

TRUMP ERA INVESTING

Special Research

Goals

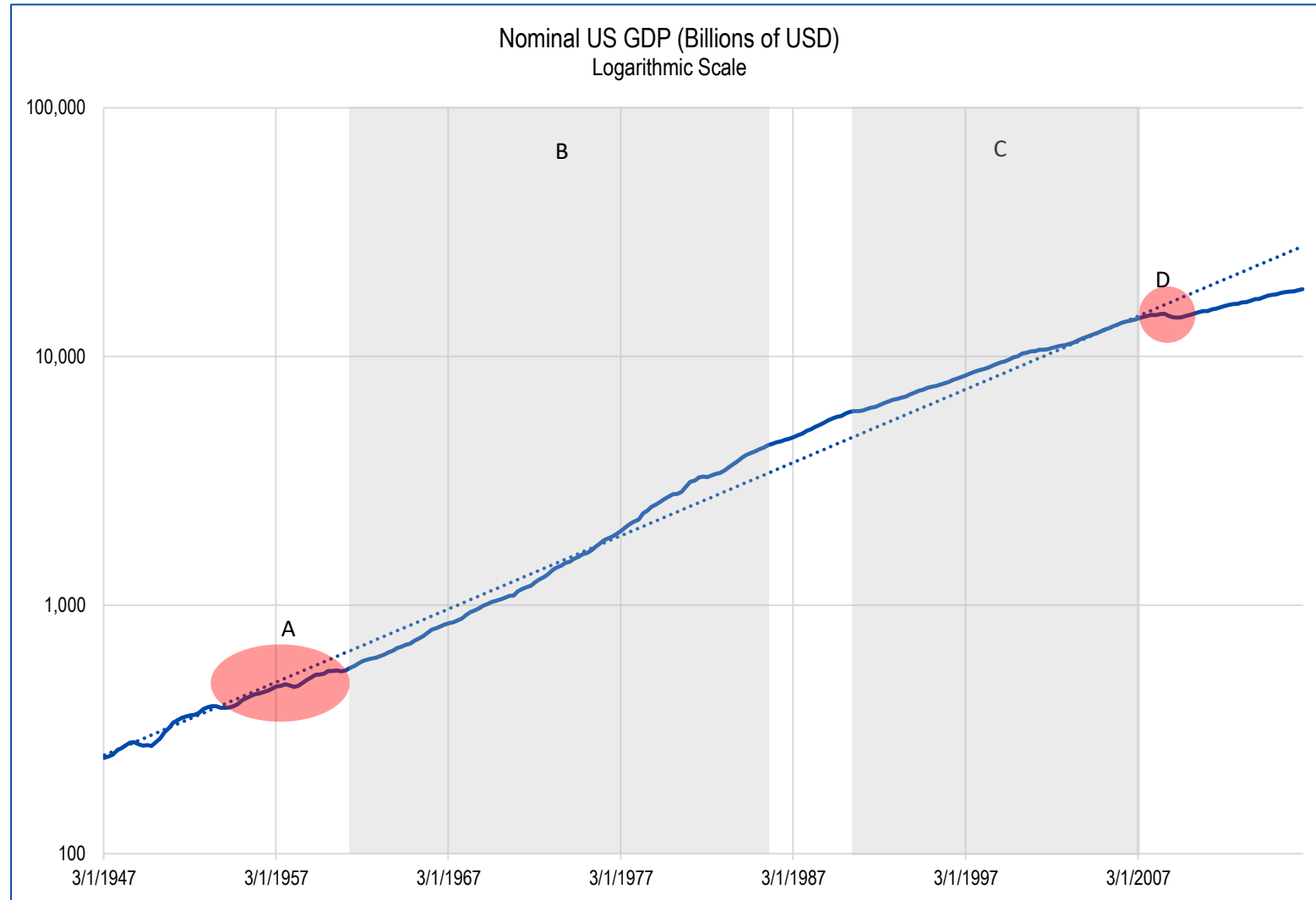
- Understand the economic backdrop of populism in the US
- Analyze the likely effects of President-elect Trump's announced policy proposals
- Assess President Trump's likely executive efficacy and possible outcomes stemming from that

Populism

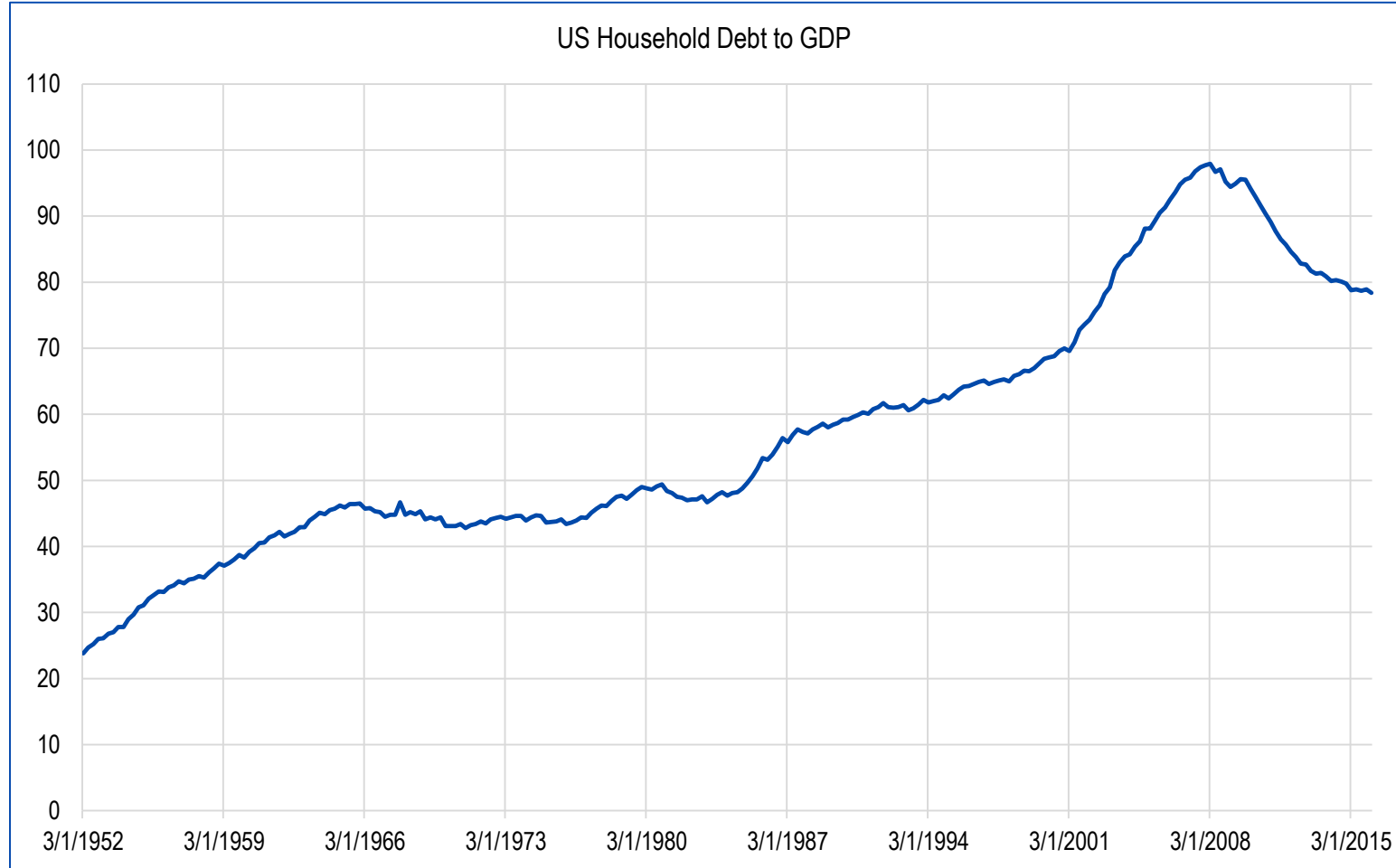
Goals

Understand the economic factors contributing to populist movement
Assess the extent to which these factors affected the election

