

With Trump, Conventional Assumptions Out the Window

Stockholm (HedgeNordic) – “If Trump wins the U.S. presidential elections, it will definitely have an impact on monetary policy. With Hillary Clinton, it would be business as usual. With Trump, it’s totally different.”

So says Risto Murto, CEO of Finland’s Varma Mutual Pension Insurance Co., which oversees \$46 billion, in a recent interview with Bloomberg. As with all things Trump, Mr. Murto fears conventional assumptions on monetary policy, the size of the U.S. budget deficit and the geopolitical landscape would “go out the window,” as he ruefully recalls the confident predictions against the Brexit Leave vote.

“It’s very hard to predict what will happen if he wins. If we take his proposals at face value, then that means the U.S. will suddenly have a deficit the size of Greece’s,” Mr. Murto says. “How things will go with Trump remains an open question and the risk is that we get something similar to what happened with Brexit, namely that we’re underestimating things.”

A key concern for Mr. Murto is how “President Trump” would tackle the Federal Reserve, the GOP nominee having previously disclosed he would likely replace Fed Chair Janet Yellen when her term ends in 2018. Trump has accused Yellen of having political motives for waiting with interest rate increases, with a plan, in his words, to ensure “the next guy or person who takes over as president could have a real problem.” “That’s already quite drastic,” Mr. Murto said.

Another clear concern is fiscal policy: “If one assumes that Trump is actually able to execute his policy, that means fiscal policy will become extremely expansionary, which would imply a need for a more restrictive monetary policy. That’s not something the market is pricing at this point, and I hope they’re right,” Mr. Murto said. Mr. Trump wants to cut taxes more than Mrs. Clinton and to impose a moratorium on new agency regulations. His advisors assume this would help boost U.S. economic growth to 4% annually, the expansion rate of which they postulate would help limit the revenue cost of Mr. Trump’s tax plan.

Mr. Trump also plans to impose curbs on trade, including extracting the U.S. from the TPP, with Mrs. Clinton quietly retracting support due to populist concerns. “The biggest geopolitical risk as I see it is the risk of populism,” says Mr. Murto. “If the U.S. chooses to elect a populist president, the implications can be even more concrete than with Brexit. It means the golden era of globalization and the free flow of capital and trade are now in danger.”

Bloomberg reports U.S. voters with investments in stocks and mutual funds are losing confidence in Mr. Trump when it comes to their portfolios, with a growing share saying they would alter their asset mix if he’s elected president. A Bloomberg Politics/Morning Consult poll found registered voters with money in the market narrowly pick Mr. Trump over Mrs. Clinton, 42-40%. This is down from a Trump advantage of 50-33% in a similar June survey, Bloomberg reports.

Mr. Murto’s Varma Mutual Pension Insurance Co. has more than 30% in North American assets. “We still have a great deal of trust in the U.S. private sector,” Mr. Murto says. “We still believe they have enough checks and balances in place.” The prospect of some form of global monetary policy normalization may, however, be a distant one. “One market that was giving us a little bit of hope was the U.S., but now even that is a question mark,” Mr. Murto said.

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