

Silver and Gold: What the Precious Metals Market Says About President-Elect Trump

Amidst the larger drama of the election last Tuesday, the financial markets staged their own little drama. When the Dow futures plummeted by hundreds of points as it began to look as though Donald Trump would achieve a surprise victory, some people hastily jumped to the conclusion that financial markets feared a Trump presidency. Not so.

While markets were momentarily spooked by an outcome they hadn't anticipated, it didn't take long for market participants to recalibrate their expectations and surmise, at least temporarily, that economic prospects under a President Trump were favorable. Stocks reversed their plunge in a matter of hours and have since charged to several record highs. Conversely, the price of gold fell from a momentary spike above \$1300 an ounce to as low as \$1211 per ounce.

Economists have different theories about the significance of the price of gold; mine is that gold is primarily a barometer of confidence in the dollar. That confidence is affected by a number of factors, among which are the outlook for the future purchasing power of the monetary unit, whether the economic policies appear more conducive to strong economic growth or stagnation and geopolitical factors.

In regard to geopolitics, the dollar price of gold tends to rise (that is, confidence in the dollar falls) when the United States is perceived as becoming weaker. Demand for the currency of a fading power falls. Despite much of the anti-American rhetoric that the media amplify, the world in general wants a strong America.

Our country and our currency lose a lot of respect when we

have presidents like Jimmy Carter and Barack Obama who seem passive, befuddled, appeasing and just plain weak on the international stage. Carter kissed Leonid Brezhnev and essentially gift-wrapped Iran for the ayatollahs. Obama wouldn't stand up to Vladimir Putin, supported the ascendancy of the Muslim Brotherhood in Egypt (since reversed by the Egyptian army) and, depending on your point of view, either passively acquiesced to or actively assisted in increasing Iran's influence in the Middle East. One possible interpretation, then, for the fall in gold's dollar price in the last week is the perception that under President Donald Trump, the United States will be more likely to stand up strongly for its interests and not be so feckless in dealing with lesser powers.

Apart from geopolitical perspectives, another possible reason for the post-election selloff in gold has been the perception that opportunities for dollars to make more dollars are improving. The initial reaction in the gold market to the Trump victory indicates an increase of optimism about the economic prospects of the United States with a President Trump compared to what would have been likely with Hillary Clinton in the White House.

It would be premature to place too much emphasis on short-term price movements. We certainly can't make any long-term predictions either about the direction of the price of gold or the success of Donald Trump's presidency. All we can say at this time is that markets seemed to indicate a cautious optimism that America will prosper—be made great again—under President Trump. That optimism, and the corresponding confidence in the dollar, is bound to wax and wane over the coming months. The price of gold will reflect those changes of mood.

For the sake of our country, I hope the price of gold is lower four years from now than it is today.

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