

Trump-O-Rama

Writing and distributing weekly observations is a fascinating study in sociology. Our audience is highly educated and accomplished, mostly from the US, Canada and Western Europe. Though each recipient shares the same personal anxieties as everyone else in society, the professional hardship most of us have each day is how best to allocate accumulated wealth. It is, as they say, a high-end problem.

Nevertheless, our readers seem to be as politically diverse and opinionated as any sample pool of voters. Each mention of Donald Trump – framed positively or negatively (we have done both) – elicits a torrent of emotional comments. This got us thinking: how should investors think about the cult of personality surrounding Mr. Trump and what does it mean for commerce? Let the comments flow...

Donald Trump is an interesting character. We are unaware of any past US leader who was more interested in the appearance of greatness at the expense of executing policy.¹

Some would welcome his platform of lower marginal income tax rates, fiscal stimulus, and diminished regulatory oversight. His impolitic personality, however, threatens to single-handedly sink his own economic agenda. Others would welcome degrading America's obligation to maintain the US dollar's hegemonic status because it requires ever higher budget and trade deficits. Mr. Trump's budget-busting economic goals, however, could ironically render the issue moot by destroying the dollar's exchange rate. Still others have expected the Trump administration to maintain and build America's global trade and military influence around the world. Once again, his hard line re-negotiating tactics threaten to fracture the sound loyalty of allies. And finally, a large chunk of society would like the federal government to be a more active re-distributor of wealth. Mr. Trump's interest in re-distribution so far seems limited to re-directing admiration for others back towards himself.

To leave no room for doubt, we are not a fan of the man himself and we think his broad portfolio of social, economic and foreign policies is not thoughtful, comprehensive or practical enough to elicit confidence. Mr. Trump appears to lack any capacity for nuance and his lack of self-awareness seems epic. His skin seems a bit thin to be the leader of the free world and his diplomatic skills are clearly not up to baseline his job has traditionally required. As an impulsive, bitter and overcompensating tweeter, he has become a lightning rod for argument – not only in political circles but among the population at large. He likes to publicly challenge those who would criticize him (often, and in a petty way), which, either by design or consequence, serves to challenge all concerned to be either with him or against him. Mr. Trump does not seem to recognize or care that polarizing Americans and insulting foreign leaders does not ultimately serve his interests, which, as far as we can tell, begin and end with him. If we are wrong about this it would be

¹ Grant Williams asked us in an interview for Real Vision during the 2016 primary season whether we thought Donald Trump, if elected, would be a threat to the markets. We thought he would like the idea of being president more than actually upsetting anything. <https://www.realvision.com/channel/realvision/videos/56eaf632478a6fe866fdcc85>.

even more disturbing – being aware of his own foibles but too sociopathic to care. His decades-long pattern of public misogyny is disturbing on many levels, but sadly seems consistent with his larger personality. Perhaps most curious is how a seventy one year-old billionaire can still have such a gargantuan chip on his shoulder. It hints of recklessness and self-destructiveness. Our amateur psychoanalysis is that Mr. Trump is mentally unwell.

Our personal distaste for the man does not blind us to the legitimacy of his election or the legitimate rationales of those who voted for him. (We voted for president, but wrote-in a non-candidate.) Wealth and income gaps have been widening meaningfully. We suspect Mr. Trump's election success was made possible due to the loss of dignity among enough voters ready to blame government for their social and economic displacement. Populist anger has always been a vote getter, but Mr. Trump's own anger must have seemed most genuine and, of all the candidates, his public persona was definitely most amusing.

To be sure, his political instincts are absolutely sensational, fabulous (as he might say), carefully honed no doubt by appealing to a reality TV audience fascinated by watching a rich bully beat up on subordinates. These people demanded a voice in politics, and Donald Trump was the perfect person to provide it. As a candidate he was a walking counterfactual, standing for everything untried. He seemed to imply: "what if the staid institutions we have been relying on to better our lives – but haven't – lost their power!"

