

## The Trump spectre looms large

by Grégoire Sharma, CFA

The political news headlines have been rife with Republican primary drama. If it wasn't for former president Trump's chaotic and controversial presidential term that ended with the denial of the following election's results, accusations of insurrection, and a legacy that has further polarized a country and tarnished its image globally, these headlines would make for very entertaining reading! However, the prospects of a new Trump presidency are all too real and as the spectre of his re-election looms large so does the need to assess the impacts on markets and the geopolitical status quo.

The outcome of the first two contests of the Republican nomination race has shown last week that we might very well see a repeat of the previous election opposing an unpopular Joe Biden against the controversial Donald Trump. As we cast our eyes to the next primaries it is remarkable to see that despite having been indicted on four occasions, having been impeached twice, and countless lawsuits, Trump has led his Republican peers in polls (he leads in five of the six key swing-states which are critical to the fate of the election later this year) and has done so by a wide margin. Ron De Santis, once hailed as Trump 2.0. announced last week (at the time of writing) he was ending his presidential campaign to support Trump (contradicting his now ill-fated political slogan "never back down"). Meanwhile Nikki Hailey, the only real republican candidate left to challenge Trump trails in the polls by double digits.

Currently, markets remain focused on short-term economic data and are betting the US Federal Reserve (Fed) will be on track to bring inflation down close to target and begin cutting rates, effectively engineering a soft landing. This outcome is all but certain with inflation persisting above the Fed's 2% target. Furthermore, a Trump victory would likely be highly inflationary given his protectionist agenda. His expansionary fiscal stance could also support the US Dollar which would probably appreciate should worsening geopolitical tensions drive safe haven flows into the US. Worsening inflation would also have an adverse effect on long bond yields. Trump's reform bill in 2017 cut the higher corporate tax rate from 35% to 21% and he has vowed on his campaign to lower it further to 15% if elected. The inflationary impact of tax cuts would be very unwelcome for the Fed and would spook bond investors on concerns of debt sustainability and higher interest rates for longer. This 'duration tantrum' could also likely have a negative repercussion on risk assets.

Those who are more sanguine on a Trump victory will harken back to his previous presidential term which showed us that with his pro-business agenda risk assets reacted

well to tax cuts and deregulation (despite global equity markets initially plunging on negative sentiment). If we consider that these tax cuts would need Congress' approval, that congressional elections are due at the end of the year, and a split Congress would make it more difficult for Trump to move ahead with these cuts, it might mute the optimism of those who look to Trump's 'track record' for a guide of what's to come. It's also worth paying attention to his domestic political agenda in which one can see a clear shift from his previous term's focus on the economy to policies that are borne out of prejudice and his desire for revenge against the 'liberal Deep State'. His protectionist stance on immigration will also have repercussions on trend growth not to mention the grim long-term effects of his dismissive stance on environmental policy. He did after all unabashedly dismantle nearly a hundred policies focused on clean air, water, wildlife, and toxic chemicals during his presidential term.

On foreign policy, his stance on Ukraine likely means dire consequences for Europe. Over the course of his presidency, Trump has shown a predisposition to be sympathetic to Putin so another Trump presidential term would see further aid to Ukraine hang in the balance. This would threaten the unity of the European bloc as an agreement would then have to be reached on how to continue paying for military aid (half of which already comes from the US). Putin may additionally be incentivised to act more aggressively and be emboldened to attack another country. In addition, given his protectionist stance, the risk of a trade war with the US would be punitive to Europe's smaller and more export-oriented economies – more so than for the US. Finally, on the Israel/Gaza conflict, Trump's lack of tact and poor record on the foreign policy front could tragically see the situation escalate (though it's hard to imagine a worse outcome than what the victims of this tragic conflict are currently experiencing).

With over nine months to go until the elections, it is still much too early to act on the back of such assessments. However, we ought to guard against complacency and simply relying on historical precedent to position portfolios as we get closer to the elections. At the risk of sounding overly dystopian, this time around, the geopolitical landscape is arguably more tense. Trump seems more emboldened to openly shift his political agenda towards more prejudiced endeavours, and with the difficulties Congress might pose on his expansionary fiscal agenda, it's fair to say another Trump presidency leaves plenty of room for concern.

# Global Matters Weekly

29 January 2024

For more information, please contact your adviser or alternatively contact:

Belvest Investment Services Limited  
研富投資服務有限公司  
9th Floor, Centre Mark II  
305-313 Queen's Road Central  
Sheung Wan, Hong Kong

Tel +852 2827 1199  
Fax +852 2827 0270  
belvest@bis.hk  
[www.bis.hk](http://www.bis.hk)

## Important notes

This communication is issued by Belvest Investment Services Limited and/or Belvest related companies (collectively, and individually Belvest) solely to its clients, qualified prospective clients or institutional and professional investors. Unless stated otherwise, any opinions or views expressed in this communication do not represent those of Belvest. Opinions or views of any Belvest company expressed in this communication may differ from those of other departments or companies within Belvest, including any opinions or views expressed in any research issued by Belvest. Belvest may deal as Distributor or Agent, or have interests, in any financial product referred to in this email. Belvest has policies designed to negate conflicts of interest. Unless otherwise stated, this e-mail is solely for information purposes.

This message may contain confidential information. Any use, dissemination, distribution or reproduction of this information outside the original recipients of this message is strictly prohibited. If you receive this message by mistake, please notify the sender by reply email immediately.

Unless specifically stated, neither the information nor any opinion contained herein constitutes as an advertisement, an invitation, a solicitation, a recommendation or advise to buy or sell any products, services, securities, futures, options, other financial instruments or provide any investment advice or service by Belvest.

No representation or warranty is given as to the accuracy, likelihood of achievement or reasonableness of any figures, forecasts, prospects or return (if any) contained in the message. Such figures, forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies. The assumptions and parameters used by Belvest are not the only ones that might reasonably have been selected and therefore Belvest does not guarantee the sequence, accuracy, completeness or timeliness of the information provided herein. None of Belvest, its group members or any of their employees or directors shall be held liable, in any way, for any claims, mistakes, errors or otherwise arising out of or in connection with the content of this e-mail.

This e-mail and any accompanying attachments are not encrypted and cannot be guaranteed to be secure, complete or error-free as electronic communications may be intercepted, corrupted, lost, destroyed, delayed or incomplete, and/or may contain viruses. Belvest therefore does not accept any liability for any interception, corruption, loss, destruction, incompleteness, viruses, errors, omissions or delays in relation to this electronic communication. If verification is required please request a hard-copy version. Electronic communication carried within the Belvest system may be monitored.