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What a Trump Presidency means for the World Economy

The unexpected victory of Donald Trump has given the political world a great deal to think about. Rather than explore the failures of the fourth estate, the political establishment, polling companies – we seek to examine what this means for world macro-economics and specifically real estate, a sector from which Mr Trump emerged to prominence.

Prior to a presidency we can only judge a candidate on their words (as there is nothing quite like being President of the United States) but once a President is in office we can judge that office holder by their actions. An assessment of what Donald Trump intends to do is fraught with danger as there has been very little traditional coherence to his policies or his statements. This is abhorrent to traditional party politics, but it is self-evident that this novel policy that has won him the top prize.

The nature of his mandate is unique to modern times. He has won without the full support of the Republican National Committee and without big campaign donations. He is therefore beholden to no one from the party or from special interest groups. This independence is unprecedented. This independence is mixed with potency as the Republicans have also captured both Houses. A working assumption could be that he, and the Republicans, would use this to firmly place business activity at the centre of his administration. Climate change, broad ranging human rights, international engagement will all be curtailed to make the economy of the United States boom again.

The President elect will seek maximum impact and visible projects coming on line as quickly as possible. In his acceptance speech, he has already talked about a massive infrastructure investment that no one can deny is sorely needed in the US. On the fiscal side, he might well work with the Republicans to repatriate some $2 trillion held offshore through some sort of tax amnesty. These two measures alone would demonstrate to the American public that he is 'smart' and wants to start 'building' (in the USA) again. It is very likely that Obamacare will be dismantled and there will be further extensions of the physical border that separates the United States from Mexico. Critically, it is unclear how he can execute these measures whilst eliminating the debt owed by the US.

Our assessment is that this will be done through inflationary measures: a low dollar policy and attempts to argue that inflation does not matter as much as thought (though the independence of the Federal reserve is very real in this matter). If this assessment is correct this will mean that the USA (along with the UK) will be a major Importer of inflation from around the world which will repatriate jobs to the US and devalue the value of debt held by governments and financial institutions – and critically before interest rates start rising in earnest. The former will destroy a good chunk of the world's savings and the latter will destroy its faltering recovery. China will be the principal loser from this scenario – even without a tariff war or other types of restrictive measures that have been mooted on the campaign trail.

Positioned correctly, levered, good quality real estate assets will do very well in this environment. Good capital values are a good hedge against inflation, solid cash flows are a good insulation against interest rate rises and reasonable leverage results in devaluation of the debt value over time. Defensive assets outside the US will offer safety which will be more increasingly valuable.

Mr Trump is clearly a pragmatist and an opportunist. The best hope for America is that his actions as President will be guided by his business training. If this is the case, he will seek to maximise value for the American people – and be prepared to do so at the expense of 'internationalists'. Time will tell whether this can result in higher GDP in real or nominal terms that will make middle America feel great again.

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