ALPINEMACRO
A Unique Mind On The Markets

GLOBAL ASSET ALLOCATION

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Macro Trends Trump Election Impact

- Post-election market movements in equities and bonds are largely shaped by broader macro trends, rather than the “Trump effect.”
- Stocks are closely tracking the historical pattern observed after Fed rate cuts in non-recessionary environments, while rising yields align with recent growth and inflation momentum.
- A neutral duration stance is advisable unless yields overshoot 4.5% or become restrictive for small caps and non-Mag 7 growth stocks.
- Raise dollar exposure to overweight as Trump’s policies will further shift economic momentum to the U.S.
- Corporate bond spreads will remain tight on the back of broadening earnings momentum, muted financial stresses, and favorable supply/demand dynamics.

Global Asset Allocation	Underweight	Neutral	Overweight
Equities			●
Bonds		●	
Cash	●		
Equity Regional Allocation (USD Terms)			
U.S.			●
EAFE	●		
EM		●	
Equity Style Allocation			
Defensive		●	
Cyclical		●	
Value	●		
Growth			●
Large Cap	●		
Small Cap			●
Bonds			
Interest Rate Duration		●	
Treasuries	●		
IG & HY Corporates		●	
Securitized Product			●
FX/Commodities			
U.S. Dollar		○ →	●
Gold			●
Materials/Base Metals			●
Oil		●	

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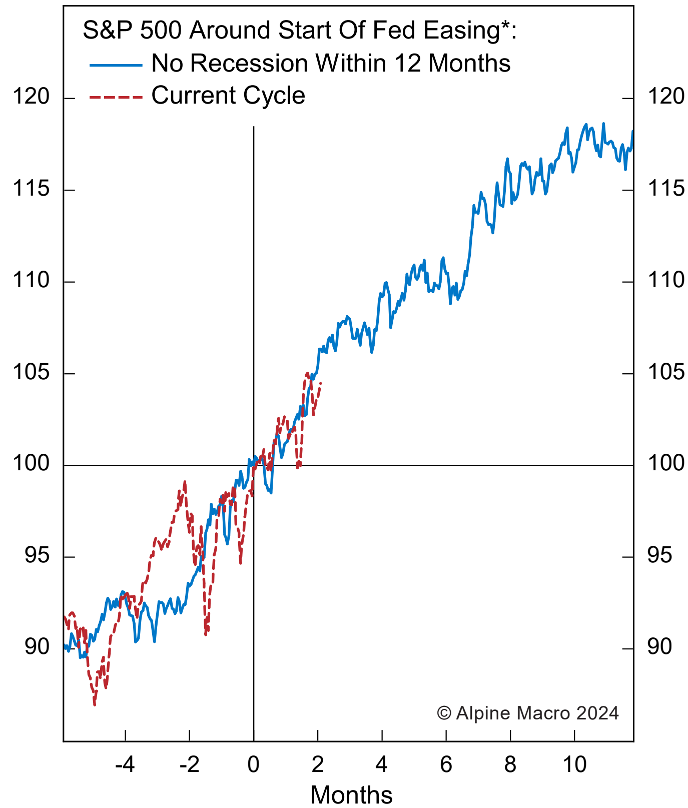
Theme 1
(Most) Market Moves Reflect Prevailing Macro Backdrop, Not Trump

The proverbial market dust has settled in the wake of the U.S. election. In reality, major financial variables – the S&P 500, the 10-year yield, and the dollar – were already trending higher in the weeks leading up to the vote. The key question lies in disentangling how much of these moves were anticipatory of a Trump victory or rather reflective of broader macro forces already in play.

Aside from the dollar (see **Theme 2**), we lean toward the latter explanation.

Stocks were already thriving under the bullish set-up of Fed rate cuts amid a steady growth backdrop. Since 1974, there have been 4 easing cycles unaccompanied by a recession within the following 12 months.[1] Equities posted positive returns in each instance, delivering an impressive median gain of 18%. So far, the S&P 500 has adhered closely to this script (**Chart 1**).

