

Trump Issues Ultimatum on Health Care Reform as Legislative Agenda Hangs in the Balance

U.S. stocks turned in their weakest weekly performance since before the November presidential election. The S&P 500 saw its first move of more than 1%—up or down—since December 7 and notched its first daily decline of more than 1% in 110 trading days, dating back to October 11. The SSR portfolio saw its poorest weekly performance since the first week of November and is on pace for its first monthly decline since October. This week, the CBOE Volatility Index (**VIX**)—a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices—rose to its highest level since the first trading day of the year.

Several factors contributed to the downward turn in stocks this week. There is a growing sentiment among investors and traders that the market may have become too frothy. The postponed vote in the U.S. Congress to dismantle the Affordable Care Act calls into question the viability of the president's other agenda items. And the terror attack in London brought geopolitics back to the forefront.

As I have said multiple times in this column over the last few months, the optimism of tax reform, infrastructure spending and deregulation that has been powering the stock market since election day would eventually require legislative action. This week it was inaction that, in part, pushed stocks lower. One of President Trump's key campaign promises was to repeal the Affordable Care Act, also dubbed Obamacare. On Thursday, House Republicans postponed the vote after failing to get the required votes. This, in turn, garnered an ultimatum from the President: vote and move on. Trump said he is done negotiating and called on Republicans to bring the matter to a vote. If the bill fails, Trump said that Obamacare would remain in place and he would move on to other items on his agenda. On Friday, however, the House once again postponed voting on the bill shortly before it was due to begin.

Some analysts view this legislative fight as a referendum on the Trump presidency. We are still less than 100 days into this administration, so that may be a bit of hyperbole. However, this is a sign that having the Congress and White House controlled by the same party is not a guarantee that Trump's agenda faces smooth sailing. Other analysts believe that the market has been "priced to perfection," and that now that holes are starting to develop in Trump's agenda, stocks and indexes are declining to meet the lowered expectations. This was reflected most with financial stocks this week. The Financials SPDR Select ETF (**XLF**) fell 3.7% this week on worries that the president's tax reform and deregulations efforts face an uphill battle.

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