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Ready for Take-Off? Or a Crash Landing?

By Philip Chao *Thu, May 18, 2017*

'The Trump effect that carried the market through the end of April now shows some evidence of running out of steam,' writes our guest columnist, of Chao & Co., a retirement plan and fiduciary consulting firm in Vienna, Va.

A synchronized global economic growth story began last summer after Brexit and continued in 2017. It goes like this: With the stabilization of energy prices and the continuing economic recovery with years of unconventional monetary support, confidence is rising.

[For a copy of the research on which this guest essay is based, click **here**.]

Against this backdrop, the Trump victory released a lot of pent-up public frustration—with chronic inequality of income and wealth, with persistent low productivity and low investment, with a lack of fiscal stimulus, and with excessive regulations.

Trump supporters and businesses are hopeful that the new administration will deliver on many if not all of his campaign promises. “Make America Great Again” can be interpreted in as many ways as there are voters, but the future is nonetheless filled with hope and expectations. Positive economic sentiments naturally follow.

The Trump effect that carried the market through the end of April now shows some evidence of running out of steam, however. We are entering a traditionally more volatile and less robust (for risk assets) economic season. Most of the easy political actions (executive orders that don’t require Congressional involvement) have been taken.

With the exception of the successful confirmation of Judge Neil Gorsuch, no significant policies have been implemented. Given its fumbling of the supposedly easy repeal and replacement of Obamacare, the Trump Administration will be tested during negotiations over the budget, tax reform, and debt-ceiling. The proposed tax reform is so extreme that many Republicans may not support it.

Time is not on the administration’s side. Backward-looking or hard economic data so far doesn’t support the soft forward-looking data. Equity investors may be excited about the future, but fixed income investors are not. We believe that consumer confidence and business sentiment will drop significantly as the hard performance data slowly accrues.

Between now and 2020, the world and the U.S. will continue to face these challenges:

- An automation-driven deflationary environment
- The lack of any clear path to increase productivity, enhance real wage growth and reduce income

disparity
- A rising dependency-ratio that limits real GDP growth
- A significant debt overhang

As they unwind years of super-accommodative monetary policies, all major central banks will eventually commence a synchronized “tapering.” The possibility is very real that policy mistakes and unintended consequences will roil the global economy and the financial markets.