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Holland Macro Views

Pump priming and lucky Presidents

Post Trump's election win markets initially panicked, but were soon reassured by his measured and seemingly inclusive acceptance speech. In this speech we noted just one stand out policy – that of a significant, and likely lasting, investment in infrastructure – i.e. a 'fiscal pump priming'. We take the liberty of reattaching a piece sent during half term week (thus a few of you might have missed it) as it outlined specifically this point on fiscal spending. In it we also outlined the ongoing value in US financials sector which are clearly benefiting strongly from the long-awaited prospect of reduced regulation.

Objectivity is key

It is important on such days for all of us to carefully consider rationally what policies are right or wrong for an economy at its current point in the economic cycle. To be professionally successful we must work hard to separate any personal views we might have on the appropriateness of an individual to hold office against what might be right for the wider economy. Many commentators struggle with such objectivity maybe due to a subject being too emotive to them or due to consistency bias not allowing their brain to rewire itself in the face of new information. We saw much of this post-2009 when so many commentators, having only late-in-the-day understood the deflationary dangers the world faced, then could be nothing other than bearish for the next 5 years as stock markets recovered sharply. Yesterday's significant US stock market rally (from a pre-opening collapse) was that professional discounting mechanism at work as markets worked though the real likelihood of what becomes policy and what was just rhetoric at a stock, sector and economic level.

At last sign of future inflation

We also note yesterday's big rise in US Bond yields. Others will be keen to tell you what these higher yields are discounting (we guess a little of reduced US international credibility but mostly the financing of a greater deficit such a fiscal plan would result in). This move up in yields we find interesting as this is just what many an economist/Yellen has wanted to see for months! (i.e. signs of future inflation). There are many hard working, diligent leaders around the world, but history often remembers those that were lucky. Many maybe did not wish to see President Trump as the global spokesperson for the US, but at an economic and investing level we should ask ourselves a question: *What if the policies being outlined just happen to be right for America today*? With growth slow and an ongoing deflationary threat not yet behind us, less regulation (of banking and other sectors maybe promoting loan growth, and investment) lower taxes and a fiscal pump priming might be just the ticket. While we wait to find out, the Yield curve steepens enough to help ailing bank profitability.

We are open minded that of course souring international relations could produce the trade wars that many in the US today are now fearful of, but equally we note that both China and Russia purport to warmly welcome 'President Trump'. Many in the US only see ulterior motives for such responses, but recently a group of Chinese businessmen said they wanted Trump as he was a businessman they thought they could deal with better than Clinton.

Central banking rights and wrongs

As for Central bank credibility: our hunch is that a 'cornered' Trump (looking like losing few weeks ago, lashing out at Yellen) is different to an 'in power' Trump. As per the well scripted acceptance speech he will be told of her importance to economic stability thus maybe even support her. In turn she will support fiscal spending as she and other central bankers have been encouraging it to stimulate growth anyhow. The idea to criticise global central bank policies of super low rates (as Trump has done) is not new and in truth none of us know how things would have turned out if rates had not been as low for as long. A significant fiscal stimulus, combined with tax and regulatory reform may stimulate the economy further in which case both Trump and Yellen will likely see the case for higher rates.

Brexit and Trump 'shocks' – Should we worry?

Much has been made of these combined shocks and how they are anti-establishment messages. Indeed they are. However we are not inclined to the alarmist view that others are keen to air. Whilst there is an anti-immigration angle to these votes that we find unpleasant, neither is a throwback to a Socialist agenda. Indeed it is important for investors to accept that they are in fact the opposite, being votes against regulatory burdens and unnecessary bureaucracy. We made this point in our post-Brexit piece and reiterate it today. As we observe above, were a truly anti-trade/protectionist agenda to develop that would not be good for the world economy, but the fact is that world trade has been poor in its recovery since the crisis anyhow. We note two points post Brexit/Trump:

1. That five months post the Brexit vote the UK Government is far, far, more obsessed about securing and promoting future global trading relationships. Immigration scare mongering has been far, far, less evident (as it is not a core policy). The same could well end up being the case for Trump – a simple protectionist message was needed to get certain people to vote for him, but it is unlikely to be a core policy.
2. Details of which way certain demographics voted in the US election have been shared in the press and there are many interesting insights. We will highlight just two: That those with postgraduate degrees voted 58:37 for Hillary. She also won 52:41 of votes of all those earning under $50,000 a year. Trump however won the majority of the votes of <u>all</u> income bands above $50,000. So the educated elite wanted Hillary, hence the institutional and press shock. However if we take out of the higher earners, those that have fancy degrees, the percentage of the self-made wealthy Americans that wanted Trump is a notable majority. For all of the press assumption that this is some xenophobic vote, the self-made wealth creators of the biggest economic success story in the last century wanted and got Donald Trump as their president. Why? Admiration for a self-made man, maybe, but we sense also a desire to free themselves from red tape and the rules that they and their companies feel trapped by.

These points combined do not suggest investors looking for economic prosperity and entrepreneurial lead companies should necessarily be worried about the businesses environment that will result.

Conclusion

A commentator close to the campaigns said the following yesterday *"those senior figures backing Trump took him seriously but not his campaign rhetoric, those dismissing him did the opposite"*. We are open-minded on the prospect of a lucky President Trump and the possible positive policy effect he (and an important Republican clean sweep) could have.

A US started global fiscal pump priming policy copied by a few other major economies might just tip the balance away from deflation to inflation. If this occurs and bonds yields, banks and employment recover as a result, then many will re-assess a deeply unpopular President at his outset to have made a lasting impact. Stranger things have happened.

Further reading

- We attach our recent piece on fiscal pump priming.
- Also here is the link to the Trump transition website which all will now be following closely. We note already the comments on Dodd-Frank *"The Financial Services Policy Implementation team will be working to dismantle the Dodd-Frank Act and replace it with new policies to encourage economic growth and job creation."* https://www.greatagain.gov/policy/financial-services.html

Lastly a very influential leader of the past (who we will guess many of you used to listen intently) gave his view on Bonds and inflation this Monday pre the election result. Post the outcome and the move up in Bond yields we think it worth listening to him with an open mind:
http://www.bloomberg.com/news/articles/2016-11-07/greenspan-sees-bond-yields-climbing-as-high-as-5-percent-again

With best wishes

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