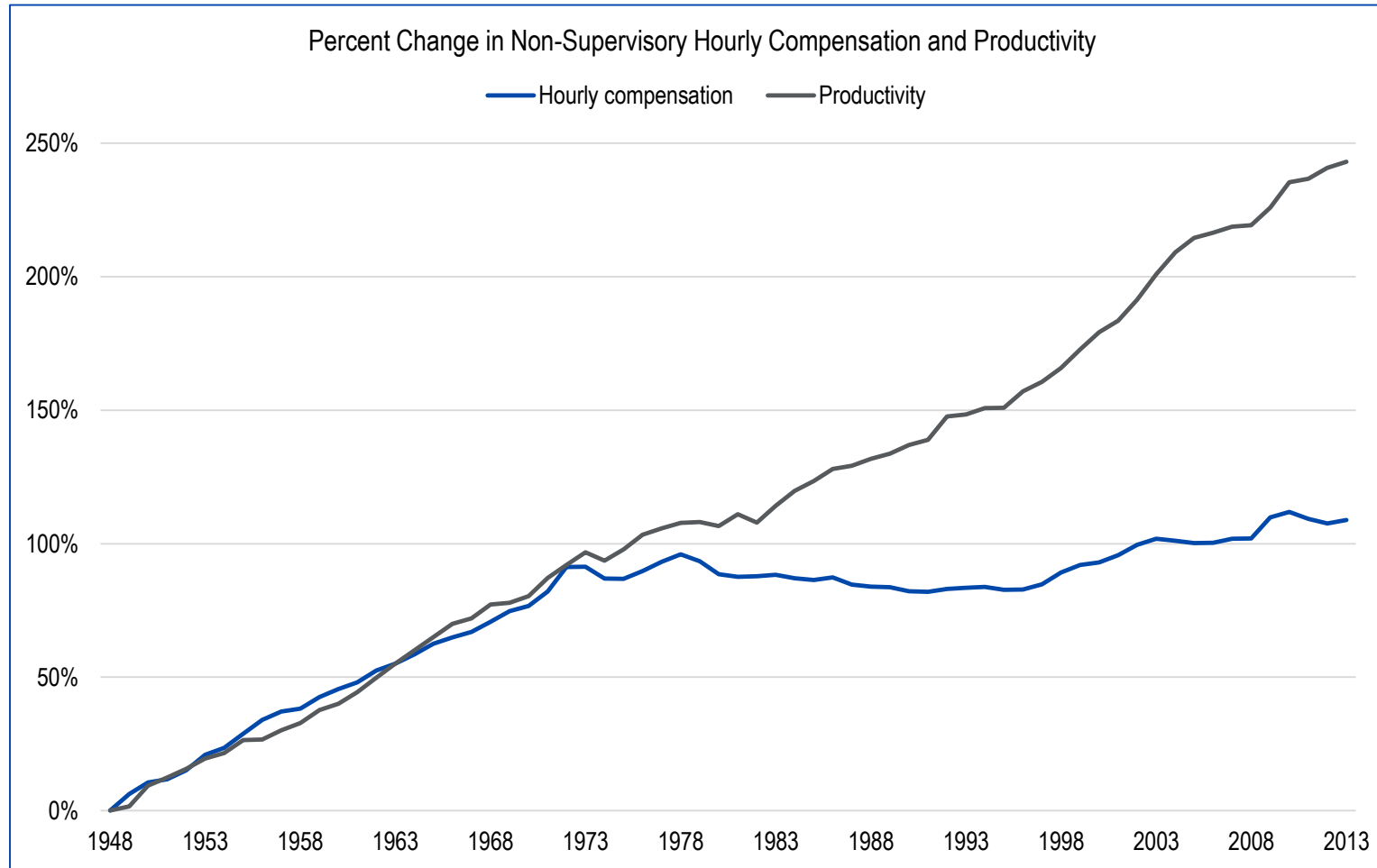
Stagnant Economic Growth



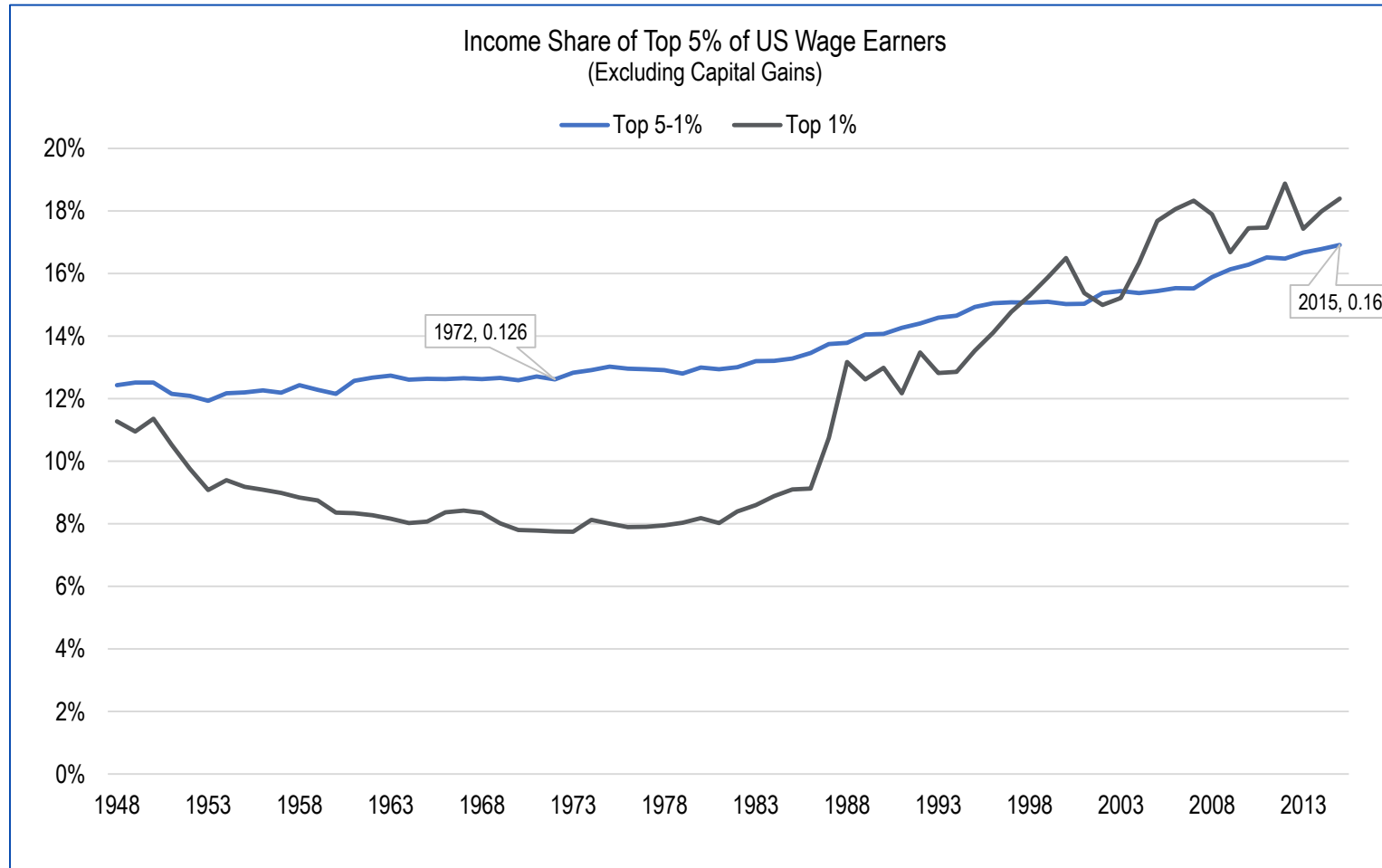
Increased Leverage



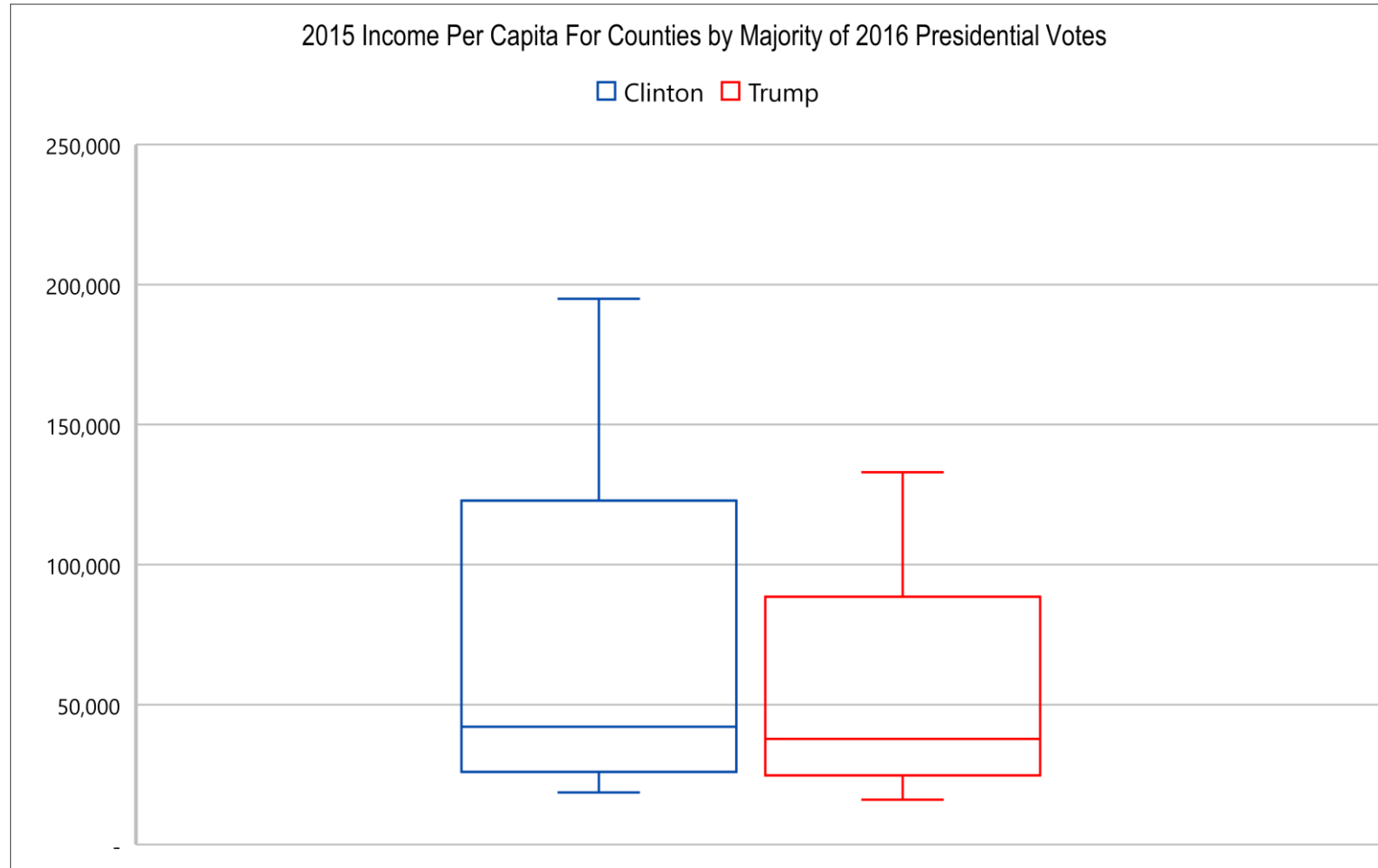
Stagnant Wages



Increasing Inequality



Haves versus Have-Nots



Populism Conclusions

Understand the economic factors contributing to populist movement

- GDP weakness is likely a structural issue – leverage and demographics
- Weak income growth among non-supervisory workers and strong income growth among top strata is obvious and likely creates friction
- Trump's proposals are all designed to boost GDP and to remedy lack of income growth among non-supervisory workers

Assess the extent to which these factors affected the election

- Correlation does not equal causation, but there is strong circumstantial evidence that economic issues had a measurable effect on the election

Policies

Goals

Analyze Infrastructure Proposal

- Timing, Political Opposition, Structure

Analyze Tax Cut Proposal

- Supply-Side Economics, Short- and Long-Term Effects

Analyze International Trade Proposal

- Flying Goose Theory, State of US Manufacturing

Infrastructure Spending



Necessary?



