Austrian Trumponomics

Trump is taking an "unconventional" approach to monetary policy.

He is considering the views of libertarian thinkers with Austrian style economic policy views.

Adaptation of any of these policies, even small, could lead to large repricings and shockwaves across many asset classes.

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December 1, 2016

We've written a couple of articles about why we think there is going to be a correction in the markets despite the Trump presidency moving the markets forward for the time being. Since the election, we have seen a "tremendous" move higher.

We have also shared our thoughts on how we think Donald Trump will interact with the Federal Reserve and why we think FOMC policy is going to see a marked shift under a Trump presidency, despite the fact that Trump really doesn't have much control over what the Fed does.

We attributed these potential upcoming changes to Trump's general attitude about the market. He has stated several times on the campaign trail that he believes the market is in a bubble and he's been critical of the Federal Reserve for not raising interest rates in a timely fashion,

Count Donald Trump among the ranks of those who don't think too much of the stock market as a sound place to put money.

A day after making a widely watched public address on his economic plan, the Republican presidential nominee advised against betting on Wall Street.

The big problem, as Trump sees it: The low interest rate environment fostered by the Federal Reserve that has coincided with a 227 percent market gain since the financial crisis lows.

"If rates go up, you're going to see something that's not pretty," the billionaire businessman told Fox News during a Tuesday morning phone interview. "It's all a big bubble."

We don't necessarily disagree with Mr. Trump.

We are happy to see the bullish market now that Trump is the president-elect and we think this cycling out of technology stocks and into industrial stocks makes sense. We do believe that Trump is going to follow through with his plan to improve the infrastructure of the country and there are certainly going to be corporations that are the beneficiaries of this. Steel and manufacturing companies have all responded positively thus far, as one can see by looking at the Vanguard Industrials ETF, in addition to the indices.

However, there is another added component of volatility that we wanted to look at which could potentially be in our future, but has been little talked about. Last Monday, Trump met with John Alison, former CEO of BB&T bank and libertarian, who holds some "different" views on the Federal Reserve and monetary policy. He is a proponent for going back to the gold standard, and eliminating the Federal Reserve. He was considered for Treasury Secretary, but was obviously passed up by this week's appointment of Mnuchin. Business Insider wrote earlier this week,

"I would get rid of the Federal Reserve because the volatility in the economy is primarily caused by the Fed," Allison wrote in 2014 for the Cato Journal, a publication of the institute.

Allison said that simply allowing the market to regulate itself would be preferable to the Fed harming the stability of the financial system.

"When the Fed is radically changing the money supply, distorting interest rates, and over-regulating the financial sector, it makes rational economic calculation difficult," Allison wrote. "Markets do form bubbles, but the Fed makes them worse."

Allison also suggested that the government's practice of insuring bank deposits up to $250,000 should be abolished and the US should go back to a banking system backed by "a market standard such as gold."

Now that he has been denied the Treasury Secretary role, it's still up in the air as to whether or not Allison will act as some kind of consultant for the Trump team. Him doing so could have a marked (and ultimately positive, we believe) effect on equity markets and cause a significant amount of volatility. If this administration adopts any libertarian/Austrian policies, there would likely be a large repricing across all asset classes. Even small moves could create giant shockwaves and we think it's important to be cognizant of this possibility.

In essence, while there is no guarantee that Allison will land in Trump's cabinet, and if he does there's no guarantee that his policies are going to become mainstream, it is worth noting. The funny thing is we don't even think this is a bad idea. We have been proponents for this type of economic system for a while and we do believe that the Federal Reserve causes a lot of volatility instead of helping a lot of it.

This all seems to meld together with Trump's aforementioned criticisms of the Federal Reserve and brief thoughts about the state of the market, which he continues to state is in a bubble. In order for there to be a correction, and a correction that the market desperately needs, we need someone in charge who is not afraid of popping the bubble. Equity valuations would likely get closer to normal valuations, we would return value to the dollar, and in Trump's case, GDP would hopefully rise.

If there is one person that isn't afraid of doing this, we would have to believe that it is Trump.