Lead Left Interview – Stephanie Link (Part 2)

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This week we continue our conversation with Stephanie Link. Stephanie is a managing director and equity portfolio manager for TIAA Global Asset Management. She manages large-cap equities primarily based in the US. She is also a CNBC contributor and appears regularly on *Closing Bell* and *Halftime*. *Second of two parts – View part one*

The Lead Left: Do you think that a recession has now been postponed?

Stephanie Link: A recession is unlikely this year. We're only at 2 ½-3% GDP growth now. Even if that rises to 4% that isn't runaway growth. The key will be 2 of the Fed's mandates – inflation and employment. We're basically at full employment but if that leads to higher inflation and the Fed gets behind the curve and has to aggressively tighten – that's your recession risk. I think the Fed has made it clear that they will be gradual in rate rises – but going back to what I worry about – that is another one. That the Fed has to get more aggressive on rates because they get behind the curve.

TLL: So what kind of exogenous factors are you worried about?

SL: I worry about the dollar. The US is the best game in the world, the place to be. If we have stronger growth vs the rest of the world, the dollar rises. That said – if Trump's growth plans lead to higher deficits then the dollar should retreat. And theoretically – global economic stimulus should lead to higher growth globally – so that could also ease pressure on the dollar's rise. It's a wild card at the moment.

Secondly does oil take off? The OPEC news last fall was one thing, yet oil shale is still a big source here. So what does energy dependence mean? Oil's preferred level in my view is $70-75/barrel. Those two things – oil and the dollar – plus the political risk with China, are what worry me.

TLL: What about trade deficits?

SL: It's impossible to make a call on trade. Trump's bark seems to be worse than his bite. With Lockheed, Ford, and GM calling them out creates headaches for them certainly. But in reality the dollars are minuscule. Lockheed? Trump wants them to lower costs [on the F-35] by 10%. But the Department of Defense have been calling for that for years. It sounds like Trump wants to work with companies to bring jobs back in exchange for lower taxes. A partnership of sorts – but we'll just have to see. I think companies understand and will be flexible. Not so sure how countries will feel about it, though.

TLL: Isn't this US-centric view more costly ultimately to companies? And to the consumer?

SL: Yes it's potentially very inflationary. But let's say Ford moves 1600 jobs back to the US, that's so small relatively speaking but there is a real cost to Ford for bringing those people back into the US. Now – if the company has a lower tax rate to help offset the higher costs, that's fine. But if it doesn't offset – companies will have to raise prices.

TLL: What kind of market signs should are readers watch out for?

SL: Well, I would keep an eye on Trump's first 100 days. What will happen with energy? What will happen with foreign policy? What will happen with jobs? What will happen with ISIS and the military? What will happen with trade deals? And what will happen with ACA? People will need to monitor those things.

Also, there will be a slew of earnings, and a real focus on conference calls. Not just the numbers, but what the analysts say going forward. The big banks will be reporting this week. Their CEOs seem very optimistic. Delinquencies are stable, loan growth expanding and earnings are growing.

Let's see what the consumer does, as we discussed, because it is so important to the overall US GDP. Other economic data will be key as well – the Non-Farm Payroll figures (jobs), Wages, Consumer Sentiment, and the continued manufacturing series like PMIs and ISMs.

TLL: What about regulatory reform? Dodd-Frank? Volcker?

SL: There will be some rollbacks, but it will be mostly compliance cutbacks, and paring back on excessive legal staffing. Dodd-Frank and Volker won't really be affected. The pendulum swung so far to the right, it's just getting back to the center. That's welcome news after years of higher staffing to keep up with the higher costs. Financial services will do fine.

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