

The U.S. Election:
A Game Changer For Financial Markets

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Executive Summary

Monetary Policy Still Matters



Monetary policy usually drives equity markets over the medium-term regardless of which U.S. political party gains control. The continued lagged effects of previously-higher interest rates on labor markets suggest a further deterioration in employment is likely.

The Implications Of Fiscal Policy Proposals



The implications of the incoming Trump administration's major policy proposals on tariffs, immigration, and fiscal austerity add up to likely headwinds to economic growth – both in the U.S. and abroad – and higher inflation.

A Very Bullish USD Setup



We are very bullish the USD over the medium term. It remains our top-pick based on slowing global growth prospects post-tariff enactment, potentially higher interest rates, and a higher share of currency flows remaining in the U.S.

Challenging Macro Backdrop Internationally



Despite near-term exuberance, U.S. equity markets are not immune from issues overseas which may be exacerbated by new trade policies. History is littered with instances where U.S. economic growth was solid, but equity market returns still suffered due to issues abroad.

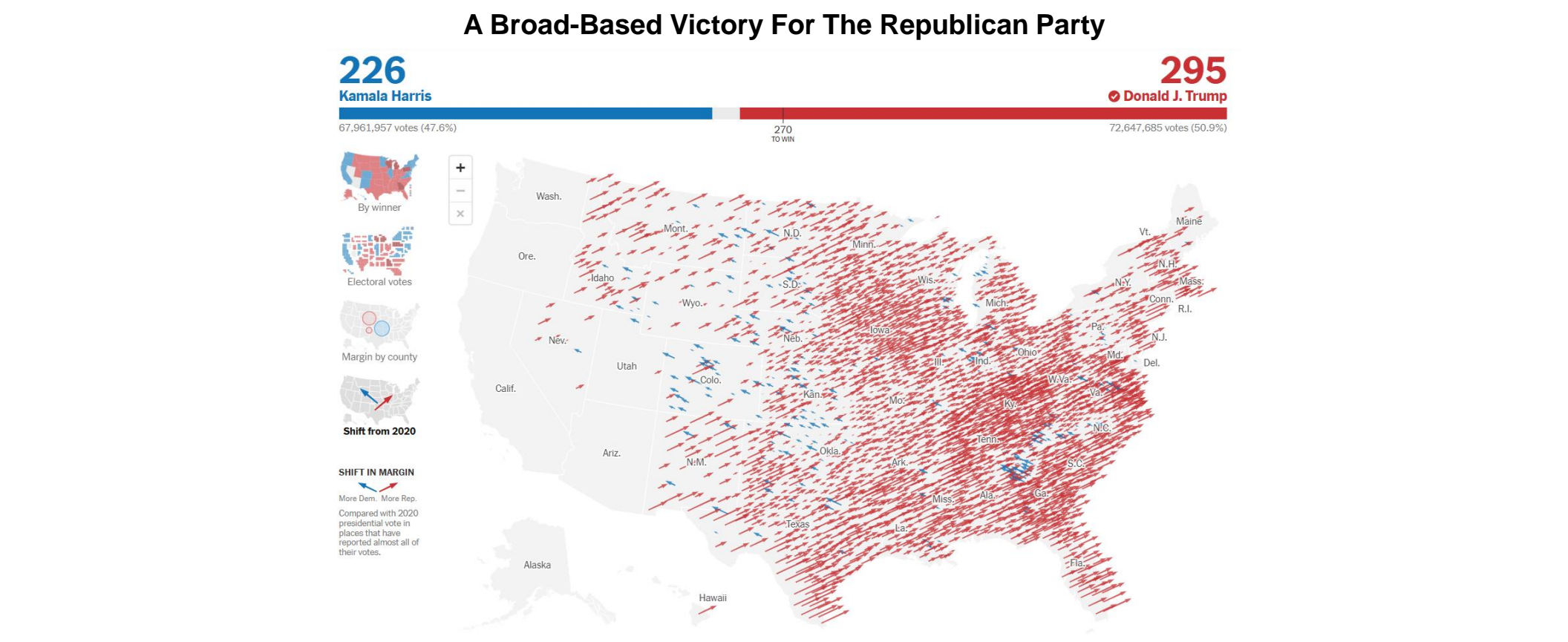
Emphasize Pricing Power, U.S.-Centricity, Quality



Depending on the scope and severity of new fiscal policy proposals, investors should highlight equity factors such as pricing power, U.S.-centricity, and quality. In the case of the latter, the TMI F&G Score model is great option as it emphasizes profitability within both Value and Growth.