Infrastructure Proposal

\$1 Trillion: Highways, Ports, Airports

Very similar to proposal made by Obama administration

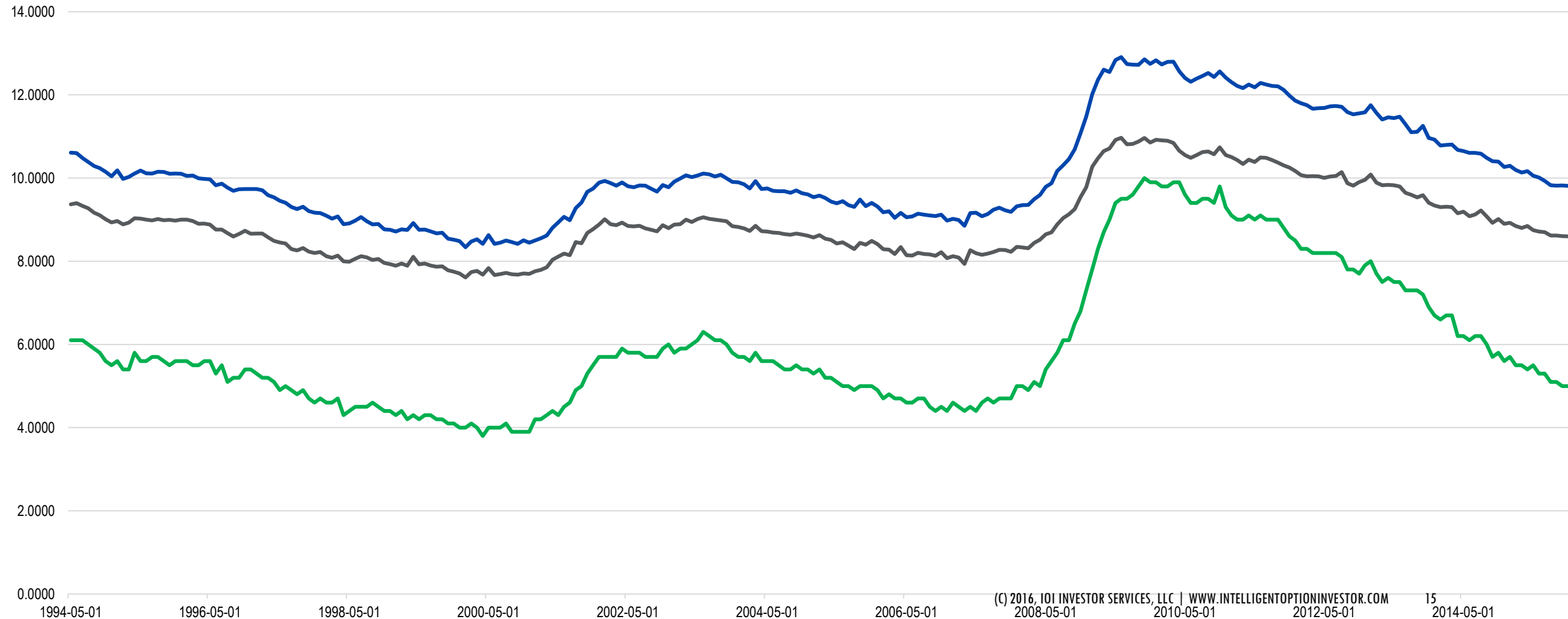
Paid for using taxes from overseas profit repatriation

Public-private partnerships and infrastructure bank

Timing

Unemployment and “Shadow” Unemployment

- Hornstein-Kudlyak-Lange Non-Employment Index, Percent, Monthly, Seasonally Adjusted
- Civilian Unemployment Rate, Percent, Monthly, Seasonally Adjusted
- Hornstein-Kudlyak-Lange Non-Employment Index including People Working Part-Time for Economic Reasons, Percent, Monthly, Seasonally Adjusted



Structure

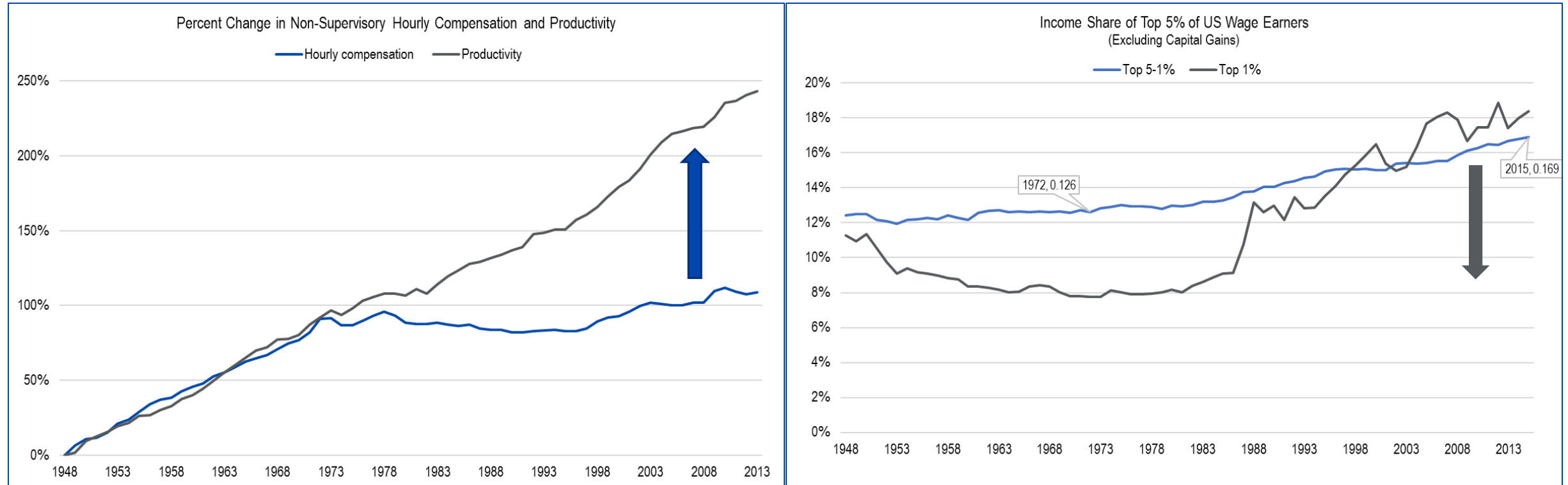
Attempting to fund the infrastructure spending while implementing a tax cut.

Use of tax breaks, government debt guarantees, and an infrastructure bank

Possible Problems

- Tax cuts given to companies for projects already underway?
- Inequality and campaign promises

Structure



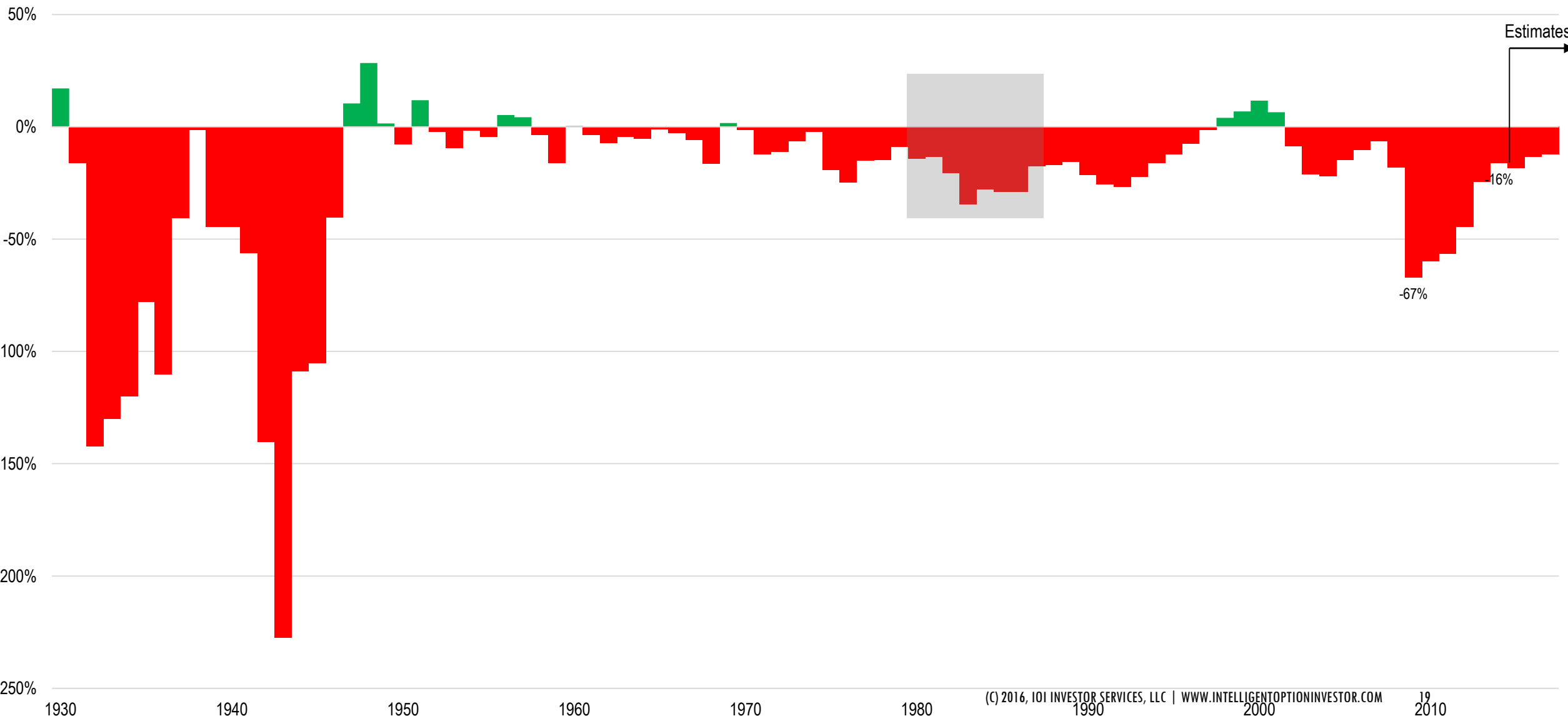
Political Opposition?



