

Recent thoughts on the market; Trump Trade, Deregulation & Tariffs.

As of late, the phrase “trump trade” has been thrown around popular media spheres. 6 days before voting ends, I am of the opinion Trump will win the election and it may be a landslide. A republican majority in both the house and the senate will have major policy implications for the US over the coming years as the republicans will have a little in the way of unilaterally implementing policy. Let’s first look at some indicators as to why Trump may win and then see how to navigate the “trump trade”.

Washington Post Endorsements



Corey A. DeAngelis, school choice evangelist ✓
@DeAngelisCorey

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Washington Post presidential endorsements by year:

- 1992: Clinton
- 1996: Clinton
- 2000: Gore
- 2004: Kerry
- 2008: Obama
- 2012: Obama
- 2016: Clinton
- 2020: Biden
- 2024: **NO ENDORSEMENT**

This is devastating news for Kamala Harris.

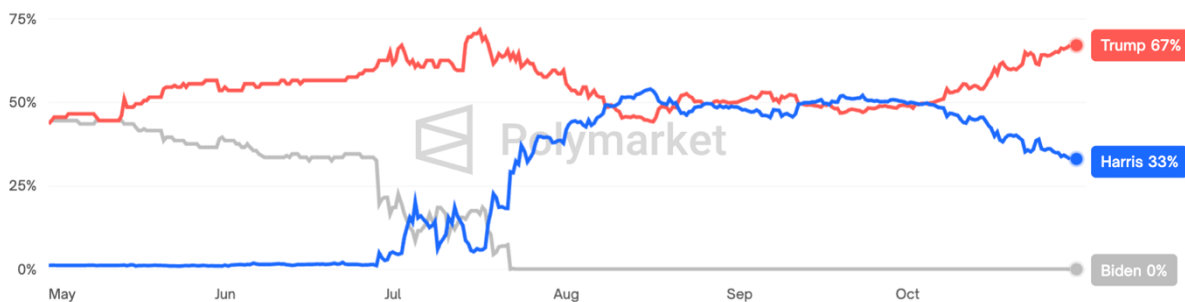
5:48 pm · 25 Oct 2024 · 2.8M Views

Endorsements are very important in the US election cycle. The Washington post has endorsed a democratic candidate since 1992, why won’t they endorse Kamala? Perhaps it’s because early voting data is in Trump’s favour. The University of Florida election lab provides data on mail in and early ballot entries. Whilst this data is not conclusive, it suggests Trump is ahead in 4/7 major swing states.

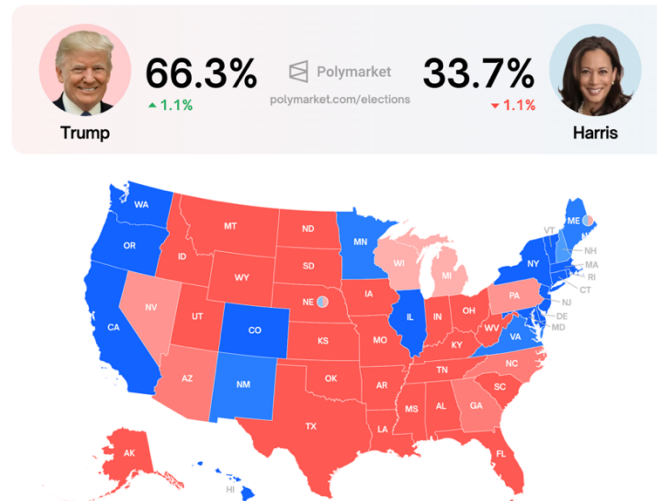
Betting Markets

Presidential forecast >

Source: Polymarket.com



Early voting data along with election betting markets like Polymarket and Kalshi paint a very favourable picture for Trump with his winning probability soaring in recent weeks (see figure above and below). Notably the betting markets suggest trump will win Michigan and Pennsylvania of which the early vote has Kamala ahead in both. If the world's bets reflect the truth, a Trump landslide is on the cards.



If the republicans hold majorities in both the house and the senate, almost all uncertainty over policy is removed. So, what can we glean from Trump's signals so far about what policy might look like and how might this influence markets?

Trumponomics

Trump has previously suggested targeting a 3% real growth rate during his tenure. If inflation is between 2% and 3%, achieving this would require a nominal growth rate of approximately 5.5% to 6%. To ensure that economic growth remains accretive, the coupon on debt must be maintained well below this nominal growth rate. This implies the maximum yield for 10-year bonds should be around 5%.

