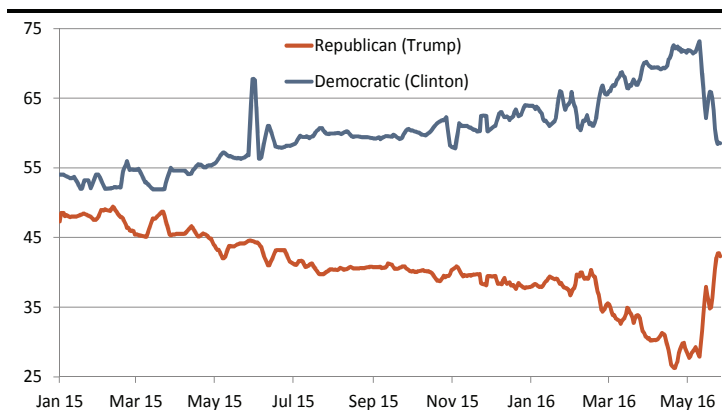


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27 May 2016

President Trump? A European perspective

US presidential election: Parties' projected probabilities of winning in %



5-day moving average. Source: Iowa Electronic Markets, Berenberg calculations

- A gap in perceptions:** Having spent a few days in the US after travelling through Europe immediately before, we have been struck by a transatlantic gap in perceptions. In Europe, few people seem to believe that Donald Trump will be the next US president. In the US, however, many observers rate his chances of winning on 8 November at 40-45%. In the widely watched University of Iowa's electronic market, the probability of a Trump win has spiked up to almost 45% after he virtually secured the Republican Party's nomination three weeks ago (see chart).
- Trump is an unusual candidate:** His various campaign promises lack detail, depth and coherence, as Mickey Levy has pointed out in his outstanding analysis of the *candidates' platforms* based on their own websites. In the fiscal sphere, Trump's numbers do not add up. In his case, it is even more difficult than usual to assess what policies he may actually propose and pursue as president. Our look at what a Trump presidency could mean for Europe is hence more a list of potential issues rather than a forecast of what he would actually do.
- Checks and balances:** The US political system constrains the power of the chief executive. Tax and spending decisions are shaped at least as much as Congress, forcing all sides to compromise and leave behind whatever wilder plans they may have had. The president, however, wields significant power over foreign policy, the domestic regulatory regime and some aspects of trade policy.
- A stronger or weaker US economy?** Trump's pronouncements do not offer sufficient detail and cohesion to gauge the economic impact of a Trump presidency. While some aspects (deregulation, tax reform) contain pro-growth elements, his strong objections to immigration and his protectionist "America first" rhetoric suggest potential economic harm that might weaken trend growth in Europe's major external trading partner.
- Foreign policy upsets?** Trump cultivates the image of a dealmaker. However, diplomacy is different from commercial bargains. Europe faces a risk that an inexperienced president Trump could upset established alliances or strike a deal with, say, Russia's Vladimir Putin at the expense of Europe. As a hypothetical example, recognising Russia's annexation at gunpoint of Crimea in a deal with Putin might not look too dangerous from Washington. But from a European perspective, it would shatter the iron rule that countries shall not invade their neighbours and snatch territory by force, which has underpinned the peace in Europe for the last 70 years. It could send political and economic tremors all the way down from the Baltics to the Balkans and far beyond.
- Trade war?** Following up on various campaign pronouncements, a president Trump could label China a "currency manipulator" and impose a flurry of "anti-dumping" sanctions on China, Mexico or other countries. That he would ratify the TPP trade agreement with Asia and negotiate a TTIP agreement with Europe looks unlikely. Even the mere risk of a trade war with China could be especially disruptive for European economies which are much more orientated towards international trade than the US and which often export capital goods that are very sensitive to the ups and downs of global business confidence. What a Trump or a Clinton presidency would really mean remains unclear. But the potential risks are noteworthy.

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Contacts: Investment Banking



BERENBERG
PARTNERSHIP SINCE 1590

www.berenberg.com

e-mail: firstname.lastname@berenberg.com / e-mail US: firstname.lastname@berenberg-us.com

EQUITY RESEARCH

RESEARCH

AEROSPACE & DEFENCE

Andrew Gollan +44 20 3207 7891
Charlotte Keyworth +44 20 3753 3013
Ross Law +44 20 3465 2692

AUTOMOTIVES

Adam Hull +44 20 3465 2749
Paul Kratz +44 20 3465 2678

BANKS

Adam Barras +44 20 3207 7923
James Burbridge +44 20 3753 3014
James Chappell +44 20 3207 7844
Andrew Lowe +44 20 3465 2743
Eoin Mullany +44 20 3207 7854
Peter Richardson +44 20 3465 2681
Jonathan Sharpe +44 20 3753 3031

