

FIRST QUARTER 2017 - INTRODUCTION

2017 Outlook: Preparing for Uncertainty and Volatility in a Post-Election World

Presenting a 2017 outlook is impossible without discussing Donald Trump's victory, the Republican majority in Congress, and what these developments could mean for the economy and markets. Unfortunately, much remains unsettled and could lead to significant market volatility as ramifications crystallize.

Last quarter, we discussed political undertones and actions—populism and anti-globalization—that demonstrated discontent with existing economic and political models in the world's major democracies.

These undertones captured broad attention with Brexit, the U.K.'s vote to leave the European Union. They gathered more momentum with the election of Donald Trump to be the U.S. president. Trump's policy proposals include:

1. Federal tax cuts
2. Increased fiscal spending
3. Health care reform
4. Government deregulation of businesses and business practices
5. Foreign policy and trade reforms
6. Immigration reform
7. Reshaping the Supreme Court and the Federal Reserve by filling vacancies

While expectations that a Trump presidency will be pro-growth seem reasonable, the actual impact will not crystalize until policies and objectives solidify and move forward. There's typically a gap between what candidates promise and what they deliver.

Trump faces a divided nation, including his political party. While the Republicans enjoy a Congressional majority, will they cooperate enough to facilitate Trump's final agenda?

Also, the full economic impact of Trump's agenda is not clear yet. Fiscal stimulus from lower tax rates, government spending, and deregulation could be offset by higher interest rates (raising borrowing costs), a stronger U.S. dollar (which hurts emerging markets and U.S. earnings overseas), and inflation. Immigration and trade restrictions could also limit growth.

Furthermore, if fiscal stimulus replaces monetary stimulus, we believe market volatility—which has been mostly constrained since 2008 by central bank policies—is poised to increase, as we're already seeing in U.S. Treasuries (MOVE Index¹, below). Periods of increased volatility in U.S. stocks (VIX Index²) could follow.

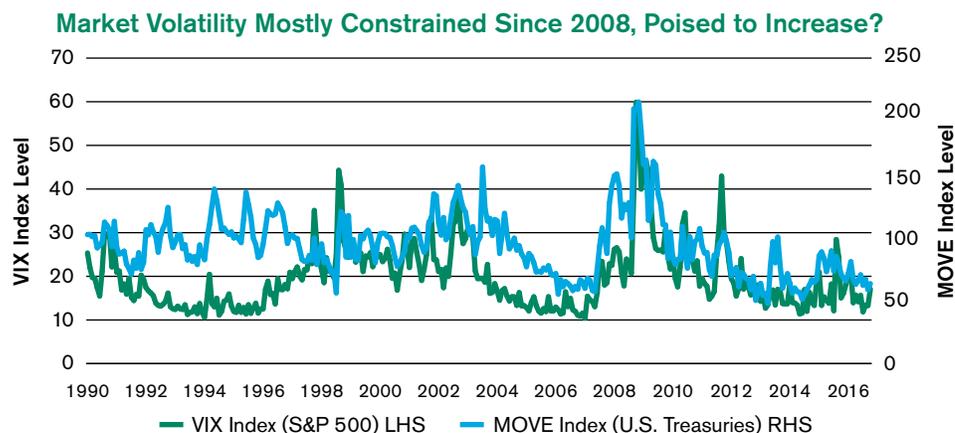
In this challenging environment, we strongly believe in staying the course and focusing on fundamentals, and our active strategies have the potential to manage risks while capturing opportunities. Our discipline CIOs highlight more 2017 themes, risks, and opportunities in their *CIO Insights* this quarter.



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Data from 1/31/1990 to 10/31/2016. Source: Bloomberg.

¹The Merrill Lynch Option Volatility Estimate (MOVE) Index is a yield-curve-weighted index of the normalized implied volatility on 1-month Treasury options. It is a widely used measure of bond market volatility.

²The Chicago Board Options Exchange (CBOE) VIX Index tracks the expected 30-day future volatility of the S&P 500® Index and is a widely used measure of stock market volatility and risk.

The opinions expressed are those of G. David MacEwen and Victor Zhang and are no guarantee of the future performance of any American Century Investments portfolio.

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