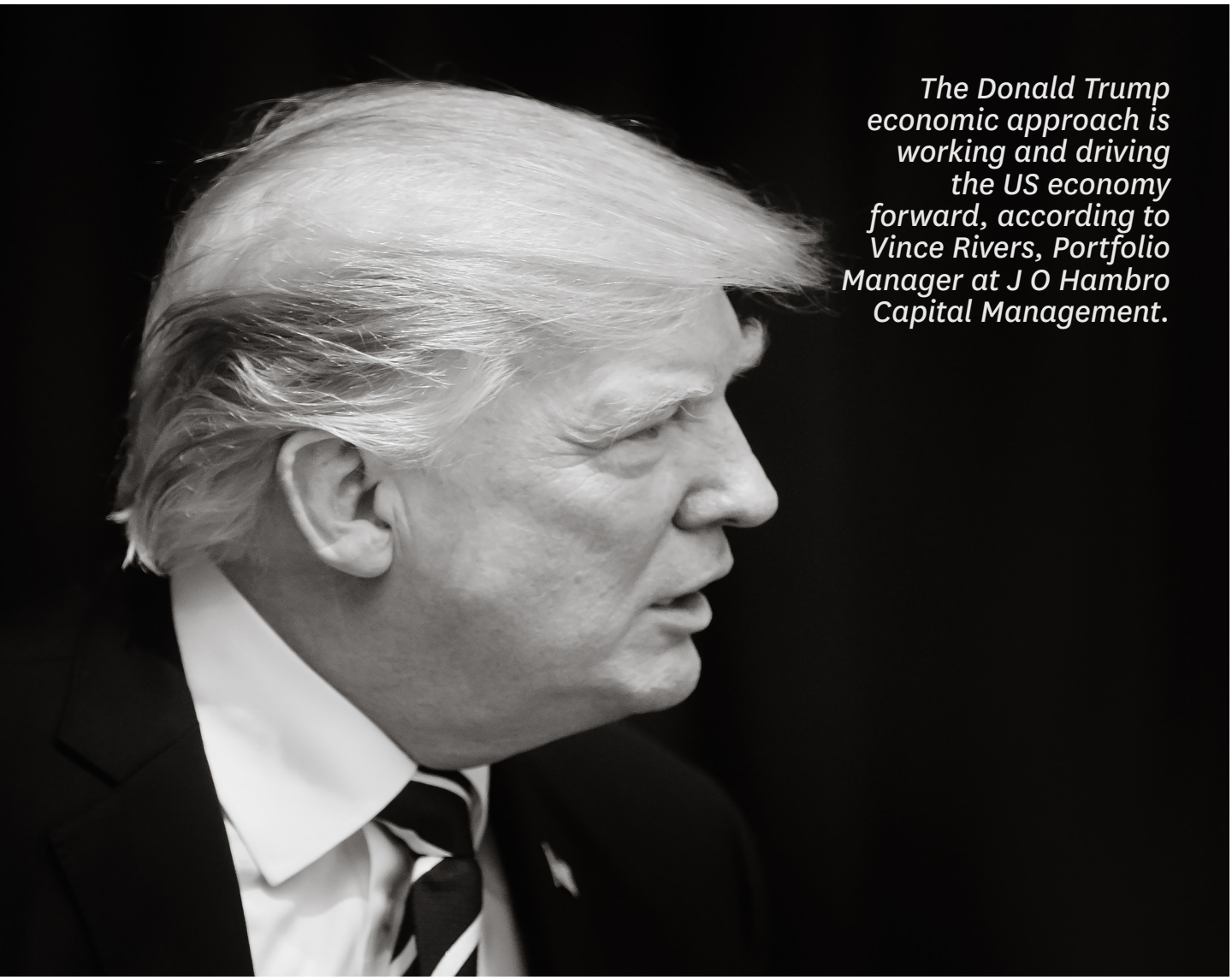
Link to Article on website
Link to Partner Profile

# The Trump effect: US economy poised for further growth



*The Donald Trump economic approach is working and driving the US economy forward, according to Vince Rivers, Portfolio Manager at J O Hambro Capital Management.*

**BOSTON-BASED RIVERS SAYS THAT FOR THE YEAR AND A HALF OR SO** that Trump has been in power, the US economy has taken a turn for the better, especially when seen from an entrepreneurial, small business, and regulatory lens.

The numbers back his assertion to a degree. Trump, who has spoken of his desire to boost the US economy to levels not seen in a generation, presided over an economy that grew by a healthy 2.3% in 2017, significantly higher than the 1.5% seen in 2016, the last year of President Barack Obama's tenure. The Dow Jones Industrial Average has traded at or near record highs throughout his presidency, even though it took a dip after the announcement of a number of steep tariffs on Chinese goods.

Meanwhile, unemployment is falling, sliding down to 4.1% in December 2017, close to its lowest-ever recorded level of 3.9% in 2001, and less than half the 10% peak of 2010 post the global financial crisis.

"You really can't talk about the US economy without talking about Trump," he says. "You think about what his goals were coming in and what he has achieved, these were generally pro-growth business goals and deregulation, and he has largely achieved those two." His primary failure, trying to rewrite Obamacare, was in terms of the US economy not as critical as the others.

"If you think about where he is looking, he is going to look at the big numbers at the top, categories where there is the biggest imbalance, and then he is going to look at the areas where he has the most political stake," says Rivers. "Every politician is self-interested, I think that's part of being a politician, but I also think he is actually trying to achieve something there."

## The tax boon

On December 22, 2017, the Tax Cuts and Jobs Act of 2017, one of the more significant changes to US fiscal policy in decades, was signed into law by Trump, who called it the biggest tax cut and reform ever in American history.

