



Trump: Could His Presidency End in Economic Disaster?

Description

The surprise victory of controversial presidential candidate Donald Trump has been a boon for the U.S. stock market. Despite many analysts and economists touting that such an event would be a negative for the economy, U.S. stocks surged to a record high after his victory speech.

Optimism among investors has risen significantly because key parts of his economic platform are viewed as being exceptionally good for U.S. economic growth. This has triggered a sharp sell-off of defensive assets, including precious metals, as investors bet on stronger U.S. economic growth.

Nevertheless, there are signs that not all is as rosy as the exuberance swamping the stock market would have us believe.

Now what?

Central to Trump's planned fiscal stimulus is implementing a \$1 trillion infrastructure investment program along with tax cuts for the wealthy and corporations. Such developments, it is assumed, would cause jobs, wage growth, and consumption to surge, leading some economists to speculate that for a short period, U.S. GDP growth could surge to as high as 4% annually.

This has had an almost immediate effect on the stock market and commodities, causing them to rally significantly since the election. These factors have sparked a massive shift from defensive assets into growth-oriented assets that are more attuned to the new economic outlook.

However, the unbridled enthusiasm now being witnessed could very well be premature. The reality of implementing Trump's policies is very different from how they look on paper.

It has been speculated that if implemented, they would cause the U.S. federal deficit to blow out by as much as US\$10 trillion over the next decade, leading to higher borrowing costs and reduced savings. This would be a negative development for an economy already awash in cheap money from the Fed's program of low interest rates and quantitative easing that some pundits fear has created a stock market bubble.

It could also cause runaway inflation and force the Fed to move on interest rate hikes at a pace that would be unsustainable for the economy and the stock market.

There is also the impact of Trump's protectionist trade policies to consider. Not only could they strangle international commerce and trigger a trade war with China, but they would also cause domestic prices to rise, further contributing to inflation.

This had led some economists, along with investment bank **Goldman Sachs**, to speculate that after a short honeymoon period Trump's economic policies would lead to a period of stagflation.

Stagflation is when inflation rises at a rapid rate, but underlying economic growth is stagnant and unemployment remains high. The last time the U.S. suffered a significant bout was in the late 70s when the OPEC oil shocks dented economic growth and triggered a sharp rise in oil and petroleum products.

If this were to happen, the U.S. economy would slide into a recession.

So what?

While it is easy for investors to get caught up in the exhilaration surrounding stock markets, they shouldn't lose sight of the long term. This means sticking with their strategy and focusing on investing in companies with tried and tested businesses that have withstood the test of time.

One business that embodies these virtues is **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)). Not only does it possess excellent defensive characteristics, including a wide economic moat, but, strangely enough, it is well positioned to benefit from any uptick in the U.S. economy.

You see, Canadian National operates a transcontinental rail network that reaches all the way to the U.S. Gulf Coast, giving it access to a significant proportion of the U.S. population. Because rail remains the only cost effective and viable means of transporting bulk freight, higher coal and metals prices triggered by Trump's proposed infrastructure spending will spark a surge in demand for freight rail.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Investing

Date

2025/08/24

Date Created

2016/11/23

Author

mattsmith

default watermark

default watermark