

The 2024 US Election, Volatility & Security Exports

Markets were pricing an election fought between Biden and Trump all year. When Biden suddenly dropped out of the race and Harris assumed position as the Democrat frontrunner, some volatility has entered the marketplace. In our view the US election is the most important macro event of the year, and its associated risks must be considered for wise market participation.

In our view, polls are made to shape public opinion, not reflect it. What is more interesting is what is occurring on the ground.

In Minnesota, a democrat stronghold since 1976, Trump recently held a rally in the university town of St Clouds. The St. Clouds university arena was stuffed with some 8000 people, 1000's more rallying outside who could not get a space. People lined up early on a particularly sweltering morning to get in. In contrast, on the same day, Harris held a rally in Philadelphia, a very blue city and turned out 100 people.

There are two important points to be made here. Firstly, Trump was in a blue state spending money attempting to flip it. Only weeks ago, when Biden was still running, some polls had Trump up by some points in Minnesota, within a week, he is down 6 points to a candidate who hasn't yet been to Minnesota and is instead spending money defending her own goalposts. If money is the lifeblood of elections, then spending it to defend your goal posts sends alarm signals, particularly when the other guy is in your territory spending their money attempting to flip votes to their side. This is very telling of how the Democrats may approach the coming weeks and the true sentiment on the ground in America.

Second, whilst we assume that come the end of November it will be Trump and Harris as frontrunners, it may in-fact not even matter who wins the vote. It is likely that whoever wins the vote will be challenged in court. Opposition to Trump is so embedded in the democrat core and the republicans feel so strongly that they were wronged in 2020 that the result of November 5th may go up in smoke.

There are two possible scenarios which may occur along this second point which are worth considering. The first is more savoury for markets. The months following November 5th may take the form of those following the election of 2000 culminating in the supreme court ruling closely before inauguration. The second scenario is an outside chance that the election will be delayed altogether. This is much less kind for markets and would be highly unusual in the context of American history. This delay could be caused in anticipation of objection to the result or by some other exogenous event fitting closely with recent political volatility and frequency of anomalous events.

Some of these anomalous events which are worth pointing to are the CrowdStrike attack which had alarming consequences and brings into question the possibility of a genuine cyber-attack on the US. The attempted assassination of Trump. And importantly, the invitation of the Israeli PM to speak in congress. We will now turn to possible exogenous risks and potential opportunities.

During Netanyahu's speech, Harris did not preside over the Congress as she should have done; attendance was certainty of interest/lack thereof to Netanyahu. Netanyahu's speech reads as a pre-war warning. He warns that Iran is the head of the snake and Israel wants to put together a

formal security alliance with the US and any other country that is or wants to be friendly with Israel. Hezbollah was reportedly holding discussions with Iran and members of the “Axis of Resistance” to decide on how to respond to the recent IDF assassinations in Tehran; it seems the other side is doing the same.

War in the middle east would be a major escalation in the ongoing conflict between the BRICS+ nations and the US which we have been writing about. The timing of the address is extremely interesting, particularly considering the developments in Tehran post Netanyahu’s speech.

The US already has several formal security alliances worldwide. They are a member of NATO, have an implicit agreement with Taiwan and are a member of the 5 eyes intelligence; the idea of a broader security alliance is growing.

Turning to potential opportunities. The US has excelled at exporting security since WW2. There are around 750 US military bases worldwide, the US provide protection of trade relationships, and the US offers financial support to countries it is friendly with. Particularly in Europe, the US kept EU27 safe from the Soviet Union and won the cold war. This had the effect of both keeping the US military leading edge and helped sustain the dollar as common currency for world trade.

When Trump was first elected, he spent much of his first term negotiating with NATO about raising their spending on defence up to an agreed upon 2% of GDP. Most NATO countries were not yet at that level and now most are. Now, some two weeks ago, Trump stated that if Taiwan wanted military aid from the US that they should pay for it.

If Trump is elected, the protection that the US has exported for the past 70 years may now have a price on it. A new formal security alliance as brought to the table by Netanyahu, may not be a free ride if the US is involved. This protection could be paid for in many ways; an initial thought is discounted oil/commodity pricing, much like between the Chinese and Russians. But this will likely not be the answer for Trump. Whilst Harris wants a green agenda, it seems that under a Trump administration the US will be driven toward being both energy self-reliant and perhaps energy dominant. Thus, discounted oil would not be of interest.

What may be of interest is assets which could help the US stabilise its debt and deficit problem. It could be physical gold, it could be an agreed upon level of treasury purchases, It could perhaps be some reserve of bitcoin. This would be good news for US national debt, the dollar and potentially the US deficit.

Looking toward the markets, the sale of US weapons and general military systems are already widely distributed worldwide. Raytheon and Lockheed Martin have both started to break out in recent weeks on very large volume in both. An interesting stock is Boeing. The stock has fallen from around \$350 in late 2020 to \$185 all whilst revenues are up. The company needs restructuring, they are about to appoint a new CEO and seem like the lagger in a group which has been quiet for some time and seems to be breaking out. Whilst there has been controversy for Boeing, they have good product. If the US is to capitalise on its security exports, Boeing should benefit. This may be an interesting time to have a look.

Most importantly, it seems that war in the middle east is imminent. Governments are strongly advising citizens to leave Jordan, Lebanon, Etc. I don’t think equity markets will react well to

an escalation. If there is to be a black swan around the election year it will be escalated conflict. The confluence of these events seems to be culminating right before an election and must be considered in terms of market risk and sadly who may benefit.

Strategically, if there will be conflict in the middle east, the VIX is too low. Anything around \$15 is potentially a buy. An allocation in QID is wise as a hedge against a sudden downturn, as are puts on the Nasdaq.

Situations are quick changing, it is important to stay closely attuned to what is really going on before mainstream news sources report on things.