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Mark Avallone, CONTRIBUTOR
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3 Ways Trump's Presidency Will Affect Everyday Americans

As indicated by the dramatic rise in the U.S. stock market, there has been a lot of optimism around President-elect Trump's proposed economic plan, cabinet selections, and legislative agenda. The crux of the thinking on Wall Street has been related to three areas:

1. Regulatory Reform. The relaxing of many regulations, including those enacted as a result of the 2008 crash, is a near certainty. Although many of these regulations were well intentioned and perhaps necessary after the 2008 market crash, the business community feels that the regulations went too far and are causing undue pressure on corporate profits with diminishing benefit.

2. Infrastructure Spending. Many politicians agree we need a plan to rebuild our nation's roads, bridges and airports. This should stimulate construction and other sectors of the economy by rebuilding our infrastructure and boosting employment.

3. Corporate Tax Reform. There are folks on both sides of the aisle who generally support a tax structure that will encourage corporations to return cash from overseas. This has been discussed for at least a decade and may finally become a reality. The potential repatriation of trillions of dollars held overseas by U.S. corporations may become the biggest economic stimulus in U.S. history.

The hope is that these proposals will result in a boost to the U.S. economy. If that is the case, the recent stock market response may be justified and rooted in sound thinking. However, since the Presidential election, we have also seen some economic factors begin to develop that could hurt the average American and eventually cause the stock market some concern. Amidst all the hope and hype of a new administration, the flip side to these economic developments is not getting as much attention. To be sure, economic growth is a welcomed development for most, if not all, Americans. At the same time, as with most aspects of economic activity, there are also counter forces and unintended consequences. Here are a few potential results of the proposed economic agenda:

1. Higher Interest Rates. Interest rates have been gradually rising since bottoming in the summer of 2016. Since the election in particular, interest rates have moved dramatically upward and may climb higher still. For example, the rate on the ten-year U.S. Treasury Note has risen from a summer-2016 low of 1.37% to a recent range just north of 2.50%. If rates move even higher, millions of Americans might get hit with higher costs on their credit cards, auto loans, equity lines of credit, and home mortgages. For individuals, this higher cost of debt service is painful and may reduce the monthly discretionary income of millions of Americans. On a bigger scale, higher interest rates can eventually have the cumulative effect of slowing down the U.S. economy.

2. Higher Oil Prices. For the past several years, working-class Americans have enjoyed a boost to their discretionary income due to low oil prices and lower cost of gas at the pump. However, during the past few months, oil prices have increased as the economy gained strength and OPEC reached a surprise agreement. If the enactment of the Trump proposals lead to further economic expansion, we may also see continued upward pressure on oil prices which can impact consumers and reduce the amount of discretionary cash flow they have available. Higher oil prices, like higher interest rates, have the overall effect of slowing down economic activity. One potential offset to this is increased U.S. oil production and OPEC members cheating on their production agreement. If that happens, the supply of oil may rise enough to offset the increased demand, nullifying upward pressure on prices. But right now, the oil market is firming as it looks to be pricing in a growth economy.

3. A Stronger U.S. Dollar. If the impact of the proposed economic agenda is fully realized and we indeed have a stronger economy, then it is likely that the U.S. dollar also strengthens. This is made more probable given the anemic state of the major European economies, which are struggling to avoid recession. To be sure, currency fluctuations may not impact folks on Main Street as quickly or as directly as higher interest rates and higher oil prices. But if the U.S. dollar appreciates significantly more than the currencies of our major trading partners, then our competitiveness to export our products reduces. This in turn could weaken the labor market and gradually slow the pace of some recent wage gains.

Overall, a growth agenda out of Washington is a net positive for many. But it is also important for folks to anticipate and plan for potential economic scenarios. Hopefully this summary helps you manage your unique situation and plan accordingly.

Contributor's Bio

Mark Avallone is the author of Countdown To Financial Freedom, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the Wall Street Journal as well as in Forbes where he is a regular contributor. He has appeared on CNBC and has been a repeat guest on the Fox Business Network. His insights have also appeared in USA Today, U.S. News & World Report, The Washington Post, and other leading publications.