Tax Plan



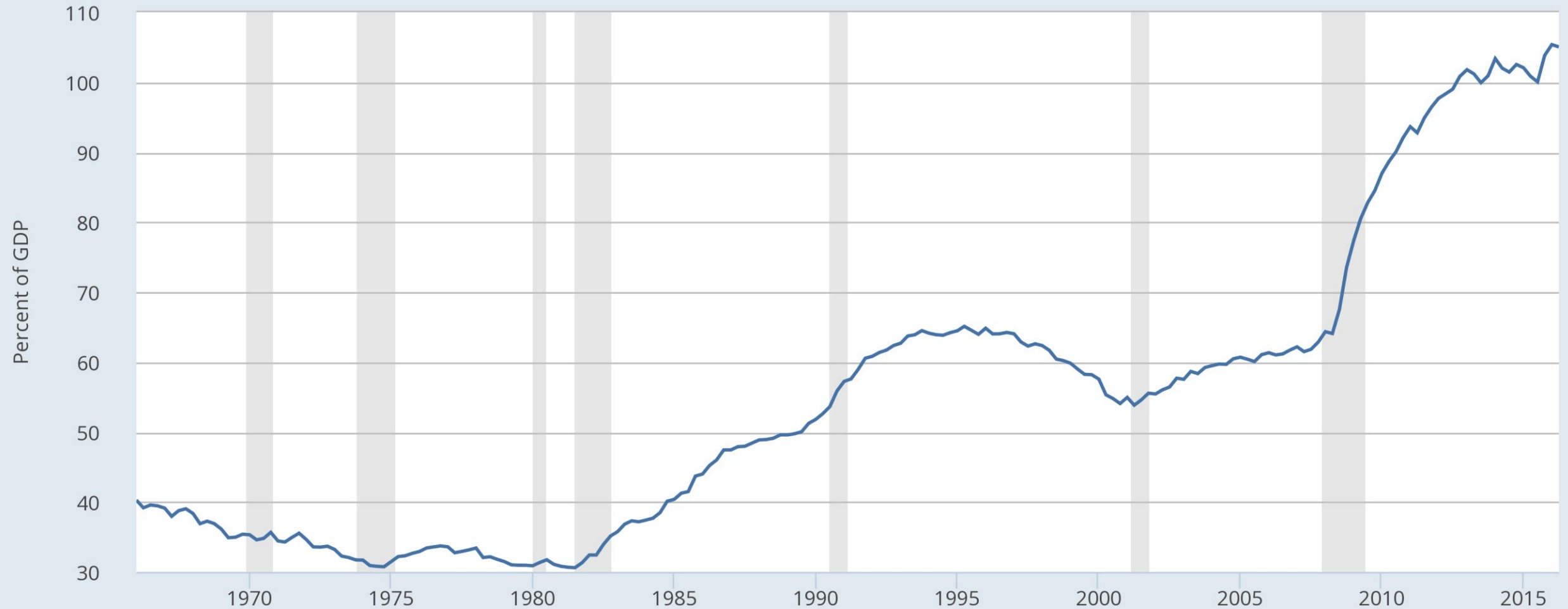
Surplus/(Deficit) as Percent of Receipts