Chart 1 Stocks Are Marching To The Beat



*Sample of previous easing cycles include 1984, 1989, 1995, and 1998; current easing cycle began on September 19; both series rebased to 100 at start of Fed rate cuts

Equity multiples can shed further light on investor sentiment following the Republican clean sweep. While the S&P 500 has risen by about 3.5% post-election, we conservatively estimate that a corporate tax cut could lead to a 3.8% boost to expected earnings per share.[2] This would leave forward multiples largely unchanged.

Specifically, the real-time forward P/E of the equal-weighted index likely stands around 18X, only modestly higher than its 17.5X historical average. More importantly, its post-pandemic readings have generally mirrored movements in volatility-adjusted yields (**Chart 2**). This suggests that valuations are more influenced by the rate environment than by unbridled optimism related to the Trump effect.

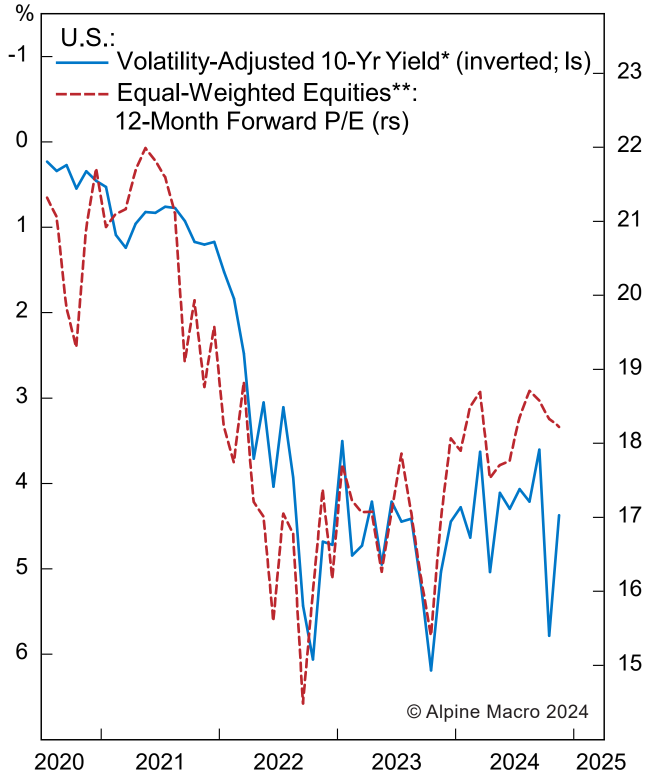
As for the 10-year yield, it has surged about 70bps since the Fed began its easing cycle in mid-September – a significant deviation from the typical path

1 This includes the easing cycle that began in mid-1989, with a recession emerging only in late 1990 and largely due to the significant spike in oil prices related to the Gulf War. Furthermore, the 2018-19 easing cycle is excluded from our sample given its close proximity to the exogenous shock of the pandemic.

2 We assume the statutory rate is cut from 21% to 18%, rather than the 15% that Trump has floated on the campaign trail. The arithmetic involved is as follows:

