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## ***Europe Could Trump It All!***

Donald Trump will, on January 20th 2017, be inaugurated as the 45th President of the United States of America. He won the election despite being written off when he stood as a candidate, losing the support of large elements of his own party, an unfortunate video, a significantly smaller campaign budget and a strew of women making abuse allegations. Donald Trump has, just as with Brexit in the UK, tapped into older, poorer voters who are worried about demographic change and angry that their concerns have been ignored for too long.

This is third decision the pollsters have got wrong and we suspect that polls struggle when one side is demonised. During the vote on Scottish independence those supporting the Union were often labelled as traitors. In the UK's referendum on the European Union 'outers' were portrayed as xenophobes and in the US election, Trump supporters were described as 'deplorables'. It's unsurprising that many won't respond honestly to pollsters when painted so negatively.

Hyperbole aside, we should remember that this is business as usual. America has democratically elected a new President and in four years' time they will repeat the process. What is more notable this time is that the President Elect's party, the Republicans, have retained control of both Houses of Congress which should aid Donald Trump in delivering on his mandate. Even the Supreme Court, which is evenly balanced at present, is likely to see some of the more elderly, liberal, judges replaced by those of a more conservative persuasion.

The bigger question is why have the world's largest (USA) and 5th largest (UK) economies decided on a radical change in direction? Our sense is that the economic framework that was created and developed after the Second World War is struggling in the current environment. Whilst globalisation has been an

extraordinary force for good, lifting many from poverty and delivering rising wealth, it has seen a rapid outsourcing of western manufacturing jobs which left many either unemployed or underemployed in lower paying service sector jobs. The consequences have seen swathes of the middle classes being 'hollowed out' and few questioned why lending to lower wage, sub-prime, borrowers became such a rapid growth sector. The results are evident in US wages where the share of the US economy (GDP) paid to employees as income has been falling since 1970 but took a further step down from 2000. In the UK, middle market brands such as BHS, C&A and Woolworths have disappeared as the same trends have played out.

Our sense is that politics in the US, UK and EU are moving to the right and politicians will become more domestically focused with job creation moving higher up the agenda. We expect a less liberal approach to globalisation, lower corporate tax rates and increased borrowing to fund spending on infrastructure to both create jobs and improve productivity. The same drivers that have played out in the UK and US exist within Europe and those electorates will start to have their say from December. Our fear is that unless the Eurozone can reform, further break up remains an increasing risk.

It's easy to be pessimistic during periods of change but things are rarely as good, or as bad, as they initially seem. A concerted effort by policy makers on growth and bolstering the 'middle' is likely to be inflationary and positive for commodities and equities, at least in the short term, but negative for bonds as more debt is issued. Gold could also continue to do well as investors seek respite from currency swings, rising inflation or seek insurance against the risks of a Euro currency member leaving the Eurozone.

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