, slamming Eisenhower for being soft on the Soviets. Eisenhower sought to reduce US foreign entanglements abroad and reduce the cost of defense.
  - Trump campaigned as a hawk and slammed Obama and Clinton as soft on Terrorism and ISIS specifically. Like Eisenhower, Obama sought to reduce US foreign entanglements abroad and reduce the cost of defense.
- ▶ Both candidates won in disputed elections. Kennedy won by the thinnest margin ever recorded in U.S. history up to that point in time: 49.7% vs. 49.6% for Nixon, but a big electoral college victory. It was one of the most polarizing elections ever.
  - Trump lost the popular vote, but won the electoral college in one of the most polarizing elections ever.
- ▶ In 1960, there were charges of election fraud, but Nixon decided not to contest it.
  - In 2016, there were charges of election fraud. Clinton decided not to contest it.
- ▶ Trump, like Kennedy, will enter office without a popular vote mandate, but with a desire to make big changes none the less.

#### Here is where the trouble starts:

Trump - like JFK - wants to take action early in his presidency. Optimists will point out that the Republicans control both the Senate and the House of Representatives and that President Trump should be able to score some early, important legislative victories.

Optimists in Kennedy's day pointed out that despite JFK's narrow victory, the Democrats controlled both the Senate and the House and so JFK should surely be able to score some important early legislative victories. Sadly, Kennedy's landmark Civil Rights Bill and Tax-cut legislation did not become law until after his death - they were road blocked by a Congress he controlled.

Just as the Democratic party was fractured in Kennedy's day, stalling the passage of the big bold historic legislation, so too is the Republican party fractured today.

What actions can President Trump take if Congress frustrates him? The President of the United States has awesome power to act unilaterally in foreign affairs. Kennedy's first foreign policy decisions:

1. Would shape the country's poor relationships with Russia for the rest of the decade.
2. Lead to a disastrous invasion of Cuba at the Bay of Pigs just 3 months after Kennedy's inauguration.
3. Would directly lead to Soviet aggression in Berlin and to the Cuban Missile Crisis just 18 months later.
4. After stumbling, Kennedy decided Asia was the right place to take a stand, in a promising battlefield called Vietnam.

I will bring a personal perspective to this conversation:

- ▶ My history professor at graduate school was McGeorge Bundy, JFK's national security advisor.
- ▶ He introduced me to Richard Bissell, the architect of the Bay of Pigs. Bissell was the CIA Deputy Director for covert operations for Eisenhower and JFK and I co-authored his memoirs.
- ▶ Bissell introduced me to Walt Rostow, who succeeded Bundy as National Security Advisor. Rostow worked with President Johnson to escalate our involvement in Vietnam.

We care about these people today, because as we will establish in a moment, JFK's advisors share characteristics in common with Trump's appointments.

### **If character and training is destiny, the parallels between JFK and Trump become more informative:**

Both Kennedy and Trump were viewed by many as among the least qualified candidates for the presidency. Neither was humbled by an absence of experience. Neither was troubled by an absence of experience, or suitable temperament, in key appointments.

When Kennedy announced his pick for Secretary of Defense, some reacted with skepticism. His selection, Robert McNamara, had no prior experience in government.

Yet, Kennedy wanted to bring a private sector perspective to defense matters and McNamara, as the President of the Ford Motor Company, was the leader of one of the largest companies in the world.

When JFK asked McNamara to serve as SecDef, McNamara initially turned down the job, telling Kennedy, “Mr. President, it’s absurd; I’m not qualified,” Kennedy responded, “Look, Bob, I don’t think there’s any school for presidents, either.” So, JFK plunged into his Presidency, along with his Secretary of Defense, unprepared, but ready to take action.

### **The parallels are clear:**

When Trump announced his pick for Secretary of State, Rex Tillerson, some reacted with skepticism. Tillerson has no experience in government. His private sector expertise was the characteristic that most attracted Trump to Tillerson.

As the President of the Exxon Mobil Oil Corporation, Tillerson is the leader of one of the largest companies in the world.

Tillerson is a different person than Robert McNamara, but we would all be well advised to consider the similarities. In the first 100 days of the Kennedy Administration, McNamara did not have the perspective or knowledge to properly advise the President, and as JFK plunged the country almost immediately into one foreign policy crisis after another, he would have been better served to have an advisor with experience.

Yet, McNamara was not the only JFK appointment with a light resume, and Tillerson is not the only Trump appointment with a credibility gap in national security expertise.

When President-Elect John F. Kennedy announced to the world that he had selected McGeorge Bundy to be his National Security Advisor some were taken aback. Bundy’s prior real world experience was as a professor and as a college dean. He never faced a foreign policy crisis, except in books.

Bundy felt Eisenhower’s approach was old fashioned, undermined US strength, and allowed the Russian’s to take the initiative all over the world. Sound familiar?

Bundy didn’t just want to change policy, he want to change how policy was made. Bundy quickly began to dismantle Eisenhower’s methodical national security apparatus, and replace it with something more action oriented; fewer circuit breakers.

JFK’s rhetoric and the early actions he took in foreign policy were bold, but unwise. His inexperienced advisors enabled Kennedy’s worst qualities.