BEVERAGES

Javier Gonzalez Lastra +44 20 3465 2719
Batuhan Karabekir +44 20 3465 2631
Adam Mizrahi +44 20 3465 2653

BUSINESS SERVICES, LEISURE & TRANSPORT

Najet El Kassir +44 20 3207 7836
Stuart Gordon +44 20 3207 7858
Simon Mezzanotte +44 20 3207 7917
Josh Puddle +44 20 3207 7881
Alistair Reid +44 20 3207 7841

CAPITAL GOODS

Sebastian Kuenne +44 20 3207 7856
Philippe Lorrain +44 20 3207 7823
Rizk Maldi +44 20 3207 7806

CAPITAL GOODS (cont.)

Horace Tam +44 20 3465 2726
Simon Toennesen +44 20 3207 7819

CHEMICALS

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Andrew Heap +44 20 3207 7918
John Klein +44 20 3207 7930
Evgenia Molotova +44 20 3465 2664

CONSTRUCTION

Lush Mahendrarajah +44 20 3207 7896
Robert Muir +44 20 3207 7860
Olivia Peters +44 20 3465 2646
Michael Watts +44 20 3207 7928

FOOD MANUFACTURING AND H&PC

Yordana Mavrodieva +44 20 3207 7817
Fintan Ryan +44 20 3465 2748
James Targett +44 20 3207 7873

GENERAL RETAIL

Conrad Bartos +44 20 3753 3053
Michelle Wilson +44 20 3465 2663

HEALTHCARE

Scott Bardo +44 20 3207 7869
Jakob Berry +44 20 3465 2724
Alistair Campbell +44 20 3207 7876
Graham Doyle +44 20 3465 2634
Klara Fernandes +44 20 3465 2718
Tom Jones +44 20 3207 7877
Louise Pearson +44 20 3465 2747
Laura Sutcliffe +44 20 3465 2669

INSURANCE

Trevor Moss +44 20 3207 7893
Iain Pearce +44 20 3465 2665
Sami Taipalus +44 20 3207 7866

LUXURY GOODS

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MEDIA

Robert Berg +44 20 3465 2680
Laura Janssens +44 20 3465 2639
Sarah Simon +44 20 3207 7830

METALS & MINING

Alessandro Abate +44 20 3753 3029
Fawzi Hanano +44 20 3207 7910
Yuriy Vlasov +44 20 3465 2674

MID CAP GENERAL

Robert Chantry +44 20 3207 7861
Gunnar Cohrs +44 20 3207 7894
Sam England +44 20 3465 2687
Ned Hammond +44 20 3753 3017
Benjamin May +44 20 3465 2667
Anna Patrice +44 20 3207 7863
Simona Sarli +44 20 3207 7834
Julia Scheufler +44 20 3753 3016
Owen Shirley +44 20 3465 2731

REAL ESTATE

Kai Klose +44 20 3207 7888
Tina Munda +44 20 3465 2716

Internet www.berenberg.com E-mail: firstname.lastname@berenberg.com

TECHNOLOGY

Jean Beaubois +44 20 3207 7835
Georgios Kertsos +44 20 3465 2715
Gal Munda +44 20 3465 2746
Tammy Qiu +44 20 3465 2673

TELECOMMUNICATIONS

Usman Ghazi +44 20 3207 7824
Siyi He +44 20 3465 2697
Laura Janssens +44 20 3465 2639
Paul Marsch +44 20 3207 7857
Michael Summerville +44 20 3207 7914

THEMATIC RESEARCH

Nick Anderson +44 20 3207 7838
Chris Armstrong +44 20 3207 7809
Asad Farid +44 20 3207 7932
Jamie Rosser +44 20 3465 2732

TOBACCO

Jonathan Leinster +44 20 3465 2645

UTILITIES

Robin Abrams +44 20 3465 2635
Andrew Fisher +44 20 3207 7937
Mehul Mahatma +44 20 3465 2698
Lawson Steele +44 20 3207 7887

ECONOMICS

Carsten Hesse +44 20 3753 3001
Kallum Pickering +44 20 3465 2672
Holger Schmieding +44 20 3207 7889

EQUITY SALES

SPECIALIST SALES

AUTOMOTIVE & THEMATICS

Chris Armstrong +44 20 3207 7809

BANKS & DIVERSIFIED FINANCIALS

Iro Papadopoulou +44 20 3207 7924

CHEMICALS, CONSTRUCTION & CAP GOODS

Jina Zachrisson +44 20 3207 7879

CONSUMER STAPLES

Rupert Trotter +44 20 3207 7815

CONSUMER DISCRETIONARY

Victoria Maigrot +44 20 3753 3010

HEALTHCARE

Frazier Hall +44 20 3207 7875

MEDIA & TELECOMMUNICATIONS

Julia Thannheiser +44 20 3465 2676

SALES

BENELUX

Miel Bakker +44 20 3207 7808
Martin de Laet +44 20 3207 7804
Alexander Wace +44 20 3465 2670

