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President Trump: A Preliminary Analysis

On November 8th, Donald Trump shocked the country and the world by defeating Sen. Hillary Clinton in the U.S. presidential race by accumulating a majority in the Electoral College. Mr. Trump, the first president in U.S. history to gain the presidency without having been previously elected to office or served in the military, is something of an unknown. In other words, we have little personal history to examine to forecast his geopolitical leanings. All we really have are his public statements and campaign platform.

However, these sources do offer solid clues as to where he intends to take his foreign policy. In this report, we will characterize our expectations of Trump's foreign policy using Mead's archetypes.¹ From there, we will examine how we expect Trump to change America's superpower role, which it has provided since the end of WWII. As always, we will conclude with potential market ramifications.

Trump, the Jacksonian

We use Walter Russell Mead's 2002 book *Special Providence*² to examine foreign

¹ See WGR: [The Archetypes of American Foreign Policy: A Reprise](#), 4/4/16. In our initial analysis of Trump, we postulated he was more Jeffersonian than Jacksonian. We have revised our viewpoint in this report, arguing that he is almost purely Jacksonian.

² Mead, W. R. (2002). *Special Providence: American Foreign Policy and How it Changed the World*. New York, NY: Routledge.

policy positions. Mead took a unique approach in describing policy positions, using historical figures instead of abstract models. Other policy analysts have used terms like "realists" or "idealists." Unfortunately, these broad generalizations fail to fully express the subtleties of American foreign policy.

Mead named four archetypes: Hamiltonian, Wilsonian, Jeffersonian and Jacksonian. Each one of these archetypes has specific characteristics that describe the viewpoints and behavior of a policymaker of that certain type. By using a real historical figure as a representative of that archetype, it helps the reader to envision the position of that particular "school." As with all archetypes, these are considered model specimens. Actual policymakers tend to be a mix of these four types; rarely will a policymaker be of pure form. However, the archetypes do offer a construct for an analyst to examine and predict the foreign policy behavior of elected officials.

Jacksonians are perhaps the most unique of the four American archetypes. As such, this archetype is the one likely to most confound foreigners.

The Jacksonians believe that the most important goals of foreign policy are the physical security and economic wellbeing of the American people. Thus, they oppose the Hamiltonian approach to policy as too willing to support business to the detriment of American workers. They also find the Wilsonian position on fighting moral wars repugnant. Why risk American lives because some dictator is abusing his own

people? That problem is someone else's worry.

The Jacksonians are most similar to the Jeffersonians. Both oppose big government and support broad democracy. What separates the Jacksonians from the Jeffersonians is the role of national honor. According to the Jacksonians, it is dishonorable to back down from a real threat to American freedom and security. Jacksonians generally oppose war; however, once war is deemed necessary, the Jacksonians show no quarter. Wars for Jacksonians end with unconditional surrenders by the enemy. Limited wars are of no use. If the government decides to commit itself to a war, then the enemy must be destroyed.

The inability of foreigners to understand Jacksonians has been to their detriment. Foreign governments tend to view Jacksonians and Jeffersonians in the same light; both fear war and prefer not to fight. However, they often fail to grasp that once committed, Jacksonians are hell-bent on winning unconditionally. Because of their full commitment, Jacksonians do not take war lightly. Once committed, an enemy finds itself facing a formidable foe.

Jacksonians are probably the least understood of the four archetypes. To some extent, this is due to the lack of an intellectual tradition; the other three archetypes have ideological roots. Hamiltonians developed from the British conservatives. Wilsonians come from the Protestant missionary Social Gospel movement. Jeffersonians have been aligned with Libertarianism. Jacksonians are the closest the U.S. has to a folk movement. Ethnically, the Jacksonian roots spring from the Protestant Scotch-Irish that initially immigrated into the Carolinas and Virginia

and spread to West Virginia, Kentucky and parts of Illinois and Indiana. They tended to view themselves as a class. What they want from the government is not ideological. They want government to support their group's goals—for example, they don't oppose government spending per se, but want it focused on their needs and wants. In modern terms, they support Social Security, which helps the retirement of the middle class, but oppose welfare as government giveaways for the idle poor. In visceral terms, the themes of country music—honoring America, living the simple life, following the rules—represent the best descriptions of the Jacksonians.