Tax Plan

FRED 

— Federal Debt: Total Public Debt as Percent of Gross Domestic Product



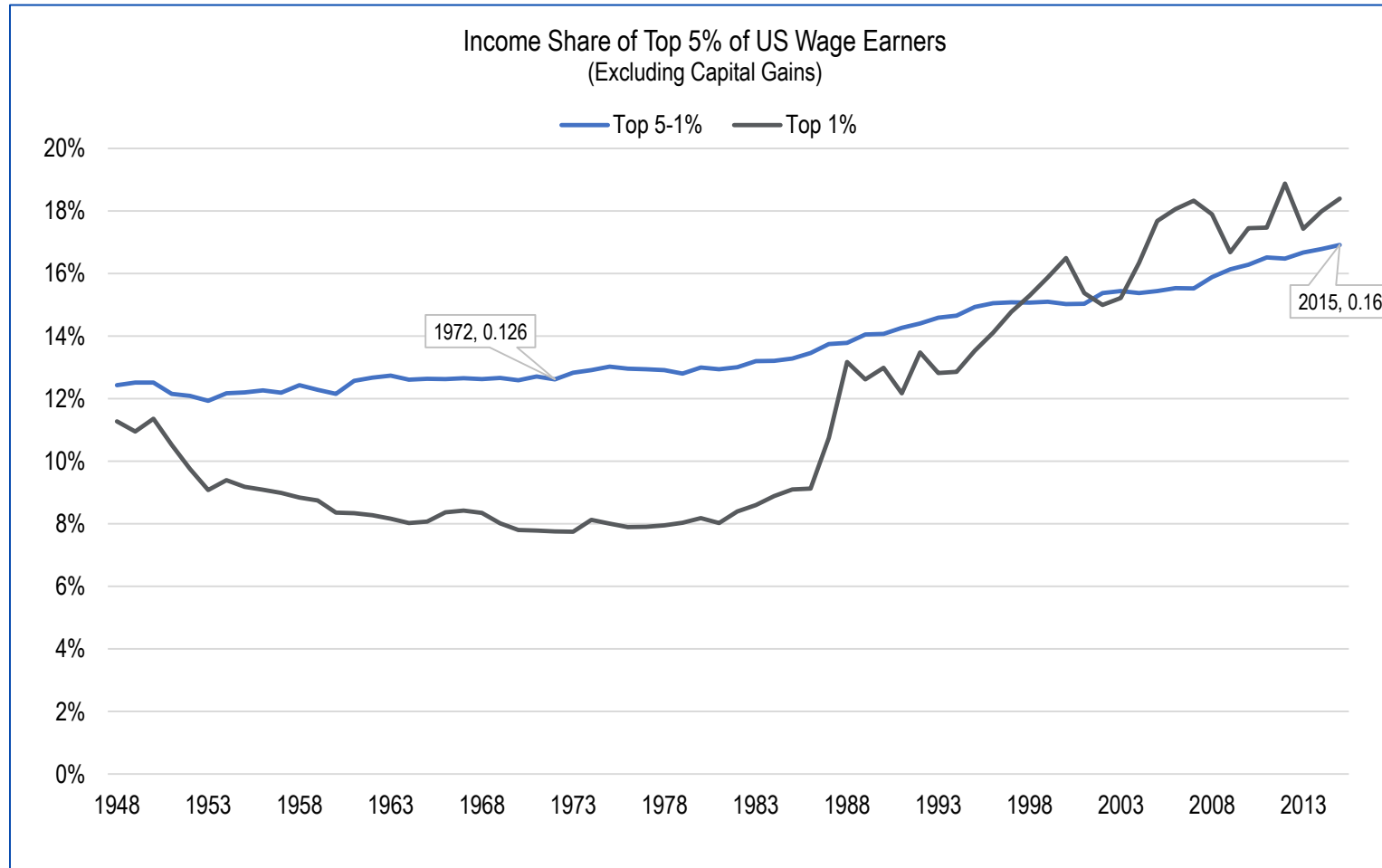
Supply-Side Economics

Premise is that reducing taxes prompts an explosion of economic growth, so “tax cuts pay for themselves”

Possible Problems

- No academic evidence this effect occurs in practice
- Inequality and campaign promises