GERMANY

Michael Brauburger +49 69 91 30 90 741
Nina Buechs +49 69 91 30 90 735
André Grosskurth +49 69 91 30 90 734
Florian Peter +49 69 91 30 90 740
Joerg Wenzel +49 69 91 30 90 743

UK

Matthew Chawner +44 20 3207 7847
Alexandra Clément +44 20 3753 3018
Fabian De Smet +44 20 3207 7810
Toby Flaux +44 20 3465 2745
Karl Hancock +44 20 3207 7803
Sean Heath +44 20 3465 2742
David Hogg +44 20 3465 2628
Peter Kaineder +44 20 3753 3062
James Matthews +44 20 3207 7807
David Mortlock +44 20 3207 7850
Eleni Papoula +44 20 3465 2741
Bhavin Patel +44 20 3207 7926
Richard Payman +44 20 3207 7825
George Smbert +44 20 3207 7911
Anita Surana +44 20 3207 7855
Paul Walker +44 20 3465 2632

FRANCE

Thibault Bourgeat +33 1 5844 9505
Alexandre Chevassus +33 1 5844 9512
Dalila Farigoule +33 1 5844 9510
Clémence Peyraud +33 1 5844 9521
Benjamin Voisin +33 1 5844 9507

SCANDINAVIA

Frederik Angel +44 20 3753 3055
Marco Weiss +49 40 350 60 719

SWITZERLAND, AUSTRIA & ITALY

Andrea Ferrari +41 44 283 2020
Stephan Hofer +41 44 283 2029
Carsten Kinder +41 44 283 2024
Gianni Lavigna +41 44 283 2038
Jamie Nettleton +41 44 283 2026
Benjamin Stillfried +41 44 283 2033

SALES TRADING

HAMBURG

Alexander Heinz +49 40 350 60 359
Gregor Labahn +49 40 350 60 571
Marvin Schweden +49 40 350 60 576
Tim Storm +49 40 350 60 415
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Christoffer Winter +49 40 350 60 559

LONDON

Mike Berry +44 20 3465 2755
Stewart Cook +44 20 3465 2752
Mark Edwards +44 20 3753 3004
Tristan Hedley +44 20 3753 3006
Peter King +44 20 3753 3139
Christoph Kleinasser +44 20 3753 3063
Chris McKeand +44 20 3207 7938
Simon Messman +44 20 3465 2754
AJ Pulley +44 20 3465 2756
Paul Somers +44 20 3465 2753

E-mail: firstname.lastname@berenberg.com

PARIS

Vincent Klein +33 1 58 44 95-09
Antonio Scutto +33 1 58 44 95 03

TRADING

LONDON

Edward Burlison-Rush +44 20 3753 3055
Richard Kenny +44 20 3753 3083

ELECTRONIC TRADING

Daniel Eichhorn +49 40 350 60 391
Matthias Führer +49 40 350 60 597

CRM

Jessica Jarmyn +44 20 3465 2696
Edwina Lucas +44 20 3207 7908
Greg Swallow +44 20 3207 7833

CORPORATE ACCESS

Lindsay Arnold +44 20 3207 7821
Jennie Jiricny +44 20 3207 7886
Stella Siggins +44 20 3465 2630

EVENTS

Laura Hawes +44 20 3753 3008
Suzy Khan +44 20 3207 7915
Charlotte Kilby +44 20 3207 7832
Natalie Meech +44 20 3207 7831
Ellen Parker +44 20 3465 2684
Sarah Weyman +44 20 3207 7801

US SALES

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SALES

Kelleigh Falki +1 617 292 8288
Isabella Fantini +1 646 445 4861
Shawna Giust +1 646 445 7216
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Jessica London +1 646 445 7218
Ryan McDonnell +1 646 445 7214
Emily Mouret +1 415 802 2525
Peter Nichols +1 646 445 7204
Kieran O'Sullivan +1 617 292 8292
Jonathan Saxon +1 646 445 7202

SALES TRADING

Scott Duxbury +1 646 445 5573
Christopher Kanian +1 646 445 5576
Lars Schwartau +1 646 445 5571
Bob Spillane +1 646 445 5574

E-mail: firstname.lastname@berenberg-us.com

CRM

Laura Cooper +1 646 445 7201

CORPORATE ACCESS

Olivia Lee +1 646 445 7212

ECONOMICS

Mickey Levy +1 646 445 4842