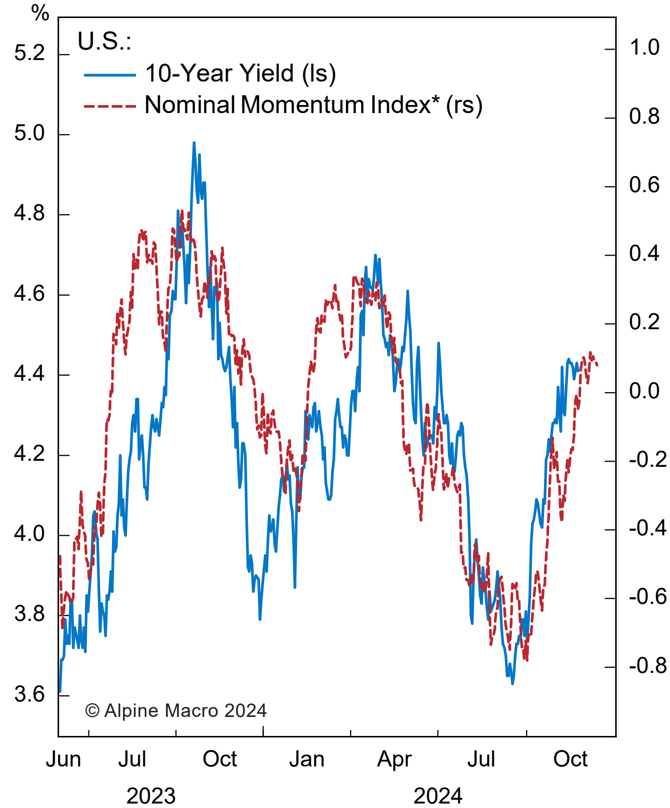
$$([(1-T_{18\%})/(1-T_{21\%})] - 1) \times 100 = 3.8\%$$

Chart 2 Equity Valuations Are Largely Justified



*U.S. 10-year yield scaled by the 1-month MOVE Index; November value is estimated
**Large- and mid-caps; November value is estimated
Source: MSCI, Alpine Macro calculations

Chart 3 No Pernicious "Fiscal Risk Premium" In Yields



*Combines economic surprises and crude oil price changes; shown standardized and advanced by 3 weeks; source: Citi, Alpine Macro calculations

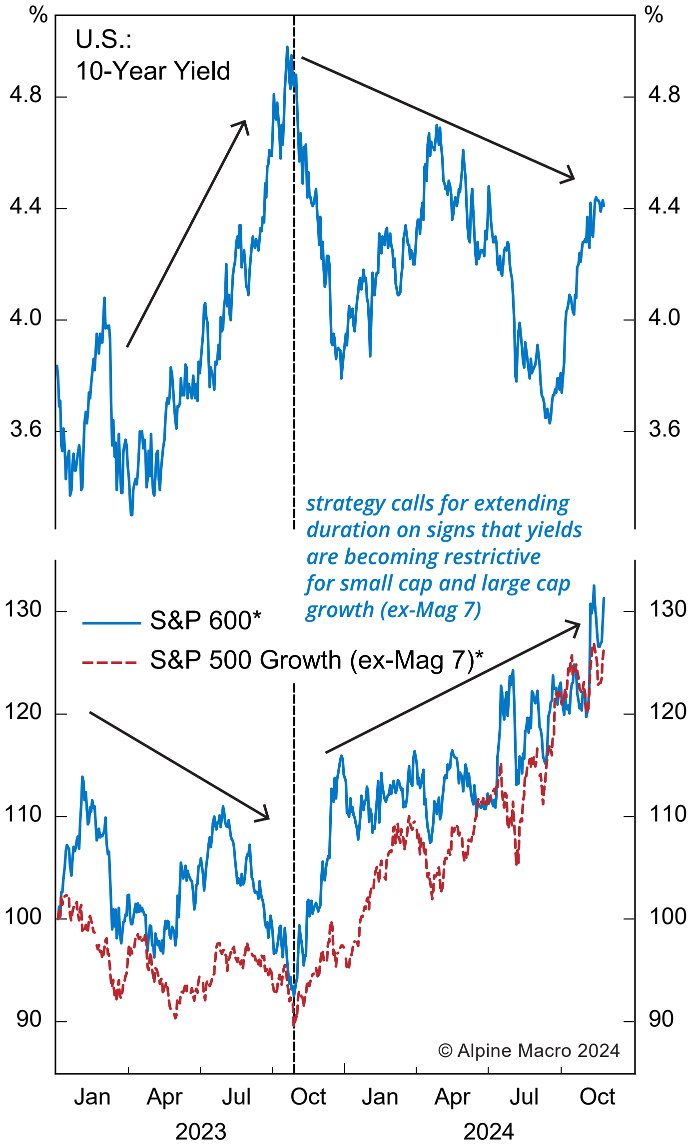
following an initial rate cut. However, this rise almost certainly *does not* stem from Trump-induced fiscal worries, which would act as a clear headwind for risk assets.

