

MONTHLY COMMENTARY | OCTOBER 2024

"To me, the most beautiful word in the world is 'tariff...'"
– Donald Trump

This past weekend, a close friend asked my opinion whether the re-election of Donald Trump posed a “buy or sell” market opportunity. Truthfully, I responded, it’s just not that simple.

Trump’s re-election marks a political comeback, reflecting voter focus on economic issues like immigration, manufacturing, and inflation. His decisive win likely emboldens his policy stance, creating potential volatility in the markets as his agenda unfolds. His return signals a shift in the world order, requiring investors to remain adaptable amidst the evolving risk landscape of Trump 2.0.

The U.S. financial markets have responded positively to the recent election, anticipating pro-business policies such as deregulation and tax cuts. Stocks surged, particularly in fossil fuels, private equity, and technology. The U.S. dollar also experienced a surge, reflecting investor optimism that pro-growth policies would strengthen the economy.

Economically, the president-elect’s tax cuts may initially boost U.S. growth, particularly in the industrial and energy sectors, though long-term impacts remain uncertain. Steep tariffs on imports could lead to retaliatory measures, negatively affecting export-dependent economies. Currency-wise, emerging markets may face capital flight, with a strengthening U.S. dollar adding pressure on these economies.

The election result signals voter dissatisfaction with previous economic policies, notably under the Biden administration, which struggled with inflation and cost-of-living pressures. Trump promises tax cuts, tariffs, deregulation, and stricter immigration control, aiming to protect domestic markets and fuel economic growth. However, many economists caution that the combination of tax cuts and tariffs could strain supply chains, exacerbating inflation.

Additionally, his trade policies, including tariffs, could benefit domestic manufacturing but restrict the renewable sector’s growth.

In terms of global relations, Trump’s foreign policy approach is expected to disrupt alliances and trade agreements. His anti-multilateral stance suggests a preference for bilateral

deals. His stance on Ukraine might pressure Kyiv into concessions, potentially easing tensions but carrying risks. In the Middle East, Trump’s support for Israel could strain regional stability. European leaders face the challenge of filling a potential leadership void within NATO, while China braces for escalated trade tensions.

Trump’s fiscal expansion could fuel inflation as tariffs raise import costs and supply chain disruptions add to price pressures. Bond markets already anticipate higher inflation, potentially forcing the Fed toward a more hawkish stance.

Trump’s focus on reviving the fossil fuel industry signals potential benefits for certain U.S. oil and gas sectors, likely negatively impacting renewable energy initiatives. His “drill, baby, drill” approach may increase domestic oil production, thereby lowering energy prices globally.

The Federal Reserve’s monetary policy will play a crucial role. Recently, both the Fed and Bank of England cut interest rates by 25 basis points, with the Fed chair expressing cautious optimism but raising concerns about fiscal imbalances. Rising long-term Treasury yields suggest that investors, or “Bond Vigilantes,” are wary of unchecked spending, which could complicate the Fed’s policy efforts.

Trump’s economic approach has rekindled debates on Modern Monetary Theory (MMT), as his policies hint at significant fiscal expansion. Critics warn of risks associated with unrestrained debt, inflation, and currency instability. Fed Chair Jerome Powell remains committed to protecting the Fed’s independence despite potential pressure from the administration.

In the months ahead, we expect markets to remain reactive as Trump’s policies take shape. Between a shifting Fed stance, the emergence of bond “vigilantes” creating market resistance, and the potential for policy swings that fit his mood, volatility will dominate.

As to whether it’s a “buy or sell opportunity”, we believe this too shall pass. Politics can have a short-term impact on market emotion. Yet the best advice we can provide is that which we live by: invest in a portfolio of businesses in which you have the conviction in their capability to navigate different regimes, and own them for long periods of time.