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Why Trump could be good for markets

Christopher Joye | Smarter Money Investments | 10 November 2016

For many, if not most, the financial market reaction to President-elect Trump's stunning victory would have been shocking. How on earth could US equities be up 1.1% - an amazing six percentage points higher than the lows immediately after the result when the S&P500 smashed into its negative 5% "circuit breaker" - and government bond yields be above their pre-election peaks after dropping like a stone? The answer resides in expectations of President Trump contrasted against "stump Trump".

The initial investor reaction was to fixate on the latter, which was superseded by the former when Trump delivered a predictably rational and bi-partisan speech devoid of divisive rhetoric and stressing his desire to maximise economic growth.

We did not have an especially strong *ex ante* view on the election outcome, and had extracted an important insight from the Brexit experience when the collective forecasting might of financial and betting markets and many pollsters was proven wrong about a large population's voting intentions. (Incidentally, the same thing happened with the Greek referendum over Grexit.)

While at face value Clinton was the higher probability bet, we had significantly de-risked our portfolios to provide maximum purchasing power in the event markets overreacted on the downside to an otherwise improbable Trump ascendancy.

Contrary to the caricature of a haphazard, crazy-man that pervades media trying to rationalise its inability to divine his success, Trump's campaign strategy was highly rational and designed to deliver the impossible.

As a professional property developer and entrepreneur, Trump has repeatedly proven himself to be a master salesman, constructing whatever messages his audience required to buy the product he was purveying. In this case, it was a vision of himself, much as it has been with the Trump properties that sell the lifestyle he cultivates. Trump identified deep-seated grievances among main-street white Americans with the incestuous political establishment and the direct costs of globalisation (juxtaposed against hazier benefits), which his messaging relentlessly exploited.

For these constituencies, Trump possessed a tremendous advantage over Clinton - he was the physical incarnation of the irreverent entrepreneur who had made good on the great American dream. By way of superficial contrast, Clinton represented the self-pandering system that stifles and thwarts the hard-working entrepreneur's aspirations via bureaucratic ineptitude, taxes, red-tape, corruption and dud deals with global rivals.

Time and time again Trump's willingness to ruthlessly sell whatever messages gave him the best chance of winning the White House – even if they were lies or contradictory – enabled him to defy expert opinion on his demise.

A significant insight is that this maniacal self-interest and logic should apply with equal force to Trump during his presidency.

Our expectation was, therefore, that once Trump assumed power, he would do everything possible to maximise the value of his personal financial interests – which, unlike his predecessors, remain vast, varied and heavily reliant on the performance of the US economy, and property particularly. With the Republicans retaining control of the Senate, this was likely to be the most business and financial markets friendly regime in a long time.

It is misguided to conceive of Trump as irrational, a radical reformer, or a right-wing zealot. History suggests he is none of these things. While one can quibble with his ethics, morality, consistency and personal style, he is unambiguously the pure American profit maximiser that carries the confidence, conviction and narcissism that accompanies those who have experienced extreme success through skill and that other crucial condition precedent, luck.

This framework for thinking about Trump made the ensuing victory speech, which triggered an extraordinary recovery in markets, easier to anticipate. While the trademark idiosyncrasies might continue to irritate, Trump never once alluded to his polarising political narratives on immigration, trade, or Clinton's corruption.

Instead, we were presented with an entirely different visage – an inclusionary president who graciously lavished compliments on Clinton for the battle she waged and her service as Secretary of State, and who declared that his primary task would be creating the best performing economy in the world that afforded opportunities for all Americans to fulfil their potential.

Trump placed his greatest emphasis on revitalising infrastructure spending, which markets have since latched on to. Yet it should be no surprise that a man who spent his entire professional career developing commercial and residential properties would make rebuilding America's transport infrastructure, hospitals, and schools a primary political goal.

The mercurial Trump nonetheless remains. There are absolutely risks that his self-confidence and hubris result in him regularly running "off-reservation" in public remarks, causing temporary mayhem in markets. But I am guessing that his actions will be collectively geared towards supporting business and growth, and removing obstacles to both.

One consensus view in the hours after the election was that the Federal Reserve's December rate hike was dead. We countered that the Fed would still likely hike because markets would figure out that Trump is a friend, not foe, which could be quite inflationary.

Goldman Sachs has since argued that Trump will run more expansionary fiscal policy while detracting from productive capacity through reduced trade flexibility, which could "translate

into higher inflation and potentially higher market interest rates". Deutsche Bank said it fielded "many questions about the potential for a significant fiscal expansion and what it means for growth, inflation, and the Fed". Their response was that "construction worker wage growth is already near 2006-2007 levels and hiring more infrastructure workers for government projects is going to put even more upward pressure on wage inflation".

In summary, the contrarian trade has been to back Trump's demonstrated devotion to commercial self-interest.

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