



Investment Insight

Friday, 6 January 2017

WSDKWTWD: Markets have already reacted in a bipolar fashion following Trump's surprise victory, with equities eventually opting to give Trump the benefit of the doubt, while bonds weakened on the risk of higher inflation and higher debt. What actually comes to pass now will be key for returns going forward.

'We Simply Don't Know What Trump Will Do' is likely to be the main concern for investors as his inauguration as the 45th President of the United States looms on 20 January, says Lukas Daalder, Chief Investment Officer of Robeco Investment Solutions. Lukas' thoughts are share in this week's **Inside Track**.

\$1,054,647,941,626.91. On the last day of 2016, total US public debt jumped by \$98 billion. As a result, total US government debt on December 30, 2016 was \$19,976,826,951,047.80. This compares to \$18,922,179,009,420.89 on the last day of 2015 and means that the increase in US debt in 2016 was just over \$1 trillion, or \$1,054,647,941,626.91 to be specific.

But if you're wondering why Donald Trump seems unconcerned about the fact that his spending plans will pile on further debt, it's not by any means a new issue for politicians to be concerned, or not, with. In his inaugural speech in 1981, Ronald Reagan said "For decades, we have piled deficit upon deficit, mortgaging our future and our children's future for the temporary convenience of the present...You and I, as individuals, can, by borrowing, live beyond our means, but for only a limited period of time. Why, then, should we think that collectively, as a nation, we are not bound by that same limitation?" Plus ça change, plus c'est la même chose! In **Pic of the Week** we take a look.

Quoted...

"Only put off until tomorrow what you are willing to die having left undone." – Pablo Picasso

The Inside Track

President-elect Trump will have to deal with many well-known acronyms when he takes office, including NAFTA and NATO. But here's a new one that is rather more difficult to pronounce, and which will worry markets rather more: WSDKWTWD. Lukas Daalder, Robeco Investment Solutions' Chief Investment Officer has the following thoughts on the matter.

Trump has made a lot of far-reaching promises during the past 12 months, from overhauling the current tax system to renegotiating trade relations, and from deporting millions of illegal foreigners to pledging a big boost in infrastructural spending.

The problem is that, as loud and outspoken as Trump was during the campaign, as quiet as he turned out to be once victory was secured. Although he has repeated some of his earlier promises – the Trans-Pacific Partnership will not be implemented and there will be the biggest tax cut since Reagan – he has not put more beef on the bone with respect to the details of his plans. We are basically all still guessing what his actual program will look like.

Daalder cites six areas in which there may well be a divergence between rhetoric and reality:

- Taxes: Will a planned corporate tax cut from 35% to 15% be combined with the abolition of what is tax deductible, thereby potentially cancelling it out?
- Immigrants: Will the deportation of undocumented immigrants (which means a hit to GDP) be the three million that Trump spoke of, or just 800,000?
- Infrastructure: Will new spending be government financed via an infrastructure bank, or will it be done through tax-incentivized public-private partnerships?
- Trade: Has it all been tough talk, or will the US indeed label China as a currency manipulator, with the prospect of a trade and diplomatic war?
- Deficits: Will Trump become the modern-day Reagan boosting the economy with deficit-widening fiscal stimulus, or will he make spending cuts elsewhere?
- Fed: Will the newly arriving members that he appoints indeed be more hawkish as everyone expects, or will Trump opt for a more accommodative policy committee?

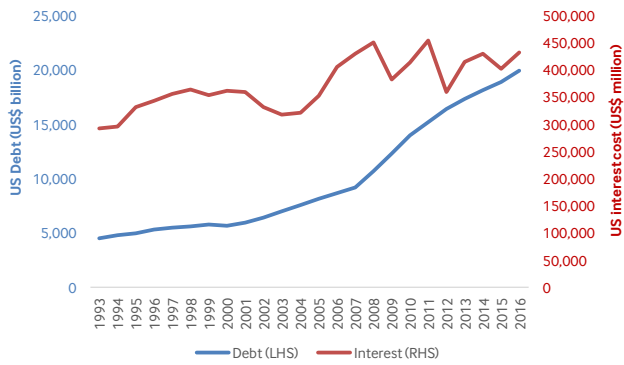
Pic of the Week

The US government already borrows money just to pay interest on the money they've borrowed. If, as many anticipate, President Trump's economic policies lead to inflation and interest rate increases, the cost of that debt servicing could grow materially, meaning the US has to borrow even more money, and so it goes on. Ultimately, the story doesn't end so well, but who suffers the forfeit is another matter altogether.

Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	+1.1%	+10.2%	+1.4%	+9.6%
US equities	+0.6%	+12.3%	+1.1%	+12.1%
European equities	+1.0%	+2.5%	+1.0%	+7.6%
EM equities	+2.4%	+13.4%	+1.1%	-1.3%
Irish equities	+2.0%	-1.8%	+1.5%	+18.0%
Commodities	-0.6%	+9.7%	-0.3%	-9.3%
Hedge funds	-0.2%	+2.3%	+2.5%	+1.6%

US Debt Level and Interest Cost



Week ahead: Key events

- 09/01 UK House Prices
- 09/01 EU Unemployment
- 10/01 Japan Consumer Confidence
- 10/01 US JOLTS Job Openings & Wholesale Inventories
- 11/01 UK Production & Construction Data
- 11/01 US Mortgage Applications
- 12/01 Germany GDP & EU Industrial Production
- 12/01 US Initial Jobless Claims
- 13/01 US Retail Sales

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+0.9%	-0.1%	+6.9%
Germany	+0.2%	+1.7%	+1.7%
USA	+2.4%	+1.7%	+1.7%
China	+3.2%	+2.3%	+6.7%
Currencies		<i>Current</i>	<i>YTD Δ</i>
EUR:USD	1.06	+0.7%	
EUR:GBP	0.85	+0.0%	
EUR:CNY	7.28	-0.8%	
GBP:USD	1.24	+0.6%	
Bitcoin	969.30	+1.8%	
Commodities		<i>Current</i>	<i>YTD Δ</i>
Gold	1,182.67	+2.6%	
Copper	5,629.00	+1.9%	
Oil	56.54	-0.5%	
Wheat	425.75	+4.4%	
Central Bank rates		<i>Current</i>	
Eurozone	0.00%		
USA	0.75%		
UK	0.25%		

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