While there were notable cuts for the US middle class, key to American businesses was the cut in corporate tax—from 35% to 21%. Also, American companies no longer have to pay corporate tax on any income earned from foreign operations. If repatriated back to the US, such income is now taxed between 8% and 15.5%, significantly lower than the previous 35% rate.

"The key policy victory so far was the tax cut and the redoing of the US tax law meaningfully for the first time in generations," Rivers says. "They put a package together which basically lowered the US tax rate."

The markets certainly loved the cuts, with the Dow Jones hitting an all time high in late January.

According to Rivers, the tax cuts had implications across different parts of the economy, but mostly it made businesses more competitive, raised their earnings, and will lead to increased investments.

Rivers gives the example of a tech CEO who probably has a list of 1,000 projects, all subject to multiple criteria including tax hurdles. "When the tax rate drops, the percentage of projects that now can cross that hurdle has to increase," he explains. "So, I think what you will see from that portion of his policy is an eventual improvement in the US economy as the companies begin to invest more." According to Rivers, since the tax cut was announced in late 2017, by which time most businesses had done their business planning for the year, a lot of these benefits are yet to be seen. "But I think as we get through the latter half of this year and into 2019 you will start to see an increase in investment."

## Trade talk, not war

Trump's second signature policy 'win' has been his trade policy, according to Rivers, notwithstanding the angst in certain quarters because of it.

Trump's trade policy disruptions, as some would call it, began with the exit of the US from the Trans-Pacific Partnership (TPP), a position he has indicated he might reverse.

Since then, he has repeatedly threatened to exit the North American Free Trade Agreement (NAFTA), blocked progress in WTO negotiations and dispute settlement process, and introduced political objectives in trade discussions. He also recently introduced tariffs on aluminium and steel imports for security reasons. Trump then threatened additional tariffs on the EU, Canada, and China when the three considered retaliatory action, including tariffs on European cars. Trump's focus, as he outlined in his presidential campaign, was and continues to be China.

According to Rivers, Trump has identified the WTO as weak and ineffective, and that other countries, specifically China, are using currency manipulation and tariffs to get around rules. He points out how China holds USD1.7 trillion of US treasuries, which it would not stop buying as it would result in a weaker dollar and create losses in their portfolio.

In early April, the US announced 25% tariffs on Chinese imports worth USD50 billion on more than 1,300 product categories including flat-screen televisions, aircraft parts, and medical devices—to punish China for restricting US investment in China and stealing American intellectual property.

China has since retaliated, announcing its own tariffs on US exports including cars, aeroplanes, and soybeans, which combined, would be worth USD50 billion too.

The day after China's announcement, Trump directed his trade team to identify tariffs on an additional USD100 billion worth of Chinese goods, boasting of the US's ability to win any trade war.

"In terms of what he wants to achieve, I think what he is trying more than anything else is to create a dialogue," Rivers says pointing to how in April, US Treasury Secretary Steve Mnuchin went to China with a delegation to have a conversation about tariffs.

"I think what you will see with China though is some sort of dialogue that creates an atmosphere that it feels like there is a better ability for US companies to ship to China and it is not just a one-way stream," he adds.

To date, Rivers points out the target of Trump's trade policy is China and the trade imbalance the US has with the Asian giant. "But there is another target out there too that I think doesn't get talked about," he says. "Germany."

While Rivers concedes that the trade imbalance with Germany may not be the same size as China, it is still significant enough to merit Trump's attention.

## Fewer rules, higher growth

Rivers points to how one of the significant criticisms of the Obama years was the significant increase in regulation in almost every part of the US economy.

Previously, he says, CEOs, while confident about the economy and willing to invest as well as hire more, were wary of regulation and whether the US administration would come out with new rules that could spoil such growth moves.

"With Trump at least putting a near-term cap on regulation," he says, such fears can be kept at bay for the medium term at least.

In 2017, the Trump administration cut 22 regulations for every new one put up. In all, US government agencies put out some 67 actions to deregulate the economy, issuing only three new rules. These contrasted with Obama's tenure, where according to estimates 600 regulations were added.

Combining the tax cut and the regulatory environment will push companies to make investments, in Rivers's opinion, the returns for which will snowball into a stronger and more robust US economy.

"So, when you put it all together you have a US economy that is growing better, an economy that is moving off of monetary policy into fiscal policy and I think he has successfully achieved a big portion of that," Rivers claims.

## More to do

One additional Trump economic achievement, according to Rivers, is that he finally gave the US economy a multi-year budget.

In February this year, Trump signed off on a budget deal that would increase investments in domestic programs and the military by roughly USD300 billion over the next two years—USD128 billion for domestic programs and USD160 billion for defence budgets.

"In the US, we haven't had a multi-year budget in a generation or so," he says. "It's kind of pathetic to say, but that's the way the government has been working."

"A two-year budget is better than a six-month budget (previously the norm), and with some infrastructure built into it, we are going to see an increase in corporate America investment, which should drive better GDP growth," he notes.

Rivers points out that the statistics have been trending up generally for the US. For example, in its world economic outlook, the IMF lifted its US growth estimate for 2018 to 2.9% and its 2019 forecast to 2.7%.

Going forward, Rivers says that he believes Trump will roll out more actions that will improve the operating environment for American businesses, with the one caveat being the 2018 mid-term elections where Trump's Republicans could lose their majority in both houses of the US Congress.

"We have three branches of government, each one checks the other one, if one doesn't like it, it can get kicked back," he says, adding that it is difficult to predict how much more Trump can deliver on the economy. "But today there is more movement based on his approach than anybody would have expected 12 months ago."

"What we see is the Trump policies are generating better-than-expected growth and we should see an acceleration in GDP in the US this year and next year," Rivers says. ■