Published as a guest contribution (6 December 2016) on

n-tv.de and

n-tv Teleborse.de

High on risk - low on opportunity

Trump could prove to be really costly

A guest article by Uwe Günther

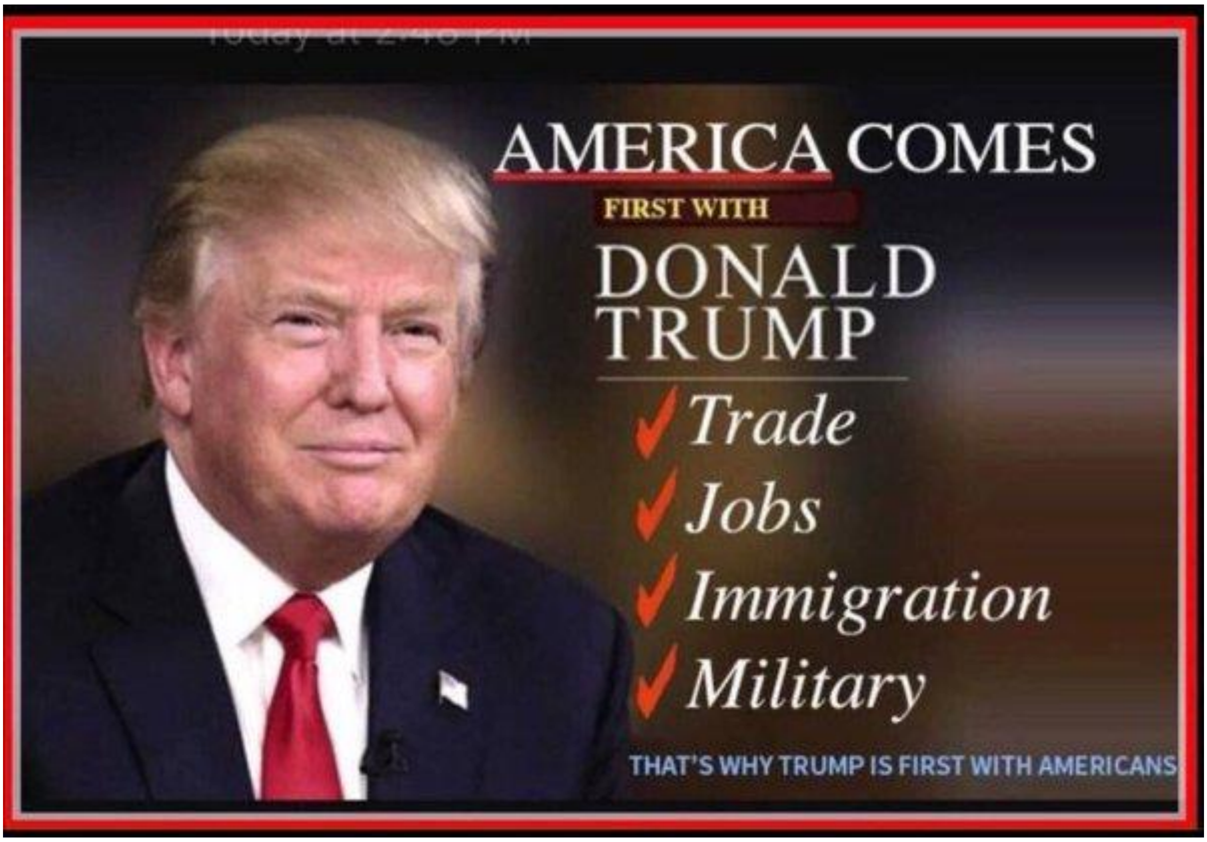
After the initial shock following Donald Trump's election victory, the financial markets are responding with applause. But America's next president could prove costly for German investors.

