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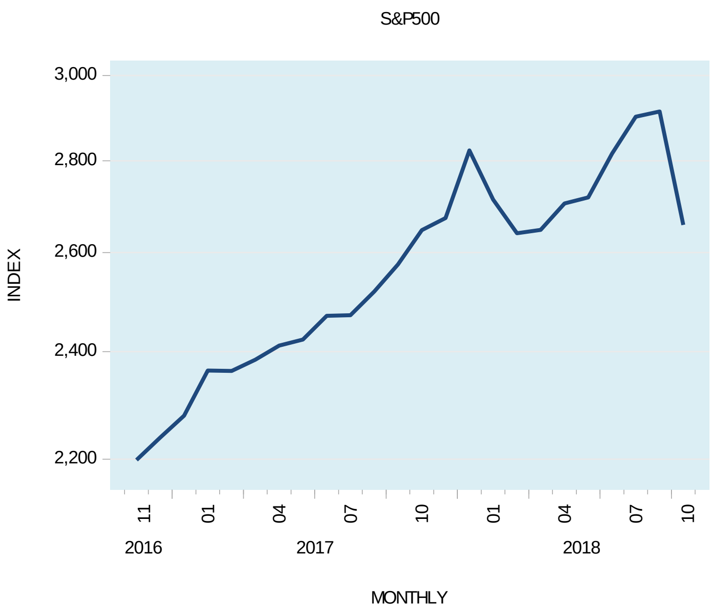
AAS Economics
From Money Supply to Markets

ECONOMIC INSIGHTS

ECONOMIC COMMENTARY

President Trump's policies and the US stock market

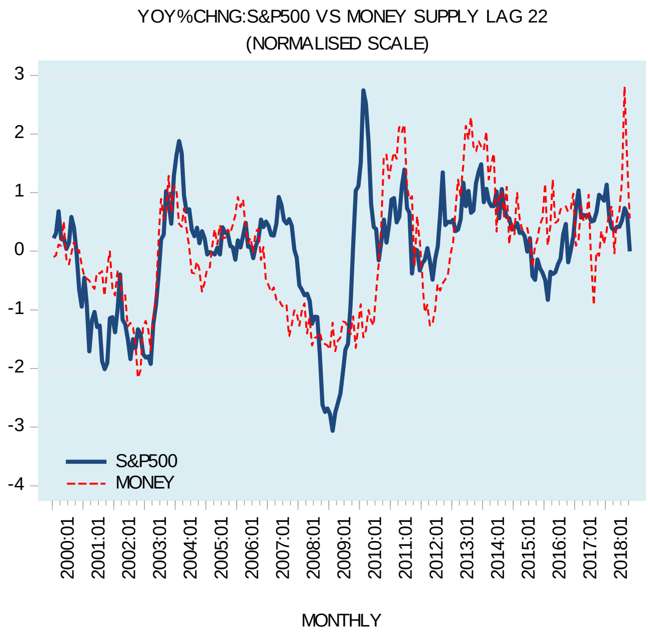
At the end of October 2018, the S&P500 closed at **2,658.69** – an increase of **20.9**% from the end of November 2016 when Donald Trump was President elect of the US.



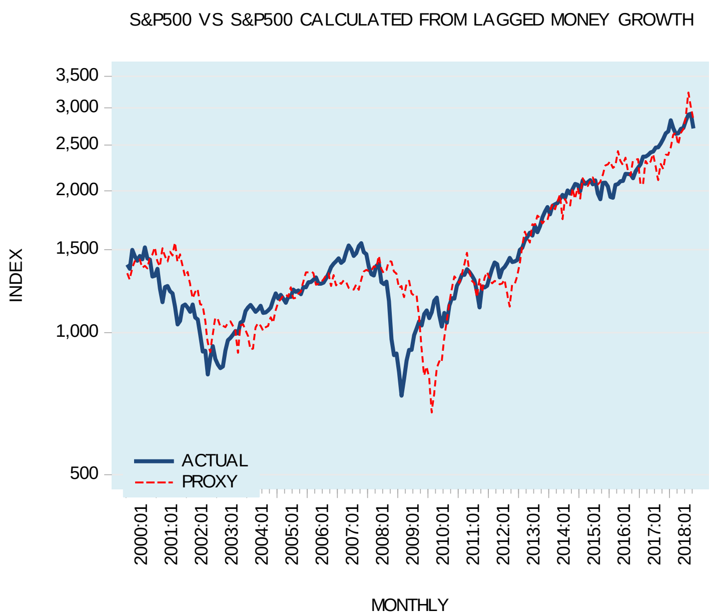
Some commentators attribute the strong increase in the stock price index to Trump's supposedly favorable policies towards US individuals and businesses such as the lowering of taxes.

