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Trump growth policies will fall short

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United States President Donald Trump's plans to reignite the American economy were unlikely to succeed in the long term, with interest rate hikes and an increasingly strong US dollar expected to pull down growth by the time of the next presidential election, according to Colonial First State Global Asset Management (CFSGAM).

Speaking at the PortfolioConstruction Forum Markets Summit 2017, CFSGAM chief economist and general manager of economic and market research Stephen Halmarick said while Trump's planned tax cuts and deregulation of some sectors of the economy would provide a short-term boost, it would not be enough to change long-term growth trends in the US.

"We see US economic growth in 2018 being over 2.5 per cent, maybe approaching 3 per cent, which is a lot better than the last few years, but by 2019 it will begin to slow again and go down to its longer-term trend," Halmarick told the event in Sydney yesterday.

He said the market reaction to Trump's presidency would occur in three phases, with the "risk-off phase" having occurred immediately after the election.

"We are now deeply in phase two, a very bullish phase for risk assets, equities and the US dollar," he noted.

"The focus is on the stimulus side of Trump's policies, but these will sow the seeds for phase three because the Fed will put up interest rates as inflation rises, bond yields will move higher and the stronger dollar will see a slowdown in the US economy."

US markets and the economy's attractiveness as a foreign investment destination could also be affected by looming changes to the national debt ceiling, which had caused a government shutdown in 2013, he pointed out.

"Trump's policies will add 30 percentage points of debt to the US economy over the next 10 years – I think that threatens the US AAA credit rating over time, and congress will have to add a minimum $ trillion to $3 trillion to the debt ceiling before the middle of the year, so that debate will be really interesting to watch in the next weeks and months," he said.

While certain US stocks, such as those with exposure to the banking and military sectors, stood to benefit from Trump's plans, it was unlikely his ultimate aim to raise the economy's potential growth rate would succeed, he added.

"If he can raise the potential growth rate, the markets are right to be bullish, but I'm more sceptical because you need population as well as productivity to create potential growth, and his policies will be a negative for population, particularly the anti-immigration stance," he said.

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