Donald Trump doesn't seem to be quite so bad as people had thought. The shock that greeted his election has increasingly given way over the last few weeks to virtually unbridled optimism. Unfortunately, the property tycoon's election victory might soon turn out to be a heavy burden for investors and jobs. The ten greatest risks are:

1.) Germany is the export nation "über alles". If Trump is serious about "America First", that will have a negative impact on the sales and profits of Germany's export industry over the medium term. The US is Germany's biggest trading partner.
2.) If German companies that do a lot of business in America at present decide to increase their direct production in the United States, that can and will result in job losses in Germany.
3.) If Trump cancels lots of international trade agreements in order to protect American companies, both he and the United States could experience a

boomerang effect. American companies with strong sales in Asia, for example, could switch their production in the medium term to the region in which they sell their goods. Jobs would be lost in the United States.

4.) The election campaign focused its attention on white middle-class males who increasingly feel they have lost out under globalisation. They feel the American dream is no longer within their grasp. What globalisation means above all for American workers in traditional labour-intensive industries and agriculture is fear of social and economic relegation. The newly revitalised (at least from a stock market point of view) old industries are not going to become globally competitive once again as a result of Trump's protectionism. So think twice before you jump on board a rickety stock market train!



5.) Trump is in favour of normalising interest rates. He is no friend of the Fed's loose monetary policy. His statements to that effect together with hopes for greater economic growth have already caused interest rates to rise significantly. Given the fact that yields and bond prices always move in opposite directions, these higher interest rates have resulted in a blood bath on US government bonds. This has also affected the balanced funds so loved by German investors, as the bond elements of the funds cannot generally complete with US Treasuries.

6.) For the first time in a long time, yields on US government bonds are now once again higher than dividend yields on the wider stock market (S&P 500). One of the most important arguments in favour of investing in what are now rather highly priced equities has therefore lost much of its impact. And risk premiums on global bonds could rise further quite swiftly. Top American fund managers such as Jeff Gundlach and Stanley Druckenmiller believe 10-year US Treasury yields could rise over the next one or two years to as much as five or six per cent. Prices would collapse in turn. And balanced funds would be amongst the losers.

7.) The US dollar is rising thanks to attractive US interest rates. That is bad for American exporters but good for German investors. Or rather, good for those whose portfolios contain some dollar investments.

8.) For developing and emerging economies with debt denominated in US dollars, the rise in the value of the dollar means that they will have to pay a great deal more in future to service their debt. This could mean major, perhaps even insurmountable, challenges for a number of countries.

9.) Trump knows that the only way out of the debt trap is growth. If growth doesn't get going, the only thing that can help is to "inflation liabilities away". That's why he, in common with the ECB now incidentally, wants inflation at almost any price. And whoever is quickest here can win the jackpot in the struggle for global competitiveness because it strengthens competitive positions and increases the scope for debt. If Trump succeeds in this, old Europe, its companies and investors will be amongst the losers.

10.) Trump also wants to reduce corporate taxes - how original! He appears to have missed the fact that overly cash-rich companies haven't been investing in recent years despite extremely low funding costs. It is extremely questionable whether lower taxes would have a more decisive impact in that regard. It seems much more likely, in fact, that they would cause the wealth gap to widen further and government revenues to weaken. He is playing with fire.

The US President Elect's ideas have been shrouded in mist up to now. If they actually succeed in an economic sense, this will largely be at the expense of Germany, Europe and China. The "Trump experiment" therefore holds more risk than opportunity for Germans and for Germany.

In the medium term, Trump's plans should be good news for gold, other commodities and physical assets. The Trump camp now includes a few proponents of the reintroduction of a gold standard - former bank CEO John Allison, for example. Physical assets, non-perishable and unburdened by debt, are likely to emerge the winners after the coming orgy of debt and the ensuing ultra-harsh market corrections.

Uwe Günther

Uwe Günther is a founding member and Managing Director of BPM - Berlin Portfolio Management GmbH, Berlin.

Disclaimer

www.berlin-pm.com