### At first, the markets did not react:

Stocks surged from Kennedy's election to inauguration - in fact from a technical perspective, the surge is quite similar to the surge that has taken place since Trump's election. Though stocks kept moving up in the months immediately following JFK's election, the market became choppy as a sequence of events began to chip away at the initial surge of optimism about a Kennedy presidency: The Bay of Pigs was followed months later by a disastrous summit with Russia's leader Nikita Khrushchev. Khrushchev decided JFK was all talk and that he could be intimidated by Russian strength. Just months later Khrushchev surprised the world by building the Berlin Wall. JFK did nothing. Khrushchev's next move was to begin secretly installing nuclear missiles in Cuba. Spoiler alert: Beware an early meeting between President Trump and Putin. Risks surrounding such a meeting could not be higher.

The stock market peaked in late 1961, months into the Kennedy Administration, and began what historians call today, "The Kennedy Slide." In December 1961, the P/E of the stock market as measured by the Dow Jones Industrial Average was about 23, one of the highest on record up to that point in time. Optimism had carried valuations to that level, but after a series of foreign policy missteps, the JFK glamour was about to lose its dazzle for investors.

As the stock market slide began, Kennedy felt under pressure to show he was in charge, to take action, to have a victory of any kind.

In early 1962 he focused on a new target: the US steel industry. America was an industrial economy and the price of steel was a main factor in the pace of economic growth. Kennedy wanted to get the country "moving." Low steel prices were stimulative, higher steel prices were economically restrictive. Steel executives wanted to maximize profits for shareholders and they raised the price of steel that spring.

Kennedy's response? Pure Donald Trump. At a news conference JFK declared: "The American people will find it hard, as I do, to accept a situation in which a tiny handful of executives whose pursuit of private power and profit exceeds their sense of public responsibility." He condemned the steel executives for showing such "utter contempt for the interests of 185 million Americans." JFK began a public campaign to embarrass steel executives and intimidate them into rolling back the price increases he feared would slow the economy at a time when stocks were already falling.

President-Elect Trump has already had such a moment. To make good on his pledge to rebuild American industry, Trump publicly condemned the executives of the heating and cooling behemoth Carrier Corporation, a United Technologies Company, He threatened them, publicly made an example of them, and browbeat them to stop from moving manufacturing jobs to Mexico. "Be forewarned," he told corporate America. Ford certainly has heard the message. Moving jobs will have consequences.

Kennedy declared victory when he was able to force the steel industry to roll back prices but the stock market took notice of this coercive intervention in the economy and the Kennedy slide accelerated throughout 1962, a fall of about 25%. Though foreign policy stumbles may have burst the bubble that began the stock slump, most of the fall took place after JFK's confrontation with the steel industry. Though the stock market made its bottom just months later, it would only stage feint recoveries throughout the rest of 1962, slumping again during the Cuban Missile Crisis.

If our story ends here, I fear you will walk out of this room disappointed, in a dark mood to face the clouds of winter. Let me assure you, there is a happy economic ending. Kennedy may have had his stumbles, but he was a learner, who grew from failure, and in the little life on this earth remaining to him in 1963, he was at his best. America was a society at the brink of civil disorder. Race relations were at their low, the conflicts between unions and industry fierce, the fear of industrial job losses real. Many of these themes are also familiar to us today.

While Kennedy's Civil Rights Act is best remembered as his legacy achievement to heal society, it was his bold tax cut initiative, which became law as part of the Revenue Act of 1964, that created a foundation for sustained growth. These tax cuts propelled the great bull market of the 1960's that began after JFK faced down the Soviets during the Cuban Missile Crisis. Kennedy explained the thinking behind the bold tax cut initiative:

**“Every dollar released from taxation that is spent or invested will help create a new job and a new salary...and more customers and growth for an expanding American economy....”**

The details behind the story of the Kennedy tax cuts are told in a recent book co-authored by Lawrence Kudlow, CNBC commentator and top Trump advisor. We can be assured that President Elect Trump knows the story and its happy ending - a buoyant economy, a society unified by economic growth - until the tragedy of Vietnam became too much.

And what about interest rates, what about the Federal Reserve? Here too the New Frontier shows us the way forward: In 1961, the Kennedy Administration and the Fed were worried about a growing trade deficit and a weaker dollar. The dollar was still linked to gold and foreigners were cashing in their dollars for gold at a fast pace, draining US gold reserves and laying the groundwork for a US currency crisis if too much gold left the country. An obvious solution to defend the dollar was to raise interest rates, but this risked slowing the economy. The Fed, encouraged by JFK's team, decided on a bold, untried approach, an experiment called “Operation Twist.” Rather than actually raise interest rates, the Fed would sell its holdings of short-term treasuries and pressure short rates higher. This made US interest rates attractive to overseas investors and stemmed the outflow of gold. Simultaneously, the Fed bought long-term bonds and drove longer-term interest rates lower. This helped support and stimulate investment and economic activity.

Could Trump's Fed borrow this page from JFK's playbook? As a result of QE the US Federal Reserve is sitting on about \$4.5 trillion dollars of US Government securities and a meaningful portion of this is in shorter maturities. It would not be hard to imagine the Fed rebalancing its holdings in a manner consistent with Operation Twist. If this action occurred, and the dollar strengthened further, it would not be unreasonable to expect an emerging markets panic, but accelerating global growth cures all and it would likely be short lived under the right set of circumstances.

Well, I've talked long enough. Can President Trump avoid the dark opening pages of this story? The foreign policy blunders, the heavy handed interventions in the economy? If he is listening, I hope so, but only time will tell. I look forward to your questions.

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