Increasing Inequality

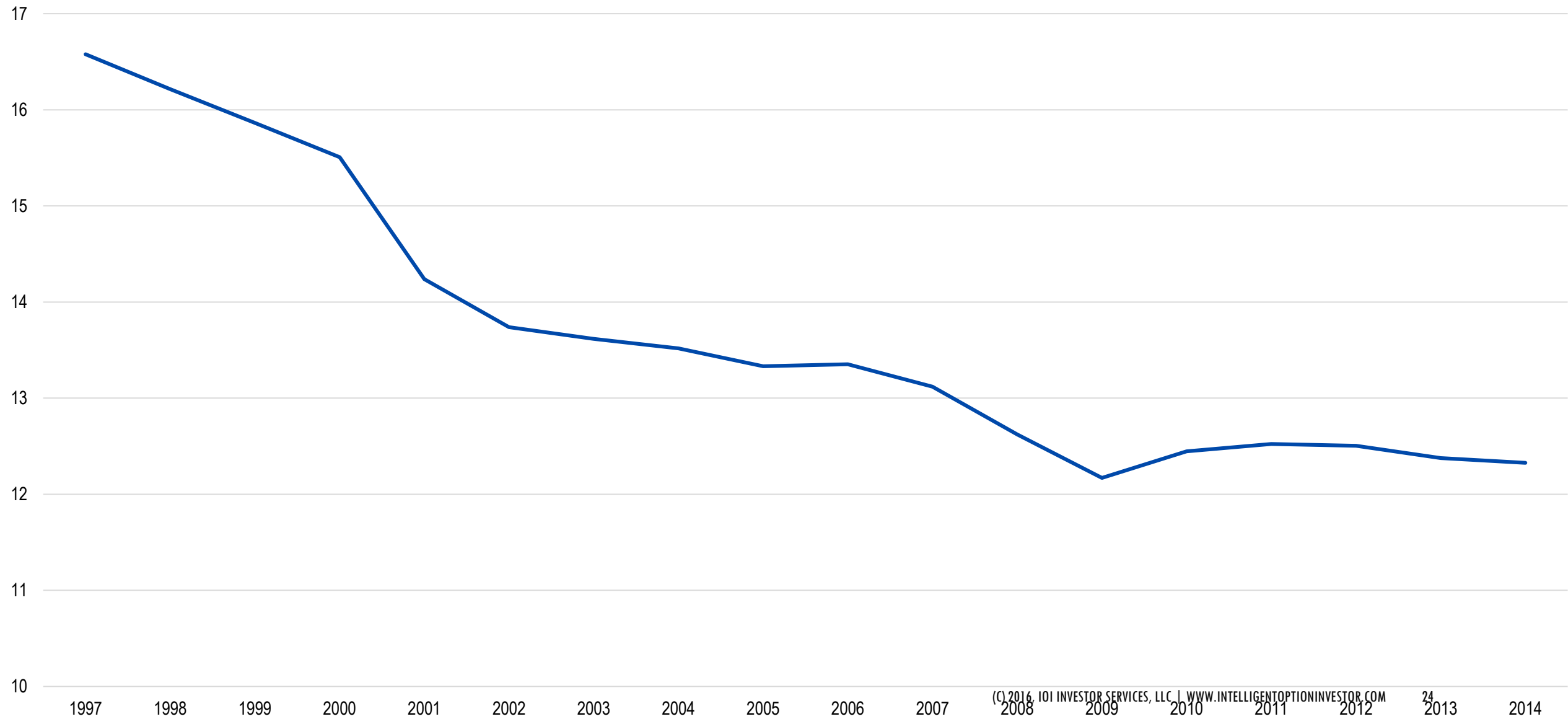




INTERNATIONAL TRADE

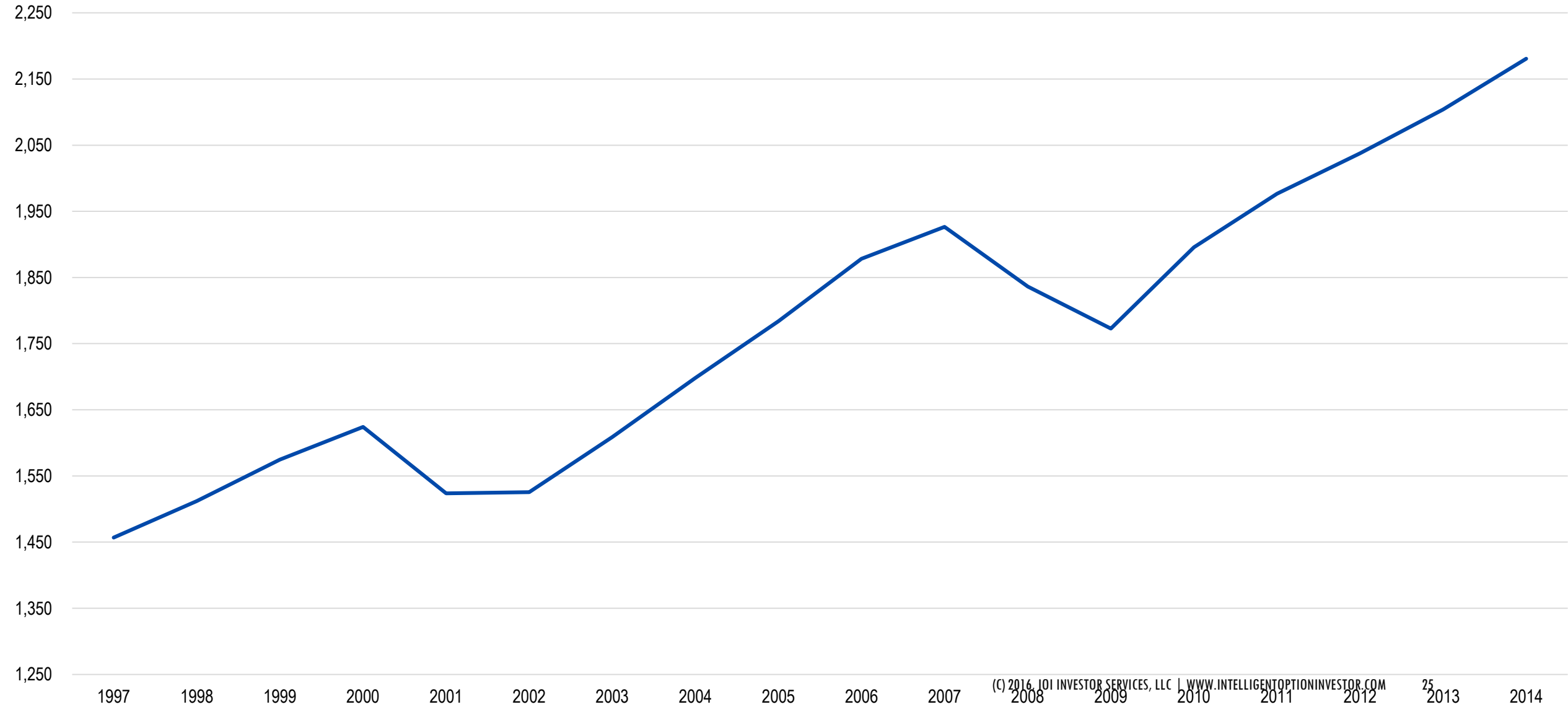
US Manufacturing

Manufacturing as a Percent of US GDP



US Manufacturing

US Manufacturing Dollar Value
(Billions of USD)



US Manufacturing



Manufacturing has changed in the US. Automation and higher value-added goods mean a return to the 1950s is impossible



Proposal	Effects on GDP	Effects on Wages	Company Valuations	Notes
Infrastructure Stimulus	Short-Term Neutral or slightly positive, depending on degree to which new infrastructure projects can be found, funded, and started.	Short-Term Potentially positive on a nominal basis, but negative if wage inflation heats up faster than productivity.	Short-Term Banking sector likely to be largest beneficiary if inflationary expectations contribute to rise in rates.	Some infrastructure projects are more attractive to private investors than others. A new toll road is relatively easy to monetize; a modernized sewage system is not. Reliance on public-private partnerships is likely to exacerbate differences in infrastructure quality between affluent and poor neighborhoods.
	Long-Term Large deficits could be offset by strong, durable growth in GDP, but the chance for this Goldilocks scenario is low.	Long-Term Infrastructure needs are highest in developed areas, so increased spending will likely bring less benefits to rural Trump voters.	Long-Term If deficits are high, long-term growth will be lower, depressing the value of companies overall.	
International Trade	Short-Term Negative if disrupted trade relations bring about goods shortages, higher prices, or weakened competitiveness of US exports.	Short-Term Neutral or negative, depending on inflationary trends. We doubt real wages will rise.	Short-Term Increased trade frictions will be negative for virtually all firms. Domestic firms negatively affected from the drop in general economic activity.	Globalization is a genie that can't be stuffed back into the bottle. Labor is a global commodity, so imposing controls on goods to boost domestic wage rates will simply force firms to find a more efficient way to manufacture products.
	Long-Term Negative if US firms are less able to compete in global marketplace.	Long-Term Onshoring low value-added manufacturing is likely to speed the shift to automation and would probably exacerbate income inequality.	Long-Term Negative if US firms are less able to compete in global marketplace.	

