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Investment Insights from Silicon Valley

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*Source: Allianz Global Investors GmbH as at September 2015.

The Trump Aftermath

Much like the Brexit result, the polls were wrong in the US Presidential election, and Donald Trump is the next President of the United States. What does this mean for technology stocks in particular and stocks in general?

Trump's victory was enabled by millions of voters who have felt left behind by the recent improvement in the economy and by many in small business that have felt stifled by increasing government regulations and costs for health care and by government interference in their business. Much of the prosperity of countries like China has come at the expense of manufacturing plants in the heartland of the US that have been shuttered, and no employment alternatives have been available for those workers. Income disparity has been as wide as ever before.

Despite whatever character flaws might be evident in Donald Trump, his policies represent a rebalancing of the US economy toward a refocus on US prosperity rather than on globally shared prosperity which may have meant a lower share for many US workers. The mantras that resonated with the voters were "Make America Great Again", "Drain the Swamp", and "Build a Wall". Translating, these mean bring companies, manufacturing, and jobs back to the US; stop special interests from controlling government policy and get government out of the way; and have jobs growing for US citizens, not just immigrants. With a friendly Republican Congress, we believe these new policies should get good traction in 2017. In general, we think that the changes should be good for the economy and business, and we should see an economy that starts to grow at a higher rate in the next few years.

The key aspects of Trump's policies

These include the following:

1. A large tax cut. This should provide the fiscal stimulus the US economy has been lacking for the last 5-10 years, as the country repaired its balance sheet. This policy should lead to higher interest rates or more normalised rates in the fiscal year 2016/17. The era of super low rates in the US is ending.
2. Fewer government entitlement programs and spending. The US Republican Congress is fiscally prudent, and tax cuts will be partially offset by less government spending on items like "Obamacare", for example. Less government regulation has been a major complaint by the Congress, and rules on the environment and auto mileage will likely be modified.
3. More US jobs for US citizens. This should result in tighter visa regulations and more import tariffs to prevent other countries from sending excess supply of people and products into the US. There will be a major move to align incentives and tariffs so that jobs for manufacturing products sold in the US move back to the US.
4. Less global intervention in geographic regions by the US military.

Investors Chronicle Top 100 Funds 2013 – Allianz Technology Trust
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Investors Chronicle Top 100 Funds 2014 – Allianz Technology Trust
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5. A more rational tax policy so that companies stay in the US and offshore money moves back to the US.

And the investment implications?

These are still to be completely understood, but a few general conclusions on the investment implications for the technology sector seem possible:

1. Companies with offshore cash should be able to bring it back with a modest tax rate paid to the US. `This should benefit companies such as Google, Apple, Microsoft, and Facebook, which have billions in offshore cash, and we think this will allow them to have a more aggressive capital return policy for their shareholders.
2. Mergers may get easier in the US, but it will harder for foreign companies to buy intellectual property. This may help the semiconductor industry retain its global lead over China, but the merger wave may be ending as higher rates and more difficult approvals outside the US will occur.
3. Outsourcing of IT will get much harder. This will accelerate the move to Cloud Computing and Software as a Service, because companies will not be able to easily obtain the people to run legacy IT infrastructures and the attraction of an infrastructure run by cloud providers who reduce costs regularly will increase. Ironically, this will increase the need for many of the new US based cloud oriented service companies that can help companies move to these new systems, while disadvantaging the Indian outsourcing companies. Companies like Accenture and Computer Sciences, who have made aggressive and numerous acquisitions in the new companies, should benefit.
4. Manufacturing in the US will get resurgence, and new plants for manufacturing items consumed in the US will be built. We expect that these will be filled with robots to keep costs down, so the demand for employees that know computers will intensify as will the use of Artificial Intelligence in these new factories.
5. There will be more cybersecurity programs and spending to prevent disruption to the US economy, and more cooperation between government and private programs.

In summary, what is important to realise is that the election represented a vote for change in US policy toward a more US manufacturing and business friendly one, and that it should be good for the US economy and technology companies over the next few years. There is hope that the conservative Republican Congress will pass legislation that stimulates the economy while not breaking the budget by reducing government regulation and costs, and the recent grid lock that has occurred in government should be ending. Whether measured stimulus happens will determine if there is a scenario of high inflation and another budget crisis beyond the recovery that now seems likely.

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