Chart 3 overlays the 10-year yield with a simple "nominal momentum" index that is constructed using economic data surprises and crude oil price changes. The message is that yields are reflecting the interplay between growth and inflationary pressures, rather than signalling a loss of investor confidence. A firming dollar only reinforces this point.

We recommend maintaining a neutral duration stance for now. Assuming a reasonable Fed terminal rate of 3.75-4% and a term premium of 50 basis points, the current 10-year yield does not offer sufficient appeal to justify extending duration. This position will be revisited if yields overshoot 4.5%, or if rate-sensitive segments of the market, such as small caps and growth equities (excluding the Magnificent 7), begin to show signs of strain (Chart 4).

Bottom Line: Post-election market movements in equities and bonds are driven more by broader macro trends rather than the "Trump effect." Stock gains are following the historical pattern seen after

Chart 4 Bond Yields Still Reflective Rather Than Restrictive



*Rebased to Jan 2023=100

Fed rate cuts in non-recessionary environments. Meanwhile, rising yields align with recent growth and inflation momentum, not fiscal concerns. A neutral duration stance remains prudent unless yields overshoot 4.5% or rate-sensitive sectors falter.

Theme 2

A Trump 1.0 Redux For The Dollar

We trimmed our dollar overweight to neutral back in July on the premise that the growth and rate divergence between the U.S. and the rest of the world was peaking. Since then, the greenback has gone on a round trip, falling sharply and then rebounding as investors began discounting a less dovish Fed and a Trump victory.

Although our allocation strategy remains largely intact in the wake of the U.S. election, we believe the strengthening trend in the dollar has legs.

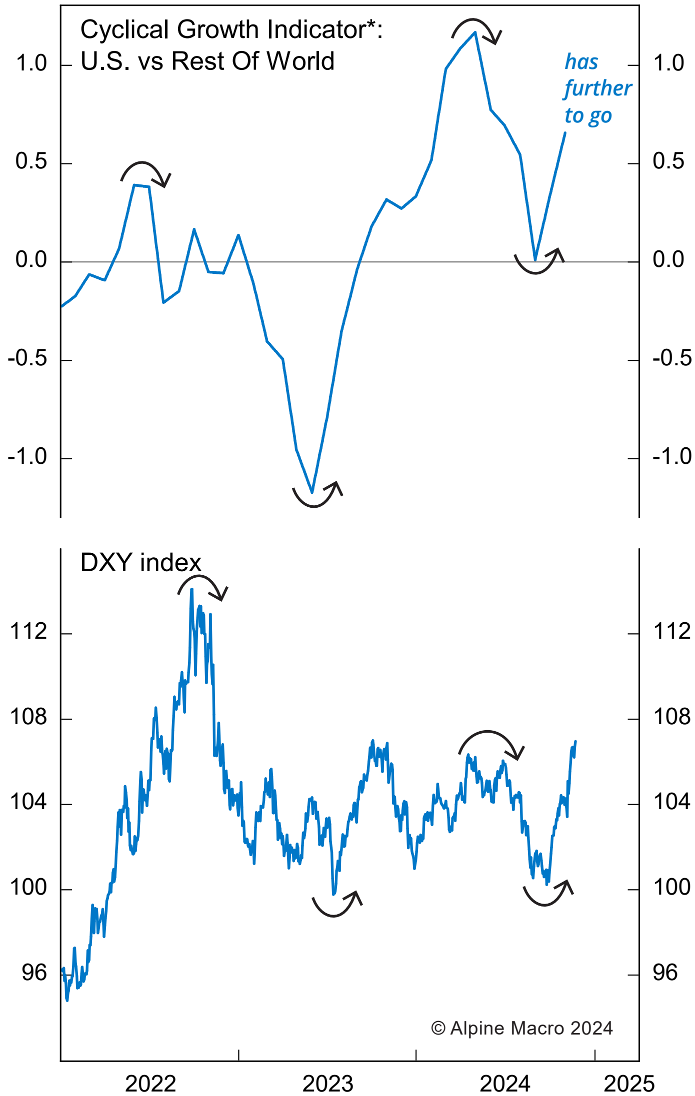
Broadly speaking, dollar moves have ultimately hinged on inflections in relative growth. In recent months, the U.S. economy has defied slowdown expectations, with momentum swinging back in its favor (**Chart 5**). This trend is bound to gain further traction in a Republican governing trifecta:

