



**The post Trump rally has well and truly run out of steam. Market euphoria post-election at the prospect of a tax-cutting and business friendly republican President has turned sour of late, as fears develop that he will be unable to push his major election promises through Congress. Why has this reared its head now? Healthcare.**

It's all very well signing 'executive orders', holding them up to the news-hungry press and then tweeting about them but in reality, there has been little of substance that has passed muster thus far. Even those orders aren't necessarily acted upon, as with his failed attempt to blanket ban travellers from seven Muslim countries.

Trump's ability or otherwise to pass his major policies early may well define this presidential term as a success or a failure. Market moves of late suggest that investors are starting to doubt his earlier promise that "We will have so much winning if I get elected that you may get bored with winning".

This month we determine whether the new president is likely to either get bored of winning or have to get used to overpromising and underdelivering on some of his most important election promises.

*Executive orders aplenty, but Trump is struggling to pass more important policy through Congress*



Why did the markets fall in mid-to-late March after a period of such robust growth? Friday 24<sup>th</sup> March saw the first real test of Trump's support within his own party as he attempted to pass the Congressional vote to reform US healthcare. The bill, which proposed scrapping most of the core pillars of Obamacare, would have totally changed the future path of healthcare provision in the US and this was one of his major election campaign promises. Yet of far more importance for the markets, this bill was a key test of Trump's powers to persuade the Republican majority to vote for him on this issue and to set the tone for other major policy reform votes in the years to come.

The proposed bill didn't even make it to a vote, being withdrawn at the last minute because of a lack of support from within Trump's own party. It didn't help that the proposals would have disproportionately affected low-income individuals and those in poor health or that the number of uninsured Americans would have increased from 16 to 25 million. Investors reacted badly to the news that Trump didn't have the support that he needed, seeing it as a sign that future policy, including major economic reforms, could also struggle to gain popular support.

USD dollar and S&P both tumble after Trump's Healthcare bill fails



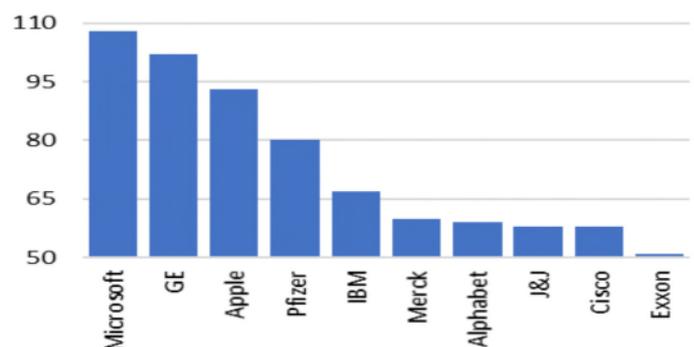
So, what are the other major policy proposals in Trump's kit-bag and could these suffer the same fate as healthcare? We focus firstly on the two main economic proposals - taxation and trade (for which read 'protectionism') - as these will have the biggest impact on market returns and will directly affect US businesses as soon as implemented.

**Taxation**

This is the big one. Trump has pledged to cut tax across the board to further boost growth prospects for the US economy. His vision is to cut corporation tax to 15% for all companies, although it is perhaps more likely that 20% will be the accepted compromise. This is a big step down from the current top-rate of corporation tax currently in the US (35%). In addition, one of his headline-grabbing tax proposals is to offer companies harbouring profits overseas a one-off 'repatriation' tax rate of 10%. This is a smart move because the likes of Apple and Google are currently sitting on a collective \$1-2trn of overseas profits and are reluctant to send these profits home due to penal tax rates in the US. \$2-400bn of additional tax revenue would give Trump more budget flexibility and a war chest with which to make his other spending proposals on areas such as defence more palatable to Congress.

*Cash galore. US multinational companies hoard profits overseas to avoid penal US tax rates*

**Foreign cash (\$)**



Nothing concrete has been put before Congress yet but expect a very favourable market reaction if some or all of these reforms are passed.



## Protectionism/trade

What he giveth with one hand, President Trump taketh away with the other. Protectionism is seen by most professional investors as the biggest risk to US economic growth. He wants to bring US jobs home by penalising US domiciled multinational companies for manufacturing abroad. He also wants to consider imposing import tariffs on goods from the likes of Mexico and China. It is hoped that this will encourage US based companies to 'hire local' and relocate their manufacturing bases to the US, thereby enhancing growth in the US domestic economy. In theory, boosting manufacturing at home and creating jobs in the process sounds attractive. However, it could be very damaging for the US economy in the longer-term. This is partly because the US jobless rate is near a 44-year low now (at 4.7%) and the labour market is therefore very 'tight'. Whilst creating more jobs is a good thing, you still must find people who can take up those jobs and a significant proportion of those out of work in the US are 'structurally' unemployed anyway (a function of an ageing demographic and the retiring baby-boomer generation). A shrinking pool of workers could therefore lead to wage increases, which in turn feeds inflation and boosts corporate costs.

There is a reason why companies decide to manufacture their products outside of the US and it isn't simply a matter of preferential tax-rates abroad (although to be fair this is a factor). In January, Ford announced the cancellation of plans to open a \$1.6bn car plant in Mexico, opting instead to spend \$700 million on expanding its Michigan operation and creating 700 US jobs in the process. If Ford's cars were cheaper to make in Mexico before Trump was elected, they still were post-election. Trump's victory effectively forced a major US firm to make itself uncompetitive.

