QUARTERLY MARKET COMMENTARY

It has now been 8 weeks since Donald Trump was inaugurated as the 45th President of the United States of America. The US economy remains the largest in the world and, therefore, in this issue we will focus on some of the key events and policies that appear to be forming under his administration and what this could mean for the US and globally.

Donald Trump gave his first address to a joint session of Congress on 28 February. During a vitriolic campaign and a raucous start to his term, up until now, Trump had done little to reach beyond his base of deeply committed voters. However, beset by the lowest approval ratings of any new commander-in-chief of modern times, Trump made a palpable effort to court voters who did not support him with an offer to lay aside the battles of the past. In fact, many thought his address ticked all the boxes of a traditional State of the Union style appearance with an uplifting and unifying message.

The change in tone was evident from the first moments of his speech when he condemned the recent spate of threats against Jewish communities and the shooting of two Indian men in Kansas. He said "the violence was a reminder that while we may be a nation divided on policies, we are a country that stands united in condemning hate and evil in all its very ugly forms". Up until then, Trump had been heavily criticised for not publicly addressing such violence.

However, although his language was more lofty and unifying than normal, many felt that Trump gave little detail on the substance of his policies on issues ranging from trade, defence, immigration and counterterrorism. So let's have a look at what has happened.

It is probably reasonable to remind ourselves of where the US currently is economically. Since 2008, when the global financial crisis began and Barak Obama was inaugurated as the 44th President of the US, the US economy has grown by approximately 15% (inflation adjusted). Over the same period, approximately 8.7m jobs have been added to the US economy so that the US unemployment rate now stands at 4.7%. The US housing market continues to look strong and recent manufacturing data has continued to improve with the latest US Purchasing Manufacturing Index (PMI) reading coming in at 55, the highest reading in several years. So, all in all, the US economy is looking healthy.

It is interesting to note, however, that the consistently strongest sector for job growth since 2008 has been Healthcare. Trump's reticence to not back 'Obamacare' but actually to look at repealing and replacing it, could prove testing to the US job market. Indeed, Trump's claims and promises to create 25m jobs in the US is a heady one - especially as there is simply not the spare labour capacity (number of people) to fill those jobs. Maybe he will need to rethink his Mexican wall or latest immigration travel bans! Trump has not provided any meaningful detail about what will replace 'Obamacare' but has promised reforms that will "expand choice, increase access and lower costs". Whatever is instigated, it will be introduced at a time when the uninsured rate (the number of US citizens without health insurance) is at its lowest level in 7 years.

Trump's decision to remove the US from the Trans-Pacific Partnership (TPP), a trade agreement with leading Asian nations, perhaps signals his campaign rhetoric to protect the US and secure better trade agreements. Indeed, the US and EU failed in their latest discussions in January to reach agreement and conclusions to secure the Transatlantic Trade & Investment Partnership (TTIP), the alternative TPP for the EU.

Foreign policy has been much in focus with Mexico, Australia and the EU all being brusquely dealt with while Trump defended Putin and put Iran “on notice”. His decision to publicise his conversation with Taiwan angered many in Beijing so it is fair to say that Trump’s conduct has exacerbated global concerns about a President who campaigned on a populist platform deeply critical of the existing world and questioned the value of US alliances. However, this may be more of a political swagger to his voters than any meaningful change in direction of foreign policy. Indeed, Trump’s defence secretary, James Mattis, used his first trip to the Asian region to reassert conventional US security guarantees to Japan and South Korea.

It appears that the climate change policy is already facing a u-turn. Trump had previously taken to Twitter to state “the concept of global warming was created by and for the Chinese in order to make US manufacturing non-competitive”. On the campaign trail, Trump vowed to cancel the Paris Climate Agreement (PCA), which came into force in November, and stop funding for UN global warming programmes.

One of Trump’s largest policy pledges was to cut taxes for Americans. The Trump plan simplifies the tax code, combining 7 tax brackets into 3, whilst raising the threshold at which workers begin paying income tax. This is likely to benefit married couples and the wealthy, with the expected top rate of tax falling from 40% to around 33%. The reforms also include cutting corporation tax from 35% to 15%; a reform that, apparently, has already been passed to the IRS for review.

Trump is, of course, a real-estate man and wants a manufacturing renaissance in the US. This probably means low interest rates, cheap debt and a weaker US Dollar. His policies aimed at infrastructure and defence spending are likely to lead to a period of rising inflation but at no time in history when the US has increased their deficit by higher spending and lower taxes, has the US Dollar strengthened. One body in the US has calculated that approximately $7.2trillion would be added to the US deficit over the next 10 years under Trump’s plans. The theory on US Dollar weakness, however, may be tested shortly when the US Federal Reserve meet on 15 March and it is highly anticipated that a 0.25% interest rate rise will be seen.

Stockmarkets have been rather resilient to the news and indeed most developed stockmarket indices have recently hit new all-time highs. That said, despite the good gains made by most stockmarkets in recent months, significant political and economic headwinds prevail.

We have the UK looking to invoke Article 50 at the end of this month at the same time as ‘debt-ceiling’ discussions in the US. We also have potentially volatile elections in France (April & May) Holland (March) and Germany (September) this year, when further political uncertainty could be seen in the EU region.

As we have recently stated, Central Banks appear ready to intervene and provide stimulus if they feel it is necessary but the view is that monetary policy is tired and fiscal policy is now required by governments. Accordingly, the results of their action and the longer term impact of such action is becoming more difficult to comprehend. In our view, it is more important than ever for medium to long-term investors to maintain a diversified portfolio in order to benefit from market rises when they happen and to dilute volatility in the event stockmarkets fall. It is impossible to predict when markets will fall and rise but, in general terms, a sensible investment strategy involves riding out market volatility.

1 March 2017