Trump's comments during his campaign, in which he questioned remaining in NATO, suggested Japan and South Korea should consider nuclear weapons, stated his opposition to trade deals and alleged manipulation by other nations of their currencies for trade advantage, are consistent with a Jacksonian archetype. A Jacksonian isn't interested in the "Great Game" of foreign policy. If other nations leave the U.S. alone, he will likely allow them to act as they see fit. It would be consistent with this archetype for Trump and Putin to negotiate over Russia's influence in Eastern Europe, for example.

On the other hand, actions that make America look weak, like Russian warplanes buzzing U.S. naval vessels or Iranian speedboats swarming U.S. warships, will not be tolerated. It would not be surprising to see Trump order these incursions to be met with deadly force.

American Hegemonic Imperatives

The U.S. reluctantly accepted the role of superpower after WWII in order to not fight WWII. There were two primary pillars to the execution of U.S. hegemony. The first

was financial and was created at the Bretton Woods conference in 1944. The U.S. established the dollar as the reserve currency.³ This system developed by the U.S. changed how hegemony was exercised. European hegemony had acquired colonies to expand their influence. These powers used their colonies for raw materials and export markets. Instead, the U.S., mostly a self-contained economy that could meet most of its raw material needs domestically, opened its borders to trade. This allowed the nations ravaged after the war to rebuild by selling goods to American consumers. The Free World became dependent on the American economy for their demand and for the currency most used in global trade.

The second element of American hegemony was the management of geopolitical situations. The U.S. adhered to four policies.⁴ First, the Soviet Bloc was encircled with American bases and alliances with other Free World governments. Second, the U.S. solved the German problem in Europe by demilitarizing the continent and shouldering their security needs. Third, it froze the Sino-Japanese conflict by demilitarizing Japan. And fourth, it decided to enforce the artificial borders and states in the Middle East by supporting status quo governments.

This foreign policy required a domestic political coalition to manage the costs and benefits that were part of this arrangement.⁵ The initial coalition, assembled by President

Roosevelt, consisted of right-wing populists and the center-left managerial/rentier establishment. It was characterized by high marginal tax rates and heavy regulation, which supported organized labor. The policy, designed to create a broad path to the middle class, generated ample consumption to absorb the imports required from the dollar's reserve currency status. However, it was inefficient and part of its downfall was inflation, which, by the 1970s, rose to levels that demanded response.

The political response was the Reagan-Thatcher revolution which globalized and deregulated the economy. Globalization, along with deregulation, did lower inflation at the cost of rising inequality. Those workers who could not easily adjust to a globalized, technological job environment have progressively suffered weakening prospects since the 1980s. To maintain an ever-rising level of consumption necessary to provide the reserve currency, financial markets were deregulated which facilitated massive household borrowing. This coalition has been under threat since the 2008 Financial Crisis, which ended the use of household debt accumulation as a solution to income inequality.

The Trump Response

Although it is early, it appears that Trump is trying to create a new coalition that has right-wing populists at its core. At present, he seemed to win with this group and a tenuous alignment with the center-right rentier/managerial class. A more natural coalition may be with the left-wing populists.⁶

³ See WGRs: [The Geopolitics of the Reserve Currency: Part 1](#), 10/24/16; and [The Geopolitics of the Reserve Currency: Part 2](#), 10/31/16.

⁴ See WGRs: [American Foreign Policy: A Review, Part I](#), 10/3/16; and [American Foreign Policy: A Review, Part II](#), 10/10/16.

⁵ See WGRs: [2016 \(Part 1: The Economic Issue\)](#), 3/31/2014; [2016 \(Part 2: The Political Situation\)](#), 4/14/2014; and [2016 \(Part 3: The Election Situation\)](#), 4/21/2014.