- Deregulation and tax cuts, while typically supporting longer-term output, can also spark nearer-term growth if they ignite “animal spirits” and drive increased business investment.

- An “America First” agenda will mean beggar-thy-neighbor policies that will redistribute growth away from other regions to the U.S.

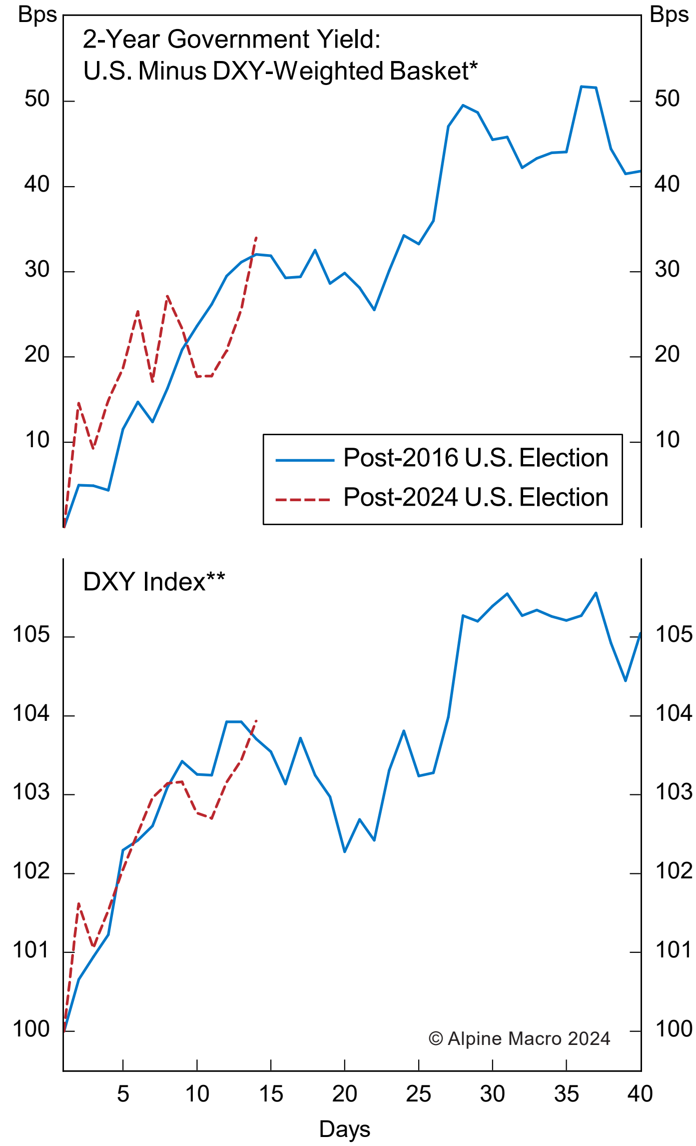
In short, U.S. economic outperformance stands to benefit both from *absolute* growth drivers as well as from *relative* gains. Regarding the latter, a ramp up in tariffs would prompt currency devaluation among America’s trading partners as the simplest way to mitigate the negative impact. In 2018, the yuan declined roughly 7% against the dollar, tracking

