



Monthly comment by
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Significant positive effect of Trump's tax reform

At the start of December, the US senate more or less passed President Trump's tax reform, which was already approved by the House of Representatives. The two houses still need to agree on the finer details but these can be seen as minor issues. To all intents and purposes, we now know the main contents of the tax reform.

The reform reduces US corporation tax from 35% to 20% and the first estimates indicate that more than 80% of Americans will see a reduction in their personal tax payments.

Until now, the US tax system has been constructed in such a way that income tax payments to the individual states was deductible in federal income tax. Property tax was not deductible in federal income tax. At the same time, there has been a pronounced tendency for the blue (democratic) states to fund themselves primarily with income taxation and only secondarily with property taxation, while the red (Republican) states have done the exact opposite.

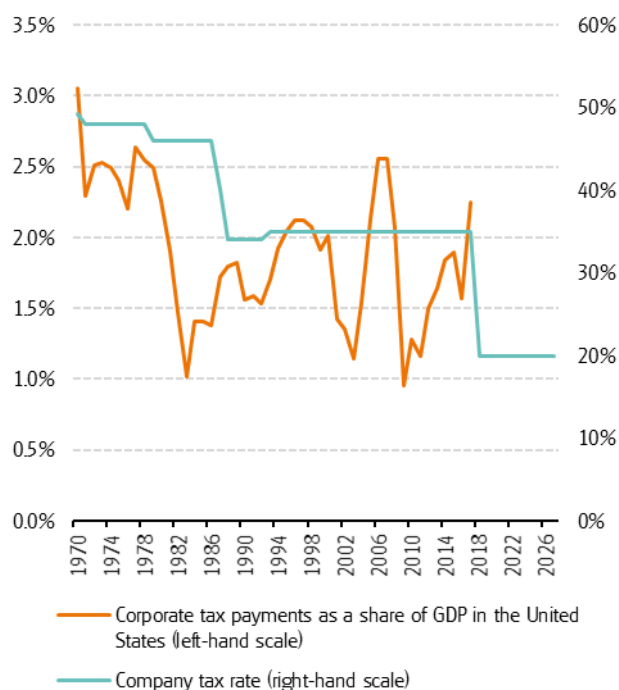
In other words, the blue states enjoyed a considerable advantage under the current tax system. This advantage will now be turned on its head by Trump, as there will now be a tax deduction for locally paid property tax, while the deduction for locally paid income tax will be reduced. In fact, changing the tax system is a surprisingly precise way of rewarding republican states at the expense of democratic states.

Against this background, one can assume that the tax reform will have significant meaning for the individual states' future tax systems, as these will probably move away from income taxation towards property taxation.

pricing to move their taxable income to other countries with lower rates of corporation tax. Most of the big US companies already have a considerably lower effective tax rate than 35%.

The tax reform and the prospects of deregulation by the Trump administration has already boosted optimism among small and medium US businesses. Their hiring plans in the NFIB survey are at the highest level since 2000, and plans to invest have also improved significantly.

A steep fall in US corporation tax
in the cards



Good for small businesses, irrelevant for big businesses

The tax reform is particularly relevant for small and medium businesses who are not able to exploit schemes like transfer

International significance

Just as Reagan's 1986 tax reform had great significance for the international tax debate in the late 1980s, we can expect Trump's tax reform to exert further pressure on international corporation tax in particular. Taxes have generally had a downward trend due to the simple reason that from a social perspective, corporation tax is incredibly inefficient. All the evidence points to the fact that the states' revenue from corporate taxes has generally been fairly constant despite falling tax rates. In other words, there are significant dynamic effects from corporation tax breaks.

Trump's tax reform can provoke a long-overdue service of European tax systems

It is my assessment that Trump's tax reform can provoke a long-overdue service of European tax systems, and that the expectation alone of this overhaul can contribute to reinforcing and extending the optimism that we are currently experiencing in Europe.

Is the US in a late stage comeback?

With unemployment at 4.1% and an almost uninterrupted – but admittedly weak – expansion since 2009, the US business cycle ought to be almost overripe. It is definitely contrary to textbook recommendations to undertake the dramatic fiscal easing planned by the Trump administration so late in the business cycle.

