



What Happened to the Trump Reflation Trade?

"The Trump trade is alive. The Reflation trade is all but dead"

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Within hours of assuming the Presidency, Donald Trump began issuing a barrage of executive orders in order to fulfill his campaign promises. Sentiment increased almost immediately, and optimism, as measured by the US stock market, rallied to the upside about 20%+.

But reality has settled in, President Trump is quickly learning you cannot run the US government like you would a private company, and I think he's realizing the "swamp" may be bigger (and deeper) than even he imagined. For their part, the electorate voted for a "non-politician", and they are realizing, for the better or worse, that's exactly what they've got.

The political turmoil in Washington has been continuous since the inauguration, and despite holding massive majorities in both the House and Senate, the Democrats only strategy of creating continuous unending distractions and scandals, so far has worked and prevented any serious policy from being implemented. The Democrats seem to be hoping to keep this up until the midterm elections in 2018, hoping to regain the House or Senate, and block any Trump efforts from there on. Not sure they have the staying power, but as the calendar turns, it will be a huge factor. Whether you are an elected Republican or Democrat, self-preservation can be a huge motivating factor.

We are approaching the mid-way mark for 2017 and so far the numbers look like this:

- Canadian TSX is virtually flat
- S&P 500 +8%
- NASDAQ +14%
- Euro Stoxx Basket +7%
- S&P Asia Basket +2%

Despite the US Federal Reserve having raised twice already in 2017, the US 10-year yield is hovering near its 2017 lows.

In Canada, we have become one of the few major industrialized countries with private, non-financial debt exceeding 200% of GDP. Please read that again. I think this becomes a HUGE problem down the road and will address that in a publication down the road.

The Canadian dollar is flat on the year vis-à-vis the US dollar. Crude oil prices are down over 10%, natural gas prices are down almost 20%, but gold is up 10% so far in 2017.

So adding it all up, the Trump reflation trade lasted for about 90 days, everything has been pretty well flat since early/mid-February.

Let's not forget that the right's icon, Ronald Reagan, had a pretty tough year one, and the US actually entered a recession where the resulting markets were down 20%. He had also been the Governor of California, so one would think he would have inside knowledge on how the game in Washington works. After that year one, he ended up having seven pretty good years with an average GDP of 3.5%, and including one year of over 7% GDP growth, the best since Harry Truman in 1950.

For the cocktail party banter, President Obama's GDP averaged a meagre 2.6%, which goes on the record as the worst growth rate of all the US Presidents since WWII.

I think President Trump will figure it out. One of the things we have going for us is his massive ego. As perverse as that may sound, I think it's not about fame, power or money for him. Most seek that as a codicil to the Presidency, he already had both. I believe with Donald Trump his legacy is very important. He is extremely competitive and wants to win and turn the ship around which has reduced America's place in the World the past 30

years, under both political parties. He wants to be the ONE who brought the USA back.

But as I've said many times, the media will not give the man a single break or benefit of the doubt for as long as he is President... be it four... or eight(?) years.

Stay tuned,

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