Chart 5 **Relative Growth Momentum Explains Dollar Shifts**



*Based on amplitude-adjusted composite leading indicators for 17 countries, and ZEW economic conditions situation for U.S., Euro Area and China; source: OECD, ZEW, Alpine Macro calculations

Chart 6 **Near-Term Dollar Rally Has Room To Run**



*Shown as a cumulative change from dates of elections
**Rebased to 100 on dates of elections

nearly one-to-one with the 9 percentage point surge in the effective tariff rate on Chinese exports.

Of course, an even more compelling case for a stronger dollar emerges if the Fed leans against any upturn – creating a bullish cocktail of looser fiscal and tighter monetary policies.

Clients may understandably question whether the initial "Trump bump" has already been priced into the dollar. **Chart 6** offers some perspective by comparing the behavior of relative 2-year yields and the dollar following the 2016 and 2024 elections. To date, U.S. spreads have widened by about 20bps, and the DXY has gained roughly 3%.

While not definitive, this suggests the greenback's technical rally may be approximately two-thirds complete.

Bottom Line: The dollar is poised to strengthen on the back of Trump's anticipated policies, which should further shift economic momentum from the rest of the world to the U.S. These policies have yet to be fully discounted by markets, arguing for a further technical rise in the DXY. Asset allocators should raise exposure to overweight.

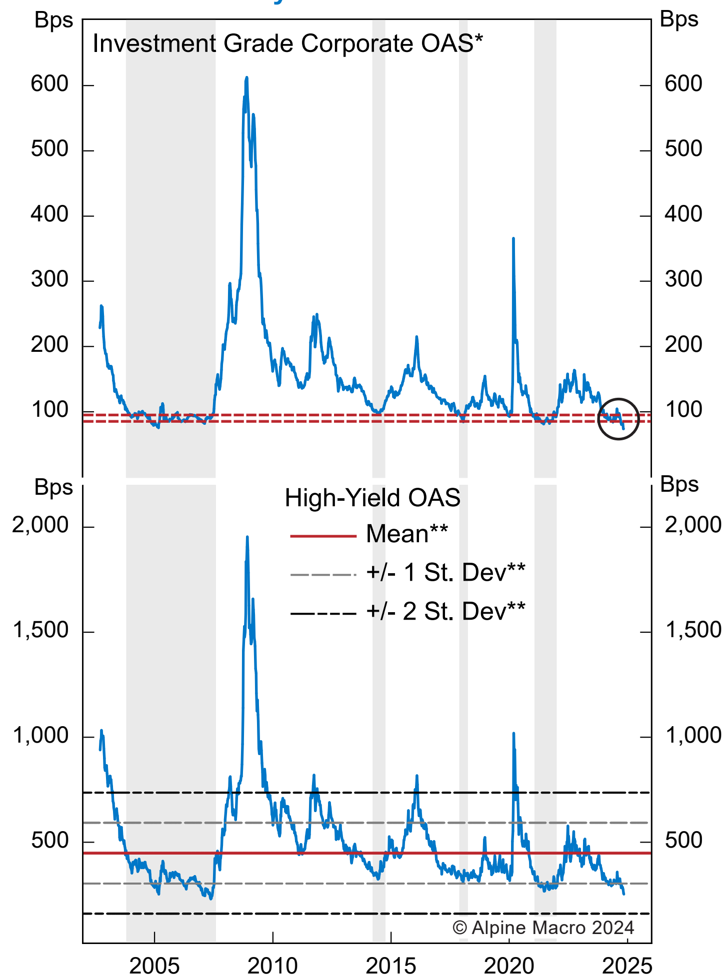
Theme 3
Corporate Bonds To Defy Valuation Risks

Corporate bond spreads continue to narrow on the back of the steady dissipation of recession risk and a general loosening of financial conditions. Investment-grade OAS has broken modestly below the 85-95bps range that has been a key level of resistance since 2000, while high yield OAS is closing in on its own record lows (Chart 7).

