



Will Trump's Trade Policies Kill His Stock Market Rally?

When it was clear that Trump would be the next president the stock market tanked. Then investors thought of the promises of lower taxes, corporate money repatriated from offshore and fiscal stimulus via infrastructure repairs. And the stock market rallied. Now the specter of a trade war emerges as Trump's trade policies become clearer. Will Trump's trade policies kill his stock market rally? Will they kill the American economy? *The Huffington Post* writes that that **stocks could suffer** as Trump's trade policies take shape.

The year-end stocks rally on the heels of the election of Donald Trump as U.S. president was built on expectations of reduced regulations, big tax cuts and a large fiscal stimulus.

Now signs are emerging from the Trump camp that harsher trade policies could jeopardize the honeymoon are likely in the offing, and investors would be well advised to give those prospects more weight when gauging how much further an already pricey market has to run.

By naming China hawk Peter Navarro as head of a newly formed White House National Trade Council, the incoming administration is signaling Trump's campaign promises to revisit trade deals and even impose a tax on all imports are very much alive.

The policy that has investors worried is the so called border adjustment tax. Deutsche Bank analysts expect this policy would drive up inflation causing the Fed to raise interest rates faster than expected and drive the dollar up 15% against other currencies. For every 5% that the dollar goes up the earnings of S&P 500 companies go down 3%. A 15% rise in the dollar would translate into a 9% drop in S&P 500 earnings. Will Trump's trade policies kill his stock market rally? It looks like that could be the case.

Can the USA Withstand a Trade War?

Talk is cheap. An opening gambit for Trump may be to talk tough in order improve trade relationships for the USA. But what happens if the other side responds by upping the ante? Project Syndicate discusses **Trump's gathering trade war** with China and others. Trump's picks as commerce secretary and national trade council are indicative of the direction Trump wants to go. Wilbur Ross and Peter Navarro are trade hawks who are ready to abrogate any and all trade deals.

[S]uch tough talk undoubtedly played well with voters, it fails a key reality check: America's large trade deficit – a visible manifestation of its low saving – calls into question the very notion of economic strength. A significant domestic saving deficit, such as that which afflicts the US, accounts for America's insatiable appetite for surplus saving from abroad, which in turn spawns its chronic current-account deficit and a massive trade deficit.

The USA runs a trade deficit with a 100 nations. The author of this article likens the fix of US trade relationships to the Dutch boy putting his fingers into the leaks in the dike and finding out he does not have enough fingers! The USA and China especially are locked into a co-dependent economic relationship and a trade war could be devastating, worse than the 1930's Great Depression that follow the Smoot Hawley Tariff. As investors consider this situation their reaction could kill the Trump stock rally.

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