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## Clinton versus Trump

Gerhard Winzer



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The rising relevance of the anti-establishment movement across many parts of the world has instilled a particular sense of urgency and importance into the upcoming presidential elections in the USA on 8 November.

Even though Hillary Clinton's lead in the polls against Donald Trump has become more comfortable, Mrs. Clinton has not won just yet. What are the possible effects of the election on the markets?

### **Political populism**

In the USA, too, political populism is dominating the election campaign. This makes the future policies even less predictable. Some of the statements made, like the one about deporting 11.5mn illegal Mexican immigrants, sound so incredible as to suggest they are either pure campaign rhetoric or simply not executable. This political uncertainty is just one in a long list of uncertainties (hard landing in China, integrity of the EU, recession in the USA).

### **Trump victory would come with more significant effects**

A victory by Donald Trump would come with more significant effects on the economy and the capital markets than one by Hillary Clinton. This is first of all due to the fact that the statements made by Donald Trump would entail a radical shift in economic policies, whereas Hillary Clinton would favour the status quo. Secondly, in the case of a victory by Hillary Clinton, the mutual blockade of Republicans and Democrats would remain in place if the Republicans were to retain their majority in the House of Representatives.

### **Hostility increases**

The underlying tone of the statements made by Trump can be described as hostile. This affects especially minorities, immigration, foreigners, women, globalisation, global trade, supranational organisations, foreign policy, rule of law, and democracy.

### **Clinton represents status quo**

While the candidate Hillary Clinton is no longer an advocate of global trade anymore and has declared herself in favour of higher taxes for high net worth individuals (HNWIs), overall she is a representative of the status quo.

### **Potential growth could fall**

The basic building block for long-term economic growth is the growth of the employable population. The announced, restrictive immigration policy of the Republican candidate therefore means lower potential growth.

### **Reform of the labour market?**

In contrast to Donald Trump, Hillary Clinton favours a reform that would legalise the status of illegal immigrants. As a result, the wage pressure would not rise as drastically as it would do in the case of the deportation of 11.5mn illegal immigrants.

### **Both candidates would increase infrastructure**

Both candidates are in favour of higher investments in infrastructure, with the extent fluctuating from 0.3% to 0.6% in terms of GDP. Clinton proposes a plan that earmarks USD 275bn over five years for this purpose. Trump's proposals are very vague, but he has mentioned USD 1,000bn worth of investments.

### **International Tax policy to be reformed**

Both candidates have argued in favour of a reform of international tax policies. This could, among other things, lead to the repatriation of foreign capital of US companies to the USA. The cut of corporate income tax to 15% and of the marginal income tax rate to 33% is one of the few classically Republican demands that Donald Trump is standing for. This would support economic growth, but at the same time would mean a higher budget deficit. The proposal by Hillary Clinton is also in line with the classic demand generally put forward by the Democrats. It involves higher taxes for HNWIs in order to fund spending on healthcare, education, and infrastructure of USD 1,450bn.

### **Benefits of global trade questioned**

Both candidates have questioned the advantages of free trade. Hillary Clinton, too, rejects the Trans-Pacific Partnership (TPP) in its current form, but by contrast, Donald Trump also wants to renegotiate or suspend existing trade agreements such as NAFTA (North American Free Trade Agreement), increase import duties (especially for China), and leave the WTO (World Trade Organisation).

In its most recent World Economic Outlook, the International Monetary Fund (IMF) tried to quantify the effects of protectionist trade measures. Given that countries tend to reciprocate if another country increases import duties, the effects are disruptive. An increase in global import prices of 10% would trigger a slump in exports of 15% (relative to the base case scenario) within five years. Investments would be down 4%, consumption 1.5%. Global GDP would shrink by 2%. This would translate into a global loss of wealth of about USD 1,500bn. The dampening effect would be so strong as to ensure that global inflation, after an initial rise, would be 0.2 percentage points lower than in the base case scenario after five years.

### **Fiscal policies: government debt will increase**

The base case scenario by the CBO (Congressional Budget Office) assumes an increase in government debt of about USD 10,000bn over the coming ten years. The CRFB (Committee for a Responsible Federal Budget) tried to quantify the proposal of the two candidates. Donald Trump's plans would push up net government debt by USD 5,300bn, or from 80% to 105%, whereas Hillary Clinton's plans would imply an increase of USD 200bn to 86%.

### **Trump victory would mean uncertainty**

A victory by Donald Trump would entail a drastic rise in uncertainty, a more expansive fiscal policy, bigger wage increases, a slump in global trade, and the strengthening of the global anti-establishment movement. In spite of the widening of the budget deficit, the likelihood of a recession in the USA would increase. A victory by Hillary Clinton would mean the maintenance of the status quo amid a slightly higher budget deficit.

### **If Trump wins, yields of safe government bonds would fall**

In the case of Donald Trump's victory, the yields of safe government bonds would be falling on a global scale, while risky asset classes would be suffering. The fear of a trade war is bigger than the vague outlook on a fiscal policy that supports the economy. As an added risk, the effectiveness of the already extreme central bank policies has declined further still.

## In a Trump victory Mexico and Asia would become under pressure

The top trading partners of the USA would suffer the most. In a first reaction, the currencies of Mexico, Canada, and Asia would come under pressure.

## Fed policy remains expansive

The outlook of an expansive fiscal policy (higher budget deficit) defies the textbook notion of causing a more restrictive monetary policy (i.e. more interest rate hikes), because the likelihood of a recession increases and trust is eroded.

## US yields fall too

The initial reaction displayed by US Treasury bonds would also be a decline in yields (flight to a safe haven). For international investors, however, the attractiveness of US Treasury bonds as the most important global point of reference would decrease.

## US dollar only initially stronger

More or less the same is true for the US dollar. The trade-off of an initial repatriation into the US dollar and a flight into the most important reserve currency is a sustainable erosion of trust. The other reserve currencies JPY, EUR, GBP, and CNY would become more important.

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