Despite the poor valuation starting point, investors should resist the urge of downgrading corporates in favor of Treasuries.

First, the prospect of continued solid profit growth is undoubtedly positive. The recent earnings season delivered strong beats across sectors, styles, and market caps - an unmistakable signal of underlying fundamental strength.[3] Moreover, EPS surprises handily outpaced sales surprises, underscoring the ability of firms to continue expanding margins. A productivity upswing,[4] coupled with the potential for some form of corporate tax cut, should further reinforce this trend.

Chart 7 Corporate Bond Spreads Breaking Key Levels



*Horizontal red lines denote secular low range
**GFC excluded from calculation; source: Bloomberg Finance L.P.
Note: Shaded area denotes periods of secular low corporate spreads

Second, financial stresses will remain contained. Reasonably healthy corporate balance sheets offer a buffer in the event of a material growth slowdown. Notably, aggregate liquid assets have soared over the past decade, rising from 80% to nearly 100%

3 Alpine Macro *Equity Strategy* "Sizing Up Reporting Season" (November 13, 2024)

4 Alpine Macro *Global Asset Allocation* "The China Saga: A New Hope" (October 15, 2024)

of short-term liabilities.[5] Meanwhile, concerns about an impending "maturity wall" also appear overstated. Chart 8 highlights the recent success of high yield issuers in pushing out their obligations to beyond 2028.

Finally, market sentiment and supply/demand dynamics are constructive. Fully funded pension funds and insurance companies are in a "FOMO" rush to lock in historically attractive short-duration credit yields. At the same time, a declining equity risk premium and the growing prominence of private credit have curtailed net new issuance. This is especially evident in the high yield space, where a shortage of "fallen angels" from the investment grade sector has further tightened supply.

Bottom Line: There remains sustained downward pressure on corporate bond spreads given a promising profits outlook, muted financial stresses, and favorable market dynamics. That said, maintain a neutral weighting as securitized products still offer more attractive upside.

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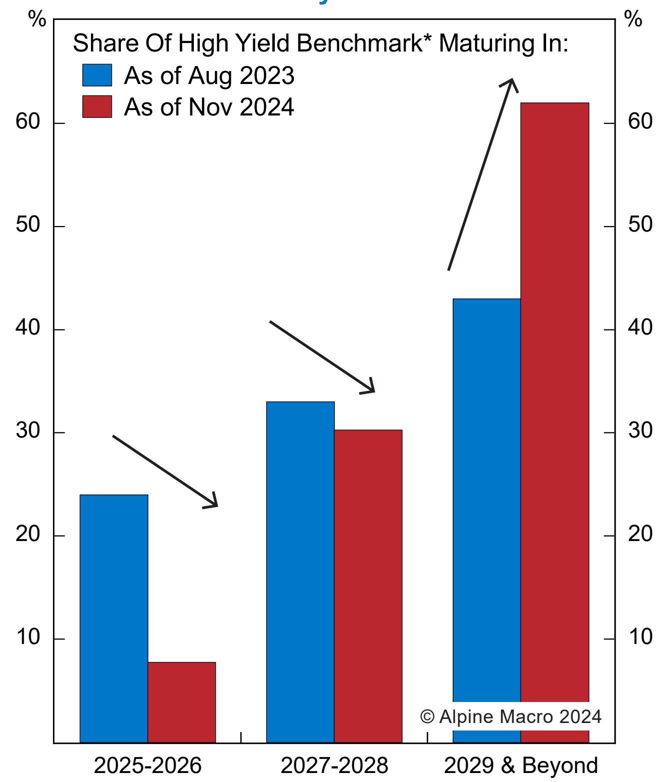
Chief Asset Allocation Strategist