⁶ A good analysis for this possibility of the coalition can be found in Ralph Nader's book, see: Nader, R. (2014). *Unstoppable: The Emerging Left-Right Alliance to Dismantle the Corporate State*. New York, NY: Nation Books.

Trumponomics is a backlash against the policies of the Reagan-Thatcher coalition. At present, it is merely anti-globalization. However, we would not be shocked to see it eventually adopt policies that would impede the unfettered introduction of new technology into the economy. The slogan “Make America Great Again” seems silly to the top 20% of household income brackets who have thrived under globalization and deregulation. For them, it’s already “great.” But for the bottom 80%, a return to the 1950-60s policies would be great; in fact, it appears some sort of return to that policy mix is desirable.

The problem is that a return to those halcyon days is inconsistent with the economic disruption supported by the political establishment that requires globalization and deregulation. Trump’s platform is clearly designed to reverse globalization. He is threatening tariffs and the reversal of existing trade treaties; the president can move almost unilaterally on many trade regulations. This reversal on globalization is in opposition to the establishment orthodoxy. On this issue, Trump will find more common cause with the left-wing populists, represented by Senators Warren and Sanders.

The geopolitical side of American hegemony is in opposition to Trump’s Jacksonian archetype. The foreign policy establishment has been dominated by either Hamiltonians (during the Cold War) or Wilsonians (since the fall of the Soviet Union) who supported encircling Russia and freezing conflicts in Europe, Asia and the Middle East. Trump opposes these policies and is willing to allow these frozen regional conflicts to thaw. That action, by itself, will seriously undermine globalization because trade will become impossible to safely maintain without security.

It is still early and we don’t know whether Trump can be swayed to a different position but, for now, it appears that he is preparing to end the superpower role that America has provided since 1944. This is occurring because the political coalition that emerged from the Reagan-Thatcher revolution has not been able to address the economic distress of the bottom 80% of the income scale. President-elect Trump has concluded that the best way to improve the economic lot of the bottom 80% is to jettison American hegemony. That decision is monumental in scale; American foreign policy has probably prevented WWII. That is now in question. But, that problem likely evolves over a decade or so. In the near term, there is a higher likelihood of small wars for regional dominance while the U.S. retreats into “Fortress North America” and prospers.

Ramifications

If President-elect Trump moves to abandon America’s superpower role, we expect the following market effects.

1. Foreign investing becomes problematic. Everything we know about foreign investing has occurred in an environment where the world has had a hegemon providing the global public goods of a reserve currency and geopolitical security. Foreign investing takes on additional risk factors for which we have little history to use as an analog.
2. U.S. investing becomes much more attractive. Not only is it likely that North America becomes an oasis of stability in an uncertain world, but the U.S. is the strongest nation on the North American continent. Global capital will be seeking safety and the U.S. will probably become the target for capital flight. Thus, U.S. financial and real

- estate assets will be especially attractive. The dollar should also benefit.
3. In general, small cap stocks should do better than large cap stocks as the latter are more exposed to overseas risk.
 4. Outsourcing will become less attractive due to the lack of geopolitical stability. Large cap stocks will suffer as their supply chains shrink, giving small and mid-caps an edge until these supply chains are adjusted.
 5. Although the stronger dollar will act as a damper on commodity prices, we do expect rising precautionary demand for raw materials as companies, governments and households shift from “just in time” inventory management to “just in case” methods. The uncertain supply, caused by the instability of the reserve currency and regional conflicts, will make key commodities attractive.
 6. Fixed income outside the U.S. will become quite risky as inflation will likely rise due to the steady erosion of

globalization. U.S. rates will likely rise as well but at a slower pace because of capital flight.

Thus, U.S. investors will likely position their portfolios domestically, with a bias toward small and mid-caps in equities and an allocation in real estate and commodities. Duration in fixed income will be shortened and foreign bonds will likely be avoided.

We view the Trump victory as a clear signal that American hegemony is coming to a close. This has been an issue we have been closely watching for nearly a decade. We fear that, longer term, this change may create conditions for another world conflict; however, in the short run, we will likely see more small wars for regional dominance.

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