This is a worrying precedent because whilst it will spur growth in the US economy in the short-term, in the long-term companies will have their cost bases forced upwards as a result (higher wages and higher domestic raw material costs). This could render them uncompetitive compared with foreign rivals and push consumer prices higher at home, a bad combination that could stifle growth, particularly if interest rate rises are accelerated to curb inflation.

On balance, we believe that protectionism is a bigger risk than tax cuts are a benefit. Tax cuts are a quick fix which take money out of the government's coffers and spur domestic growth in the short-term. Protectionism puts money back into the coffers in the short-term but risks stifling longer-term structural growth. More detail is needed but both tax-cuts and changes to trade agreements will probably be attractive to Congress as they are easy vote winners and 'fix' a short-term problem.

These are the main economic policy tools available but what about other policy proposals put forward by Mr Trump? Most of these are highly contentious and emotive, from aggressive immigration controls to conservative supreme court appointments and climate change budget cuts. Some of these can be forced through by executive order but he will still face an uphill battle to garner support for some of these contentious policies.

## The wall

Whilst Trump has already signed an executive order to build the Mexican wall, he still needs Congressional approval to fund this and the other projects in his proposed trillion-dollar infrastructure package.

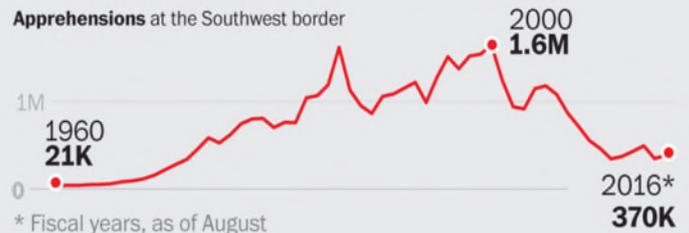
*"America has spent approximately \$6 trillion in the Middle East, all this while our infrastructure at home is crumbling. With this \$6 trillion we could have rebuilt our country - twice. And maybe even three times if we had people who had the ability to negotiate"* – Donald J Trump

The recent appointment of Trump's son-in-law, Jared Kushner, to the new office of American Innovation, which will shape a large proportion of the infrastructure project, is unlikely to ease tensions within the Republican party. It may be, however, that Trump has more success with this policy as there appears to be bipartisan agreement on the need to upgrade the US's ageing infrastructure, with the Democrat Candidate Bernie Sanders also campaigning on a similar pledge.

Other immigration proposals such as cutting grants for sanctuary cities (400 liberal cities offering to protect undocumented migrants) and banning travellers from seven Muslim nations can theoretically be approved via executive order but such policies are causing problems for President Trump in practice. His controversial travel ban grabbed headlines and yet it was quickly overruled by various states' judiciaries and he has subsequently watered down some of his other immigration proposals due to lack of support.

Illegal immigration flows across the Southern border are at **the lowest levels** since the '70s.

Apprehensions at the Southwest border



\* Fiscal years, as of August

Source: United States Border Patrol

This suggests that whilst he is trying to make good on policies that will win him political capital with his key supporters, they could prove expensive and in some cases ineffectual. Last year, illegal immigration from Mexico fell to levels not seen since 1972.

Trump must consider that if he bullies his way through some of his lesser proposals then this will probably harm his chances of garnering party support for his major policy proposals. He should choose his battles wisely.

## Supreme Court

The most significant consequence of this Trump presidency could be his presidential authority to propose the appointment of Supreme Court judges. Staunch conservative Neil Gorsuch is the first of what could be three or four possible replacements over the next eight years and since the Supreme Court is a job for life, liberal Americans fear that Trump could tilt the highest court in the US far more towards a conservative power base for many years to come. At the time of writing, Congressional approval is still required for this appointment and the likelihood is that the President will get his way, although it will probably have to go to the senate for final approval because the Democrats will have sufficient votes to block the nomination. It is his stance on contentious issues like the Supreme Court that may well weaken his hand when it comes to



fostering cross-party support for his major economic policy changes, when these are eventually put before Congress.

### Climate change

Trump once said that climate change is a nonsense, a myth propagated by China and a scam that has been designed to make a few people very rich. He once promised to cancel the Paris agreement on climate change, even though he has no power to do so. Yet in May 2016, according to Newsweek one of his golf clubs in Ireland sought planning approval to build a sea-wall to guard against the dangers of a rise in sea levels, presumably as a result of global warming. He has also subsequently denied his 'hoax' allegations and says he remains open-minded about the Paris agreement.

The truth is that he has cleared the way for the stalled oil pipeline projects Keystone XL and Dakota Access and lifted a moratorium on federal coal leases to re-instate a pre-election pledge to bring coal jobs back to the US. With the latter, he is supporting a failing

industry to keep a vote winning election promise but this could be a costly sideshow that again loses him political capital for his more important Congressional led deals.

### Summary

Trump should be careful not to become side-tracked by trying to push through unpalatable legislative changes that are incredibly emotive, such as drastic alterations to policy on climate change and immigration. If he does become side-tracked, then he risks losing internal support for some of his most important economic policy proposals. The assumed success of these proposals has mainly been priced into equity markets and we believe that the most important stage of his presidency is therefore around the corner. After all the noise that has been generated by him thus far, the real test will be whether Trump can gain enough credibility in the Republican party to push through these plans for US economic growth that were so instrumental in helping him win the White House. Investors should tread cautiously in the US markets until President Trump becomes bored of all the winning.