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G L O B A L

# ASK TYLER



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**Question: Now that we have the Brexit result, what would a Trump presidential win mean for financial markets?**



**Trump's Message to the World: You're Fired!** What do Brexit and the US elections have in common? Primarily, they pit angry populists against the political establishment. It should be very clear by now that anti-elitist movements are unwelcome by financial markets that are dominated by business elites. But developments here are yet another "unthinkable" in a growing list since 2008. Who knew Trump would make it so far? And what implications would a Trump presidency have on global markets? We see four big ones. First, and most clearly, Trump's policies will significantly reduce taxes and increase spending on military and infrastructure. Early estimates predict \$10 trillion in higher debt and deficits. Over the short term, this would boost corporate profits (given the current period of low corporate investment along with a current account deficit). Second, and offsetting the first, would be a likely damage to business confidence (surely the quickest way to short circuit growth). Here any number of Trump's policies (take your pick: torture, abrogation of trade treaties, censorship, a tariff war with China, etc.) could create a confusing business environment and slow a still-fragile US economy. Thirdly, especially compared to the more predictable Hillary Clinton, market volatility would soar as markets adjust to new political realities (and erratic policy). Finally, and perhaps most importantly, Mr. Trump's nationalism is highly dangerous. Trump not only advocates America re-treating behind a wall, he also threatens to shelve

trade agreements like the Trans-Pacific Partnership. In a globalized world defined by a move toward closer interconnectedness, the "biggest loser" would undoubtedly be the US. Consider China's longer running ambitions to establish Beijing at the center of a new Asian imperial domain. A Trump presidency would allow China to send a message to every Asian country: do you want to be with us, or with the United States who is openly against you? No doubt, President Xi Jinping is rooting for a Trump win in November.

## INVESTMENT IMPLICATIONS

In general, presidential cycles are very weak actionable trends (and have been overstated in terms of their predictive ability for market returns). Additionally, the US political system is designed in such a way that the President (especially with no congressional support) can't exert too much power at any given time. Still, the Trump presidency would be a different regime and a significant macro risk factor (just as the rise of nationalism and protectionism in the 1930s proved to be more destructive than the immediate effects of the 1929 stock market crash). If Trump wins, expect a weakening US dollar, along with broad World ex-US outperformance. Asia, in particular, stands to benefit most as intra-regional trade would increase and boost corporate profits.