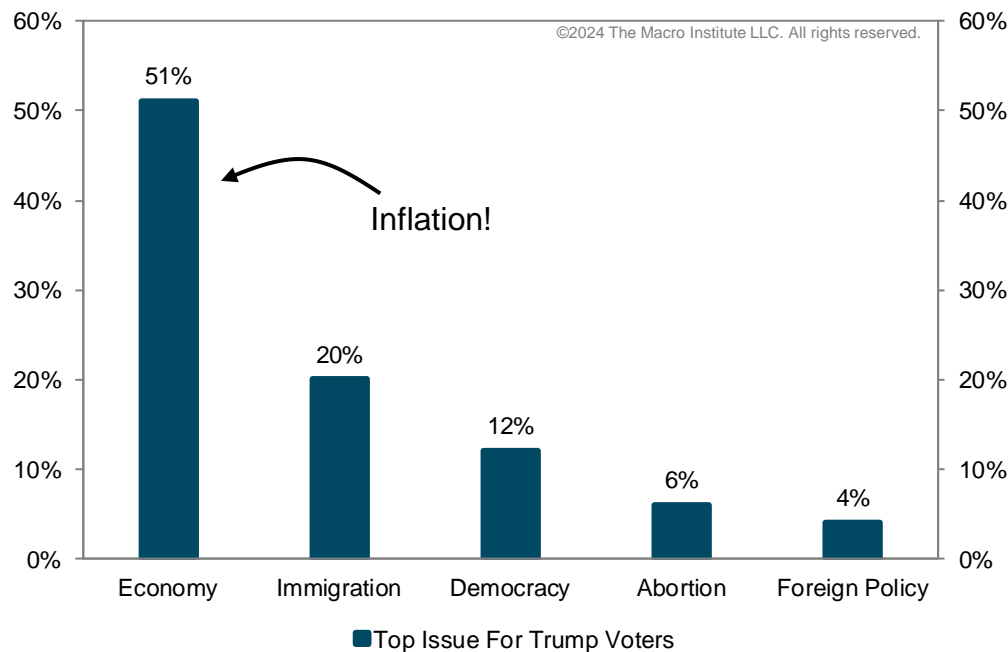
The End Of Election Uncertainty And Introduction Of New Policies

The End of Election Uncertainty And Introduction of New Policies



The Election Narrative And Its Commonalities With The Reagan Era

Exit Polls Show Key Roll Of Inflation In 2024



Source: NBC News Exit Poll

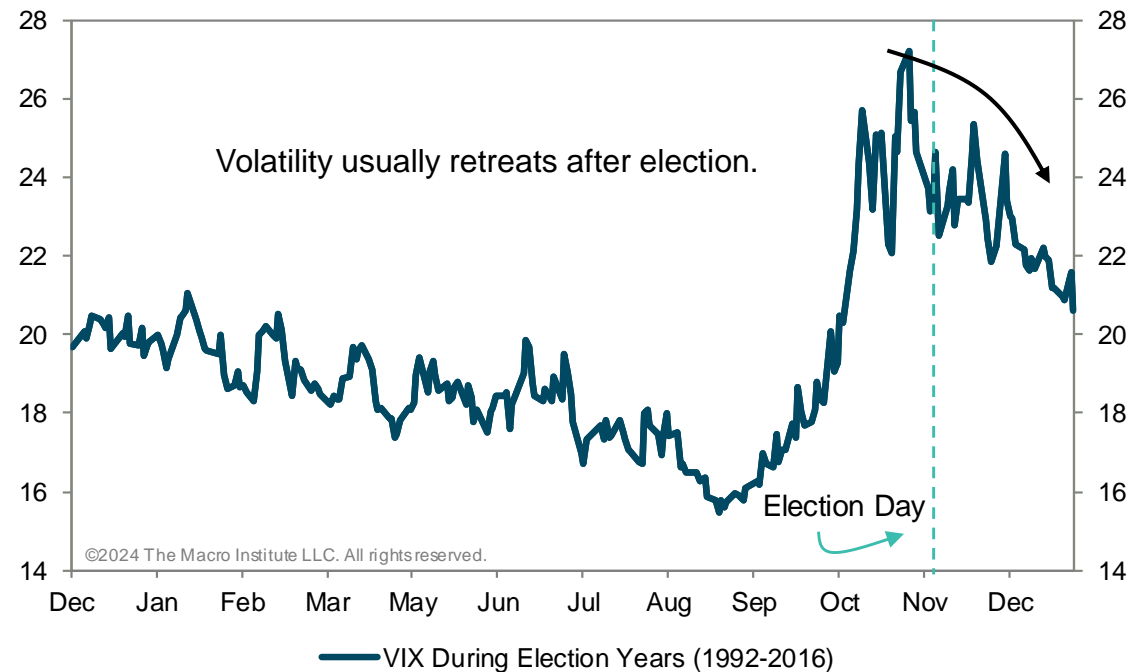
Unrest Over Inflation Led To Two Reagan Victories

1980 Presidential Debate Reagan vs Carter	"Are you better off than you were four years ago? Is there more or less unemployment ... than there was four years ago?"
1981 Reagan's Inaugural Address	"Ending inflation means freeing all Americans from the terror of runaway living costs ... We have every right to dream heroic dreams."
General Quote In Office	"Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hit man."
1984 Campaign Ad "Morning In America"	"This afternoon 6,500 young men and women will be married, and with inflation at less than half of what it was just four years ago, they can look forward with confidence to the future."

