

Financial Review

Wall Street Rises, Bets on Donald Trump Inflation



Stocks were solidly higher in midday trading on Wall Street following Donald Trump's upset victory over Hillary Clinton. **Richard Drew**



by [John Kehoe](#)

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American investors are surprisingly upbeat about Donald Trump's shock ascension to the US presidency, saying the big spending real estate mogul could trigger overdue inflation via his debt-funded plan to unleash a wave of infrastructure investment and to slash taxes.

Shares on Wall Street lifted about 1 per cent on bets the Republican clean sweep of the White House and Congress is poised to end six years of legislative gridlock and deliver a pro-business agenda on tax and regulation.

US markets failed to follow the 4-plus per cent dive in the S&P 500 futures index or earlier global stock rout in response to Mr Trump's upset victory.

Investors pointed to Mr Trump's magnanimous victory speech pledging to unite a divided country and his vow to invest in underfunded infrastructure, which would take pressure off the US Federal Reserve to keep interest rates near zero.

Fund managers expressed hope that conservatives in Congress would constrain his trade protectionist populism and try to keep the budget deficit under control.

The potential for a fiscal stimulus and Trump inflation wave caused the yield on the ten-year US Treasury bond to surge above 2 per cent, from 1.71 per cent, even as economists trimmed bets on [the Fed raising rates next month](#) due to political uncertainty from the billionaire's shock election.

"Inflation is the big issue," Bernstein Advisors chief investment officer Richard Bernstein said.

Mr Trump has vowed to go on a spending spree on infrastructure and defence, which could lift subdued inflation and allow the Fed to raise rates more in the longer term.

The president-elect wants to slash the US corporate tax rate to 15 per cent, from 35 per cent, and reform the system to encourage multinationals such as Apple and Google to repatriate \$US2.5 trillion stashed offshore.

The real estate tycoon has also threatened to impose tariffs on foreign goods and to cut the amount of foreign workers, both of which would push up prices on imports and wages.

Yellen's fate set

After a subdued economic recovery post the 2008 financial crisis and lacklustre wage growth over three decades, Deutsche Bank investment strategist David Bianco said the "message of this election is that America demands stronger economic growth".

"Growth lifts and unites the country and perhaps defines the national psyche," he said.

Congressional Republicans are vowing to work with a president Trump to reform taxes and cut business regulation, including unwinding climate change regulations on the energy sector, repealing Wall Street rules and killing off President Obama's healthcare expansion for the poor.

There is a high degree of uncertainty on Mr Trump's policies and much will depend on who he appoints as US Treasury Secretary and if US Federal Reserve chair Janet Yellen exits on or before her term expiring in February 2018.

Mr Trump had criticised her as "very political" for keeping rates ultra low to help Democratic president Barack Obama and signalled he would sack her.

Two early favourites to succeed Dr Yellen are conservative economists John Taylor and David Malpass, both of whom have criticised the Fed's ultra easy monetary policy and called for fiscal policy to stimulate growth through tax and regulatory reform, and possibly infrastructure investment.

There remains deep concern among economists and business about Mr Trump's campaign threats to ignite a trade war with China, slap 35 per cent on Mexican goods and vow to renegotiate and tear up trade te existing NAFTA trade deal with Mexico and Canada and reject a pending Pacific Rim deal with 11 other countries including Australia.

Mr Trump swept the Midwest rustbucket states of Ohio, Wisconsin, Michigan and Pennsylvania, appealing to white, working class voters on an anti-globalisation agenda on trade and immigration.

Ryan sees conservative path

Larry Kudlow, a conservative economics commentator and informal adviser to the Trump campaign, acknowledged there was business unease about Mr Trump's trade rhetoric, but the rest of his agenda was "so pro growth".

"Going after the rustbelt his bark was very significant," Mr Kudlow said on CNBC.

"I think ultimately his bite when the policies are made will me much less onerous."

"He has to work with a Republican Senate and Republican House and that's a moderating influence."

An upbeat Republican House Speaker Paul Ryan, who clashed with Mr Trump during the campaign over his comments about immigrants and women, said Mr Trump "turned politics on its head" and would lead a unified Republican government.

"We will work hand in hand on a positive agenda to tackle the country's big challenges," Mr Ryan said, adding he had already spoke twice to Mr Trump in the past 18 hours.

Mr Ryan last year published a Republican economic blueprint for corporate tax reform, cutting welfare dependency, unwinding Obamacare and slashing regulation that Mr Trump ultimately largely adopted as his own policies.

Share indexes lifted on Mr Ryan's address and [Hillary Clinton's gracious concession speech](#) on Wednesday midday in New York telling supporters to be open minded to give Mr Trump an opportunity to lead the country.

Bank, health shares rally

Shares of banks and pharmaceutical firms lifted on the prospect of Wall Street financial regulations being rolled back and Democratic drug price controls being dashed. Infrastructure shares jumped.

Car makers including GM and Ford, as well as technology stocks, fell on the chance of a backlash against foreign trade and the offshoring of production plants.

Before the election, the Committee for a Responsible Federal Budget estimated Mr Trump pre-election tax and spending blueprint could add \$US10 trillion to US government debt over a decade.

"If he were to get his way on the unsustainable tax cuts the hole in the budget would be in the trillions," Peterson Institute For International Economics senior fellow Jacob Funk Kirkegaard said.

Pre-election warnings that his election could trigger mass panic on Wall Street didn't materialise, with US stocks relatively stable and failing to follow plummeting share markets in Asia

Allianz economic adviser Mohamed El-Erian said the US markets recovered in response to Mr Trump's gracious manner.

"If he focuses on corporate tax reform, on infrastructure and on deregulation markets would like that," Mr El-Erian said on *CNBC*.

"The markets will not respond well to protectionism."

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