Proposal	Effects on GDP	Effects on Wages	Company Valuations	Notes
Taxation	Short-Term May get a short-term boost if consumers believe tax cuts are permanent and decide to spend windfall.	Short-Term Consumers are likely to feel as though their wages are going up when tax cuts are initially implemented.	Short-Term Positive for all companies, especially smaller capitalization ones.	To us, the Trump proposal sounds like a warmed-up version of supply-side economics – a policy that has been shown to have negative or neutral outcomes.
	Long-Term Deficits will likely damage future growth.	Long-Term Structure of tax cuts will likely increase income inequality since benefits are proportionally greater for wealthier tax payers.	Long-Term Positive for all companies as long as tax receipts allow the government to provide necessary services.	
Energy	Short-Term No effect.	Short-Term No effect.	Short-Term Clean energy stock prices may be hurt by negative perceptions and loss of subsidies.	Commodity markets, not the government, will be the final arbiter of what energy gets produced and by what means.
	Long-Term No effect.	Long-Term No effect.	Long-Term If government regulations actively discriminate against clean energy R&D, long-term competitiveness of US clean energy firms will be hurt.	
Defense	Short-Term Slightly positive.	Short-Term Neutral	Short-Term Provides tailwind to aerospace / defense firms.	Trump's isolationist tendencies do not mesh with high military spending, but this kind of "welfare" is easy for politicians to vote for.
	Long-Term Only positive if military allows for increased global stability that US firms can take advantage of with int'l trade.	Long-Term Corporate welfare for defense firms will likely benefit the wealthy and exacerbate income inequality.	Long-Term Positive for aerospace / defense firms.	

Policy Conclusions

Infrastructure Proposal

- Timing is off, political opposition may arise, structure may create income inequality

Tax Cut Proposal

- Supply-Side Economics not shown to work, long-term effects are bad due to present fiscal circumstance

International Trade Proposal

- It's as if we are a goose heading north for winter

Overall

- Watch inflation, strong dollar effects. CAT, UNP (bearish), regional banks (bullish?), Bakken oil producers (bullish?)

Executive Efficacy

Agenda



Executive Efficacy Wildcards

Executive Efficacy



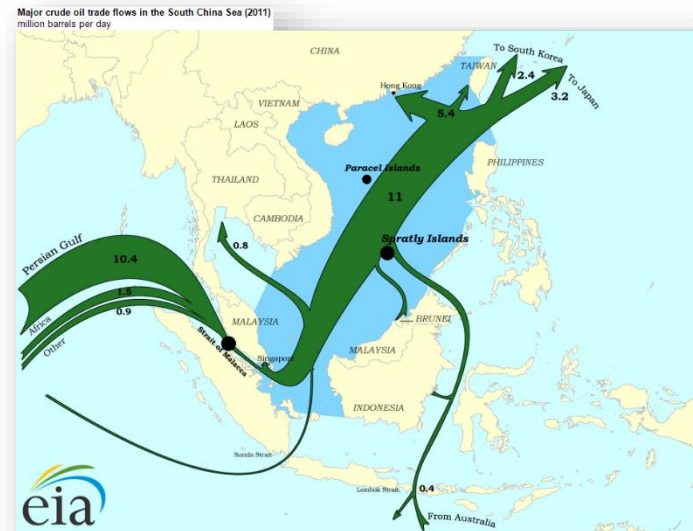
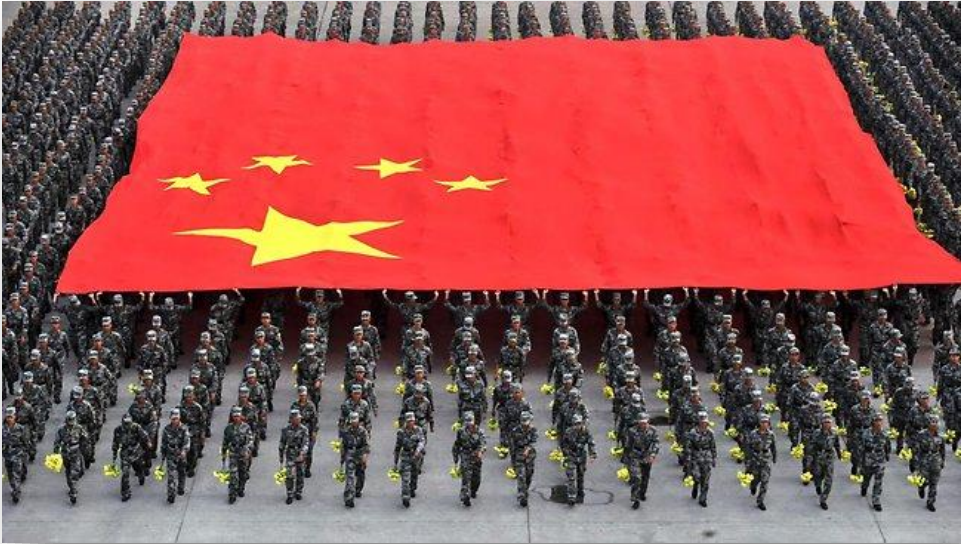
Articulate Vision

