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Wall Street looks like a winner under Donald Trump

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US banks' resurgence is likely to be magnified if he loosens regulations

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In a ranking of global financial centres last month, published by Z/Yen, London topped the think-tank's league, a whisker above New York.

Little surprise there: London has led several league tables in recent years. But when Z/Yen publishes its index in a couple of years' time — in a Trumpian world — there is a good chance those rankings will have changed.

For one point about last week's US presidential election result is that Donald Trump's policies are likely to make New York more attractive as a financial centre. And that could make London a relative loser — unless British authorities are ready to fight back.

Why? The reason is not necessarily any deliberate "plan" Mr Trump holds for Wall Street; he does not seem to have one. He barely mentioned the financial sector on the campaign trail — and most bankers ignored him back. Indeed, the industry donated only $737,000 to him this year, compared with $78m for Hillary Clinton and $33m for Jeb Bush.

But what could raise New York's status is a confluence of four crucial factors.

The first is obvious: London's future is being undermined by uncertainties unleashed by Brexit. In public, international bankers insist London remains highly attractive. This week, for example, Jes Staley, Barclays chief executive, pointed to its "gravitational pull". But in private, senior bankers are preparing to move at least some of their activities when Brexit hits. And, while continental European centres such as Frankfurt and Paris are pitching to grab business, many senior bankers say America looks more attractive, given its infrastructure, talent pool and flexible labour laws.

“It is pretty unlikely anything like what we call ‘London’ could be replicated in the foreseeable future in one place in the EU,” Jon Cunliffe, deputy governor of the Bank of England, told the House of Lords last month. “But it already exists in New York.” Or as Mark Boleat, policy chairman of the City of London Corporation, observes: “The biggest beneficiary of any job losses in the UK will be New York.”

However, Brexit is not the only factor here; a second is the regulatory and political climate. A decade ago Michael Bloomberg, then New York mayor, commissioned a McKinsey report that concluded London was grabbing business from New York because it had a more welcoming regulatory climate.

No longer. Since the 2008 crisis British regulators have, quite rightly, implemented reform. Bank levies have been imposed amid a political backlash. Of course, regulation has been tightened in America too; look at the hefty Dodd-Frank rules. But in America the bank-bashing has waned. And now Mr Trump’s policy team are not only muttering about rolling back some reforms; they are also considering bringing bankers into the administration. Jamie Dimon, head of JPMorgan Chase, has been mooted as possible Treasury secretary. The symbolism is profound.

A third factor is the health of banks. In recent years American banks have cleaned up their balance sheets and recapitalised themselves. The Europeans have lagged behind, which means American banks are resurgent on the world stage. This is likely to be magnified if Mr Trump loosens regulations. If the Federal Reserve raises rates next month — and Janet Yellen, Fed chair, hinted on Thursday that it would — that would bolster US banks’ fee income.

The US economy is likely to grow, partly as a result of Mr Trump’s reflation plans, which could in itself provide a fourth supportive factor. After all, rising business confidence and activity typically boosts demand for financial services. In Europe, by contrast, economic gloom and intractable political splits have undermined confidence.

“Anything which can move to the US in the coming years will move — the US is ultimately going to be a huge beneficiary,” Gary Cohn, Goldman Sachs president, said this week. “As far as [financial and business] investment in Europe is concerned, that is going to be on hold.”

Of course, some European observers will dismiss this as a self-interested sales pitch. If Trumpian policies spark US social unrest or geopolitical uncertainty, or if Mr Trump unleashes a debt binge that goes bust, that will not create stability.

But, while those risks are real, the crucial point now is this: whatever Europeans think of Mr Trump, they need to recognise that animal spirits are rising in New York, and this is likely to boost finance and the standing of Wall Street. If London wants to fight back, the British authorities need to find a way to unleash some animal spirits of their own. Bickering about Brexit is not a good place to start.

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