

### The next US president will shape the future course of the global economy

If we think about the last twenty five years, various US presidents have been defined by a specific policy agenda. For Bill Clinton it was “The Economy Stupid” - an era of free trade and globalisation; for George Bush it was the “War on Terror”; and for Barack Obama it has been the Affordable Care Act.

For the next US president, outside of the realm of foreign policy, he or she will likely be measured by how effectively US economic growth can be restored to levels that help reduce inequalities and raise the standard of living for ‘middle’ America. Large swathes of the US electorate are looking for the restoration of the ‘American dream’, an ideal that has appeared elusive to many over the last ten to fifteen years.

Of the two current candidates, Donald Trump presents an unpredictable prospect and he could bring significant change. In the short term financial markets will probably react negatively, but over the longer term a Trump presidency could be a boon to US assets if his fiscal stimulus plans, which are meaningful, turn out to be a positive game changer for the US economy.

On the other hand, Hillary Clinton is the establishment figure and with that association she brings stability. US markets are likely to respond favourably to her election in the short-term. If Clinton is able to convince a sceptical electorate that globalisation is a force for good, then this should have a lasting impact on the health of the global economy and financial markets. However, the path will be bumpy as Clinton will probably be reliant on a Republican controlled Congress, at least in the lower house.

Whoever becomes the 45th President of the United States, expectations are high that he or she will signal a new era of economic policy and reform. Tackling low productivity growth, low wages and rising income inequalities are issues not just exclusive to the United States, but also apply to many other developed economies. This is not just an election for the US, but one pivotal to the future shape of the global economy.

### Three key policy areas will contribute to the success of the next US President

■ **Fiscal stimulus:** Democrats and Republicans both agree that a programme of infrastructure spending is needed to boost economic growth, but they disagree on how this is to be funded. Proposals to improve roads, bridges, airports and public transportation have been put forward, plus a border wall in Donald Trump’s case. Clinton has pledged an investment of \$275 billion; Trump has promised to spend nearly four times that amount. Under either scenario, the next administration will commit to the biggest infrastructure investment since President Dwight Eisenhower’s presidency.

However, the devil is always in the detail and Congressional approval will be needed. For example, Clinton has proposed paying for infrastructure improvements through a one-time lower tax on profits from multi-national corporations repatriated from overseas. US companies are estimated to have a \$2.6 trillion stockpile of cash held overseas. However, President Obama has already tried to reform corporate taxes on foreign earnings to fund government spending, but his attempts were blocked by Congressional Republicans. The repatriation issue is likely to be revisited again by an incoming Clinton



## Contact

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administration in January 2017, but political negotiations will not be easy. Both Clinton and Trump have also proposed an infrastructure bank to attract private funds and Trump has suggested lifting restrictions on energy production to generate tax revenues.

- **Trade liberalisation** is a crucial issue over coming years, particularly in light of recent downgrades to global trade forecasts from the World Trade Organisation. Both candidates oppose the 12-nation Trans-Pacific Partnership Agreement and Trump would also reverse the North American Free Trade Agreement signed by Bill Clinton. Trump has vocally called for protectionist policies, including overturning free trade agreements and introducing trade barriers to protect American industry. Not only would such policies accentuate the downward trend in global trade as US imports fall, but it would have negative consequences on developing economies which rely on external demand.

Clinton has struck a more cautious tone, not wanting to alienate centrist voters but needing to keep Bernie Sanders supporters on board. Out of the two candidates, it would be left to a Clinton presidency to answer the anti-globalisation rhetoric, rather than fan the flames of protectionism, as would likely happen with Trump. Certainly, in terms of immigration, Clinton has made a firm stand in support of globalisation, including proposing an amnesty for undocumented workers. Trump, meanwhile, would tighten border controls and has blamed many of the economic ills in the US - low wages and fewer job opportunities - on illegal immigration.

- **Healthcare:** In terms of domestic issues, healthcare is one of the most contentious issues that divides Democrats and Republicans. A Trump presidency would overturn Obama's Affordable Care Act. Clinton has proposed enhancements to the current legislation, including the establishment of a government-run public health plan to address limited insurer coverage in some states. She would, though, need the support of Congress to implement any changes. Larger insurers have departed Obama's current programme as they have deemed it unprofitable. This lack of competition in a number of states is accelerating costs; the average state plan is expected to rise by 25% in 2017. Rising medical costs will impact the inflation outlook, which perhaps might not all be bad news for the US Federal Reserve looking to normalise interest rate policy.

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