Craft Strategy

Create Consensus within GOP and opposition

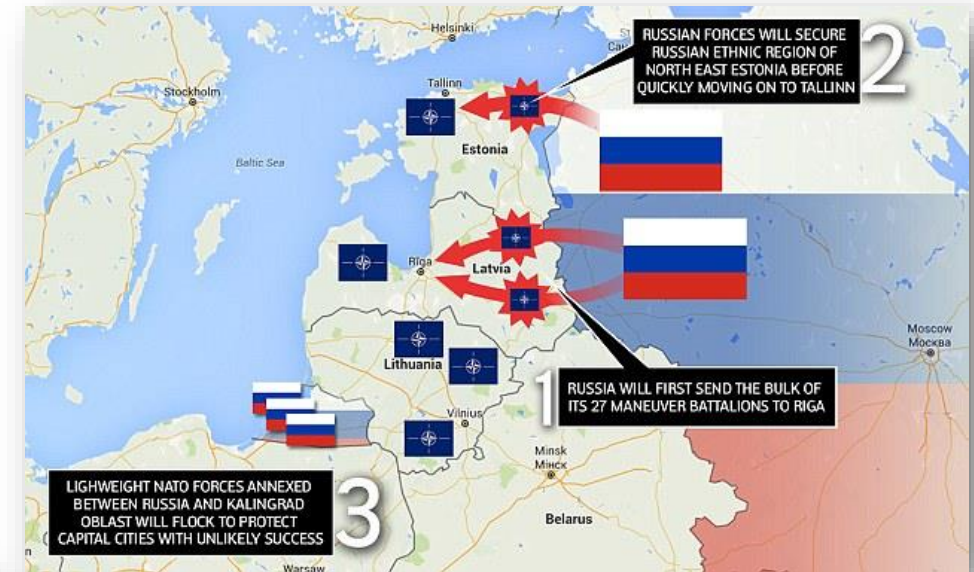
Engineer Popular Support

Wildcards



China can exert influence and military power over an important international trade route. Potential to control oil shipments to Taiwan, Japan and Korea is a big strategic advantage. Also, man-made atolls can't be sunk as easily as a ship. Spratly and Paracel serve as Chinese Aircraft Carriers. Expect China to lean in if Trump tries to throw his weight around.

Wildcards



Gene Thorp/The Washington Post

The Russian economy is in shambles and a foreign military adventure would put his voters' minds off of those problems. Putin already understands possible consequences after his invasion of Crimea. With NATO weakening and political resolve in Europe and the US to oppose Russia crumbling, Putin may press claims in Baltic States.

Wildcards



Proxy wars behind long-time regional rivals (S.A. – left, Iran – right) and their “military proxies” (Salafist terrorists & Hezbollah, respectively) are supported by US and Russian governments. Yemen and Syria are just two of the sad examples of the result of this dynamic. There may be additional stress related to Iran, S.A., and Turkey – the former imperial overlord of much of the Middle East.



Wildcards

Plenty of “Soft Targets” Worldwide



Will the US Military have to protect
Trump properties overseas?



Executive Efficacy Conclusions

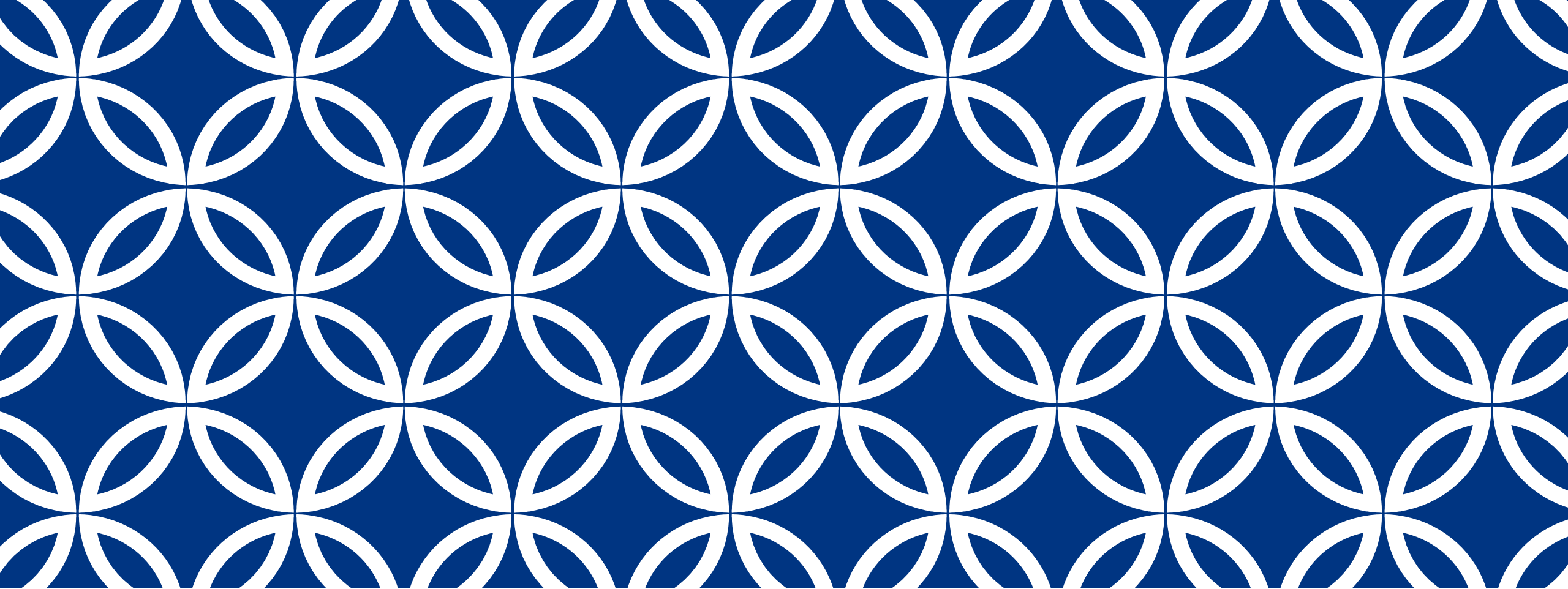


Executive Efficacy

- Strategy seems strangely anachronistic, but tactical abilities good. Poor popularity and threat of civil strife.

Wildcards

- The world has a host of complex problems in which a straightforward winner or loser is hard to see.



Q & A

Trump-Era Investing