Chart 8 HY Issuers Successfully Postponing "Maturity Wall"



*Bloomberg US Corporate High Yield Total Return Index
Source: Bloomberg Finance L.P., Alpine Macro calculations

5 Excluding the companies with the largest cash hoardings does not materially impact the pace of improvement.

	Global Asset Allocation	Underweight	Neutral	Overweight	Rationale for View (3-6 Month Outlook)
	Equities			●	Fed rate cuts amid a non-recessionary environment is an unambiguously bullish configuration for equities. Outside of mania segments, broader market valuation is reflective of volatility-adjusted yields.
	Bonds		●		Fixed income is fully pricing in a goldilocks growth scenario. This limits the degree to which yields can fall further from current levels and leaves equities with more total return upside.
	Cash	●			The opportunity cost of maintaining a high cash weighting is high as the global easing cycle powers incremental gains for equities and longer duration fixed income assets.
Equity Regional Allocation (USD Terms)	U.S.			●	Despite its high valuation, an expanding productivity gap with the rest of the world reduces the odds of a sustained downturn in U.S. relative earnings growth.
Equity Regional Allocation (USD Terms)	EAFE	●			Euro area earnings prospects are restrained by contracting exports and a weak credit impulse. Also, a strengthening yen from ultra-cheap levels will likely hinder Japanese common currency equity performance.
Equity Regional Allocation (USD Terms)	EM		●		A global manufacturing recovery, EM monetary easing, and an ASEAN capital spending boom should bolster EM profits. China's policy pivot could supercharge EM earnings and equity performance.
Equity Style Allocation	Defensive		●		A neutral weighting in defensives provides a valuable hedge against anything more than a benign slowdown in U.S. growth.
Equity Style Allocation	Cyclical		●		With no recession on the horizon and rate cuts in train, cyclicals should perform reasonably well. However, returns may be tempered by a firming dollar.
Equity Style Allocation	Value	●			The window for value to outperform growth has likely closed now that rates are heading lower once again. Instead, this style factor should do well in the context of small cap outperformance.
Equity Style Allocation	Growth			●	Growth equities remain on a mania path, with solid earnings growth and a broad topping in yields offering key support. Growth stocks outside the Mag 7 could meaningfully contribute to the next performance upleg.
Equity Style Allocation	Large Cap	●			Large caps' relative valuation premium already discounts robust relative margin resilience.
Equity Style Allocation	Small Cap			●	A strong profit revival, likely aided by favorable domestic growth policies, should be a catalyst for a gradual valuation rerating in small caps.
Bonds	Interest Rate Duration		●		The scope for yields to decline significantly seems limited without a recession, especially as inflation moves closer to target.
Bonds	Treasuries	●			Fixed income investors are likely to keep moving out the risk curve given resilient growth and low odds of even a mild recession.
Bonds	IG & HY Corporates		●		Potential returns on investment grade and high yield corporates are more limited compared to other credit given the tight starting point for spreads.
Bonds	Securitized Product			●	Respectable earnings growth, diminished odds of Fed rate hikes, and a latent capacity/willingness among investors to jump into the fixed income space should favor securitized product.
FX/Commodities	U.S. Dollar		○ →	●	**The dollar is poised to strengthen on the back of Trump's anticipated policies, which should further shift economic momentum from the rest of the world to the U.S.**
FX/Commodities	Gold			●	The gold bull market is structurally underpinned by rising geopolitical fault lines, exemplified by the insatiable demand for bullion from non-Western central banks.
FX/Commodities	Materials/ Base Metals			●	The secular uptrend in usage intensity and overall demand via electrification amid weak capacity growth are structurally bullish.
FX/Commodities	Oil		●		Crude is likely to be caught in a range as a soft patch in global growth is counteracted by steadfast OPEC+ discipline, peaking U.S. shale output, and depressed global crude and refined product inventories.

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