Now that he is president, Mr. Trump is successfully shining a harsh light on the inadequacies of the political system, continuing to make the point, as he did during the campaign, that government does not serve the people. Of course, he is now the captain of the ship of state and the irony seems lost on him. We are witnessing a political coup d'état, though not a revolution in the governing process. This is precisely what his peeps asked him to do, but it is counterproductive in terms of legislating a solution for them.

With all that said, it is important to recognize that his scorched earth rhetoric is a mile wide and an inch deep. Mr. Trump's policies, if enacted, might have some economic and financial impact, but only superficially and temporarily given the diminishing scale of US and global output vis-à-vis the greatly expanding scale of public and private sector balance sheets. While respected policy think tanks, such as the Heritage Foundation, may have influence over Trump's White House policy, the best-case fiscal, tax and regulatory outcomes derived from that influence are limited.

Mr. Trump offered soaring conservative rhetoric in Poland last week. "The fundamental question of our time is whether the West has the will to survive. Do we have the confidence in our values to defend them at any cost? Do we have enough respect for our citizens to protect our borders? Do we have the desire and the courage to preserve our civilization in the face of those who would subvert and destroy it?" He also took a stand against "the steady creep of government bureaucracy that drains the vitality and wealth of the people," and closed by citing the value of individual freedom and sovereignty. What does any of this really mean in practical terms? Very little. Such language makes his base feel warm and cared for, but it is as legislatively shallow as the progressive presidential rhetoric from the last administration.

A big difference between Donald Trump and past presidents is that his predecessors seemed to know (or care) about the difference between speeches and statecraft. Barack Obama, for example, did not alienate his opposition to the point of personal abhorrence. This allowed for personal discussions that led to the Affordable Care Act, which Mr. Obama wanted as his signature legacy. Mr. Trump's setback in revoking the ACA a couple weeks ago, despite Republicans holding both houses of congress, suggests he resides on a political desert island, which in turn threatens his entire economic agenda.

The Fed and the Bank for International Settlements (BIS) are together the global financial policy setter. They accommodate the best interests of G7 money center banks because the global financial architecture and its dollar-dominated flexible exchange rate monetary system are very supportive of the political dimension, which makes laws, invests in public works, regulates commerce and trade, protects the banking system, and ensures compliance under tacit threat of military intervention. This is not a secret conspiracy. The quid pro quo linking governments to lenders is legal, carefully crafted and transparent.

Still, the White House is not without influence over global markets. Mr. Trump seems to have signaled that Janet Yellen will not be re-appointed Fed Chairman, judging by recent Fed chatter to keep hiking rates despite stubbornly low inflation and to begin shrinking the Fed's balance sheet sooner than previously expected. Clearly, the Fed wants to set a proper table before the White House appoints a Chairman who would be friendlier to it. Meanwhile, it was announced last week that the ECB has begun discussions to step away from its pledge to step up the pace of asset purchases if necessary. Accordingly, global sovereign interest rates have been rising, but not enough to signal robust global output growth.

The political zeitgeist today is a case study in the difference between power and authority. Mr. Trump continues to rhetorically challenge authority, but as a politician without a crisis on the table he does not have the power to have a transformational impact on domestic or global spending and wealth. For all his bluster, economic incrementalism remains the order of the day (and his behavior is a barrier to even that).

To be sure, we share America's fascination with Donald Trump. We watch him the same way we watch a good horror movie: suspending our disbelief, knowing it will end badly but not the how and the when of it, peering through our fingers, unable to look away. There are no two ways about it – this particular US president is an amusing character and people cannot look away. (Is it us or has President Trump begun imitating Alec Baldwin imitating President Trump? The two have become indistinguishable to us.)

In our last Real Vision Interview (February 29, 2016), we suggested that Donald Trump was not making a mockery of the political system, but rather exposing the political system for the mockery it had become. We think his lasting legacy will not be his queer behavior, but that his presidency exposed ongoing White House economic influence as very narrow. The importance of a good politician to investors is limited to the broad confidence he or she can elicit following a crisis. At this, Mr. Trump may do fine...or not.

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