How will a Trump administration achieve this? Likely through widespread deregulation and Trump's big buzzword, tariffs. I would urge everyone to watch Trump's interview at the Chicago economic forum where he discusses these themes (see bibliography). De-regulation will likely be aimed at small businesses and the energy sector. I have discussed Trump's desire to make the US more energy self-reliant, de-regulation could set off a drilling boom in the Gulf of Mexico and Alaska. Increased drilling activity puts pressure on other US producers to drill, this will likely depress US inflation and make US companies who use fossil fuels as an input much more competitive. This could lead to a consumer boom in the US. Indeed, Trump emphasises the importance of the consumer market particularly in relation to his stance on tariffs. Trump has called tariffs 'the most beautiful word in the dictionary'. A Trump win will certainly see tariffs as a feature of US policy. Whether or not you believe such policies are credible, there are opportunities that arise from them.

Volatility

Briefly, it is important to not forget the possibility of either side disrupting/disputing the result.



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BREAKING: Maricopa County, Arizona election officials have asked people to be patient as votes are tabulated, as it could take 10 to 13 days.

9:19 pm · 23 Oct 2024 · **648.7K** Views

A wait of as much as 13 days will do nothing but inflame either side, potentially leading to court proceedings as discussed in my previous piece. This will bring volatility and won't be pleasant for markets. Nonetheless, a Trump landslide will avoid such a scenario, which as we get closer to November 5th seems evermore likely.

Trade Ideas

The second focus of this article is how to navigate the “trump trade”. It seems that investors are looking to take on more risk as a Trump win becomes likely. Importantly, we must look to sectors which might perform in the long term under Trump's policies.

Following my last piece, I still believe silver is the best trade at the moment. Thinking about silver miners, Trump's energy policy will see lower production costs, and a consumer boom should see demand for silver increase due to its use in production of electronics and general manufacturing. These policy implications accompanied with the easing of financial conditions from the FED places silver miners as a good means of finding alpha. The two companies mentioned in my piece Pan American Silver and Hecla Mining and up 19% and 5% respectively, and still have a way to run. The gold silver ratio remains too high. And since 2022 silver consumption has exceeded mined supply.

Spot Silver



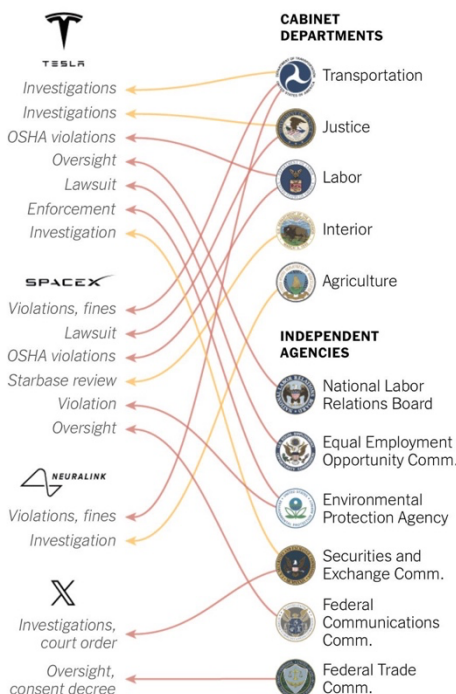
Energy stocks are also worth a look. Energy is the worst performing sector over the past year. Given Trump's emphasis on de-regulation in the energy sector and desire for energy self-sufficiency drilling companies particularly with operations in Gulf of Mexico are worth looking at.

Trump & Musk

Elon Musk might be the ultimate trump trade. Tesla is being regulated heavily, the below chart from the NYT demonstrates this. If Trump de-regulates, Tesla should benefit particularly considering the heavy endorsement of Trump by Musk and Trump's corresponding suggestion of putting Musk in a government position. With a Trump win signalling risk on to investors, tech will likely continue to lead the way as it has done for some time. Tesla is one to keep our eyes on.

INVESTIGATION AND OVERSIGHT

Mr. Musk's companies are increasingly facing **regulatory battles** and overlapping **federal investigations** from all corners of the government.



By Jonathan Corum

Thoughts on Tesla become more pertinent when we consider Trump's comments on Chinese auto-plants in Mexico. These are likely BYD plants setup with the intention of importing cars closely across the border through Texas and distributed across the US. Trump talks of 100% - 200% tariffs on goods from Mexico. Whilst these numbers seem exaggerated, Mexico is definitely an area which US tariffs will affect. This becomes more interesting when we consider Mexico's new president who is to the left of former president. Trump's border deal from his previous presidency was sealed when Trump threatened tariffs on Mexican goods. Considering, the new president is further to the left than the president who backed down to Trump's tariff threat, such a threat may not be as credible to her and thus she may not back down as easily. The implementation of US tariffs on Mexican goods could see a weaker Mexican peso against the dollar.

USD/MXN



Tariff incomes could go toward paying off the US debt which is becoming an increasingly pressing problem for the US which will likely be a very important fiscal issue in 2025. I will be writing on this in pieces to come.

The week ahead will be exciting. Markets are adapting to recent price movements and new probabilities. Lets see what happens following the 5th November.

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