We suggest that the key for stock market fluctuations is changes in money supply.

There is an average time lag of 22 months between changes in money supply and its effect on the annual growth rate of the S&P500 (see chart). (We employ in our analysis the Austrian School of Economics money supply definition).

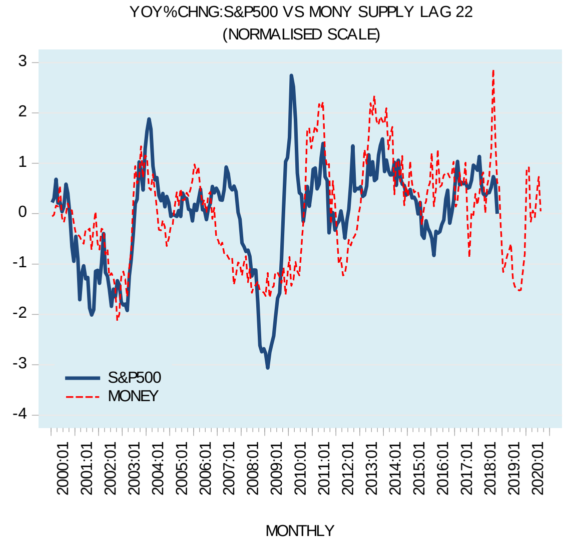


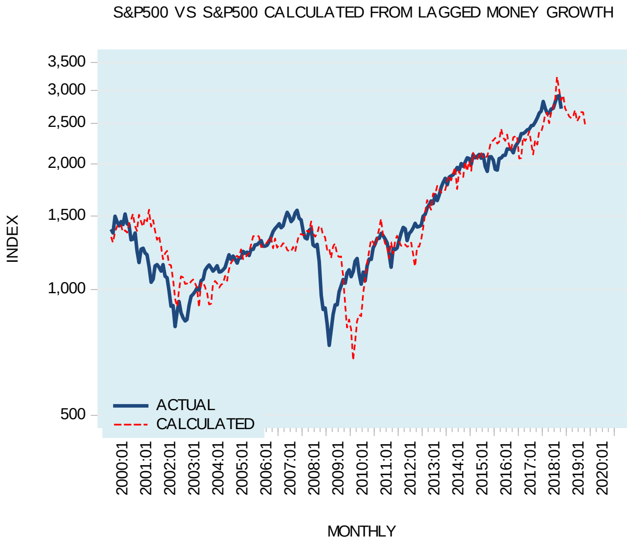
Utilizing the lagged yearly growth rate of money supply, we are able to convert this into a proxy for the S&P500 to assess the impact of money on the stock market. In the chart below we present the actual S&P500 against this proxy (see chart).



There is a very good visual correlation between the actual S&P500 and its proxy. It also raises the likelihood that the strong performance of the S&P500 between November 2016 to the present period is mostly on account of past monetary pumping and has very little to do with Donald Trump's presidency.

We also suggest that based on the lagged yearly growth rate of money supply – which has been declining - the annual growth rate of the S&P500 is also likely to come under strong downward pressure. This also raises the risk that in absolute terms the S&P500 could weaken visibly (see charts).





We conclude that the strong stock market has nothing to do with the Trump's presidency. It is in response to past money growth.