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## Corruption and a Trump Bull Market?

Donald Trump is ready to sweep tonight's primaries in Connecticut, Delaware, Maryland, Pennsylvania and Rhode Island. Reflecting his strength and momentum, PredictIt.org gives him a 40% chance of winning each of the five states with more than 50% of the vote. Even more impressive, Trump has surged in betting markets in the May primaries. At the moment, he has a 70% chance of winning critically important Indiana, 80% Oregon, 70% Washington, 96% West Virginia.

The real estate mogul is becoming an unstoppable force after his New York primary victory. While Ted Cruz gave a terrific CNBC performance in the Big Apple talking about returning to a gold-linked dollar as part of his strongly pro-growth message, The Donald has been cultivating a popular surge on a more visceral level – blasting the push to expand free trade deals that fail to adequately address foreign exchange, savaging foreign policy sacred cows and questioning their costs in terms of U.S. blood and treasure, and continuing to bang the table about border security and a wall.

Additionally, Trump has used his popular victories in open primaries to press his claim as the presumptive Republican nominee who enjoys the most popular support. This kind of table-setting has put a spotlight on plots by the Establishment and the #NeverTrump crowd to deny him the nomination. Ted Cruz has even been put on the defensive in trying to convincingly defend his delegate grabs in states such as Colorado, not to mention his supposed collusion with John Kasich.

The pattern of the last year is obvious: Establishment attacks are routinely backfiring and only reinforcing the Trump candidacy. This speaks to a larger phenomenon of the Trump campaign, which is a platform that is almost singularly focused on attacking established interests in Washington.

A [June 2015 Gallup poll](#) showed that 75% of Americans perceive corruption to be widespread in the United States. This compares to 66% in 2009 and 67% in 2007. According to Gallup, of the countries around the world with a free press, the United States ranks as the 13<sup>th</sup> most corrupt country in the world.

In a [seminal column](#) in Time last June by former Senator Gary Hart, he defined corruption as placing self-interest above the public interest. Hart argued:

By that standard, can anyone seriously doubt that our republic, our government, is corrupt? There have been Teapot Domes and financial scandals of one kind or another throughout our nation's history. There has never been a time, however, when the government of the United States was so perversely and systematically

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dedicated to special interests, earmarks, side deals, log-rolling, vote-trading, and sweetheart deals of one kind or another.

What brought us to this? A sinister system combining staggering campaign costs, political contributions, political action committees, special interest payments for access, and, most of all, the rise of the lobbying class.

Hart, a life-long Democrat, is almost apoplectic about the current political order and its impact on the United States and its citizens. Whether one calls it corruption, crony capitalism, or entrenched special interests, the disdain for it is shared by most Americans and has been given its most natural expression in the candidacies of Bernie Sanders and Donald Trump. If anything, Trump's primary campaign platform is to reclaim Washington from the special interests, for the benefit of Main Street, and in many ways, Bernie Sanders has sought the same goal. The enthusiasm of both campaigns speaks to voters' anger toward the corruption in Washington.

The attacks by the self-funded Trump on the special interests in Washington are obvious: for example, his plans to stop illegal immigration (in opposition to major corporations seeking cheap labor), his plans to renegotiate trade deals and stop cold the advance of TPP and TTIP (in opposition to large multi-nationals), or even his platform for a more realist foreign policy (instead of sticking with the 'policeman of the world' model that benefits the military industrial complex).

It's important to note how Trump is now attacking Hillary Clinton, casting her as "crooked Hillary." This will be a recurring theme. It will snow ball in coming months.

As investors, the important question is, would Trump's populist nationalism destroy the current economic order that seemingly benefits major corporations? Would it spell the demise of the S&P 500?

We don't believe it would, although perhaps it would be better to be in small caps rather than large caps. But there is a strong case to be made that it will sow the seeds of a Trump bull market.

On fiscal policy and monetary policy Trump would be a pro-growther. Trump would advocate for a 15% corporate tax rate, including the same rate on pass-throughs ("mom and pop" businesses) and for more stable, predictable foreign exchange rates. Even more, Trump has routinely stated in his campaign that today's economy and financial markets are fragile. In that regard, he argued last week that low interest rates are necessary. "The best thing we have going for us is that interest rates are so low." This prescription fits within our economic model, given sluggish growth, the absence of fiscal stimulus, and deflationary pressures caused by the strong dollar since 2011.

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