Without the tax reform, the US economy would – according to our models – be facing a steady decelerating (falling, but still positive) growth rate in 2018. The OECD leading indicator for the USA has turned, so it is now pointing upwards again and M1 money supply growth is solid.

That's why we are issuing a warning: Don't think that the US recovery is over

Although unemployment is so low, we can still have a situation where the tax reform breeds an increased and extended optimism among consumers and companies, causing an increase in employment rates. The US employment rate (across several business cycles) has had a sustained declining trend since 2000. There are many reasons for believing that we can expect a long-term continuation of this trend, but in the

short term an increased employment rate could actually extend and strengthen the current strong business cycle by a year or more.

That's why we are issuing a warning: Don't think that the US recovery is over.



The interest market shrugs its shoulders

According to the Congressional Budget Office, the tax reform will increase the US budget deficit by approximately USD 1.7 billion over the next 10 years. Against this background, one could easily have imagined the bonds market pushing up interest rates dramatically after the reform's approval.

When Trump was elected in November 2016, the interest rates market reacted with a steep rise (the long-term interest rates rose sharply in relation to the short interest rates), which bore witness to even at this early stage, at least the interest market anticipated greater growth and inflation as a result of the election campaign's promises.

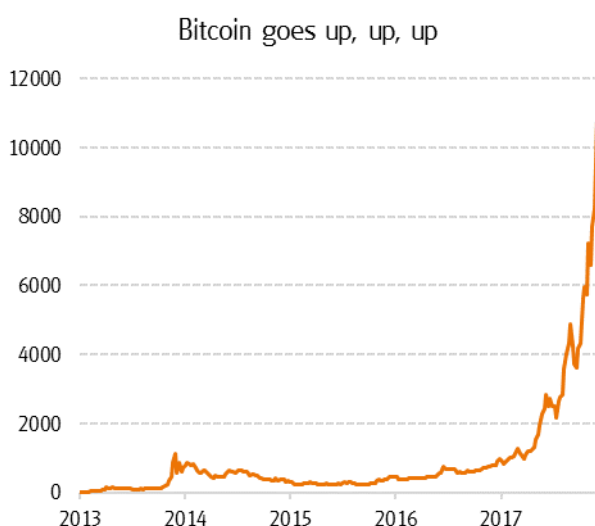
Now, where one of the most important promises looks like being implemented, the US interest market has reacted with something approaching a shrug of the shoulders – interest rates varied from unchanged to gently falling.

My assessment is that this situation can also be compared to the Brexit referendum and Trump's election. Much of the leading media took the opportunity to pass on their scepticism about whether the reforms could actually be done. Even macro-analysts allowed themselves to be taken in and helped to keep these opinions alive. Now the tax reforms are reality, the market hasn't reacted and has therefore presumably already priced in the event.

Today, these areas work adequately in the developed countries, even though they undoubtedly could be greatly improved. In my opinion, where blockchain technology could have the greatest significance – if it is allowed – is in EU countries where private property ownership is unclearly defined, and where investors and ordinary citizens battle against unclear legislation, random legal judgements and corrupt politicians.

The continued rise of the bitcoin

Bitcoins generate more and more headlines, as the electronic cryptocurrency often rises by several percent per day. This year alone, Bitcoins measured in Euros rose by over 1,100%.



If our current monetary system, which is dominated by currencies like USD, EUR and JPY, are to be replaced by one or more cryptocurrencies, Bitcoin values can multiply – even from current levels. The fact that banks and other players on the financial markets allocate so many resources to integrate – or even simply understand – cryptocurrencies is testimony to the fact that the blockchain technology that lies behind Bitcoins will become integrated into the financial infrastructure in the foreseeable future.

What effect Bitcoins or any other cryptocurrencies might have for investors is an extremely good question. My immediate assessment is that ordinary investors ought not to react to the dissemination of the technology, because in the first instance it will only affect payment systems and bank infrastructures. In the longer term, blockchain technology can have significance for land registration systems, copyrights, patents, contract management, and a host of other areas that we have not thought of yet.

The MomVol indicator

Our MomVol indicator assumed a value of 0.88 at the end of November, which is higher than in the previous month, but still solidly above the threshold of 0.6, under which one ought to be underweight the stock market.

As mentioned above, the leading indicators show continued growth, which further supports my assessment that one should continue to maintain an overweight to shares.

Editorial deadline: December 11, 2017