

Unintended consequences

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The majority of developed economy electorates are towards the centre of the political spectrum. Most have a bias to the left or the right, but the majority occupy this centre ground. It may not feel like it at times such as now, but the analysis shows that this is a fact, even in the United States.

There is a pendulum in politics however, and as with any pendulum, the swing to the left or to the right needs to lose momentum, or hit something, before it changes direction. At Tacit, we remain politically neutral, however we have seen the impact of the political pendulum become more pronounced over recent years, acting as a negative for economic growth for regions such as Europe and the United Kingdom.

Strangely, this may actually be changing. The rhetoric and actions of the newly elected President Trump around tariffs appear at first reaction to be a negative for growth. In reality, economies such as China and Europe have become used to the tariff narrative over the past few years and will inevitably cope moving forward. Do not get us wrong, tariffs are economically negative, and therefore reduced barriers would be preferable.

But just consider the impact of the policies enacted by the US over the past weeks. If we look at the economic impact, European countries are looking to spend significantly more on defence, and this will inevitably be positive economically. It has long been the case that countries such as Germany have the fiscal headroom to increase spending but have been reluctant to do so. Following the election result over the past week, a €200 billion package is being touted by the prospective German Chancellor. Interestingly, the yields on European government bonds have fallen, not risen, over the last month and, more notably, in the past week in light of this news. This to us illustrates that regions such as Europe have the fiscal headroom to counteract some of the geopolitical negatives. Interestingly consumer confidence in the US has fallen significantly this year and the impact of US policies appear to be more negative for the US in the short term than others.

The politics will inevitably swing over the coming years; however, it is imperative that we monitor economic policy actions. At present the impact seems to be to reduce the decade-long gap between the U.S. and almost all other nations and may actually lead to better growth outside the U.S. at the expense of America. Politics and economics are more entwined now than in previous cycles, however it is economics which we must watch even though the politics is more perplexing from day-to-day.

One point that this 'new world' will lead to is more short term uncertainty and therefore more volatility in asset prices. Rest assured, the Tacit team remains focused on the behaviour of the investments we hold in our strategies through this period, even though we may not be taking any major strategic changes. The diversified nature of our exposures has helped achieve positive returns and manage volatility since the January inauguration as we have been nervous of the 'all roads lead to the US' narrative in investment markets which has prevailed since the pandemic.

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