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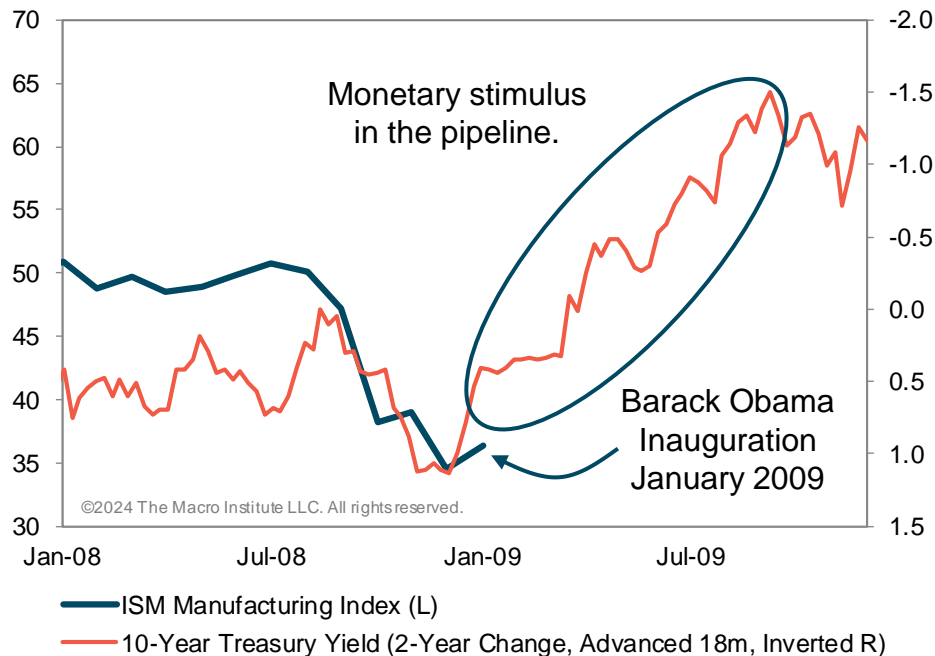
Volatility Trends And The U.S. Election Cycle

Market Volatility Usually Ebbs Lower AFTER Elections

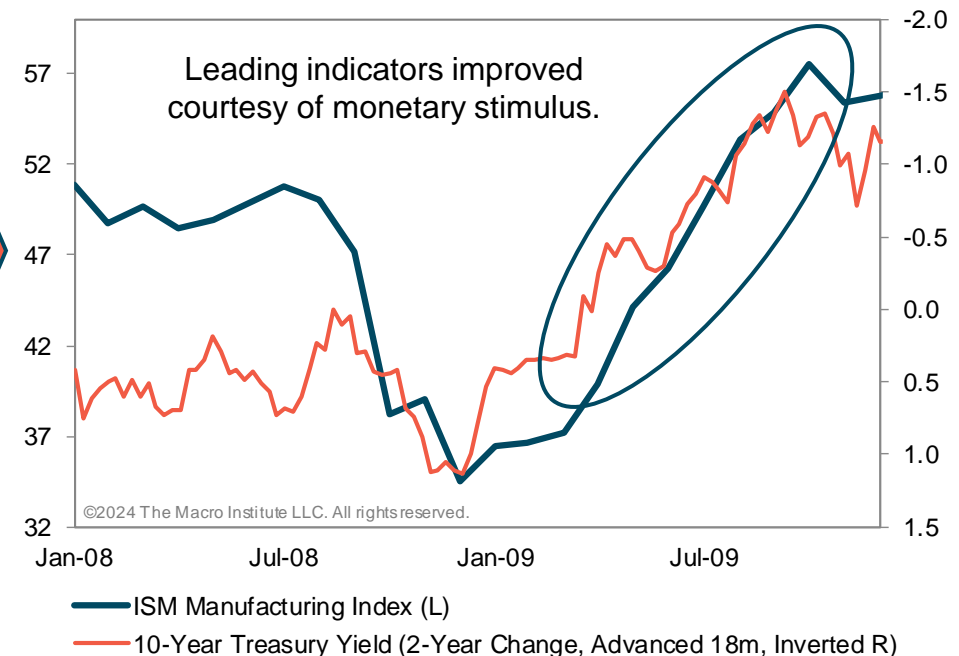


Presidential Inaugurations Vs The State Of Monetary Policy

Obama Inherited An Economy With Stimulus

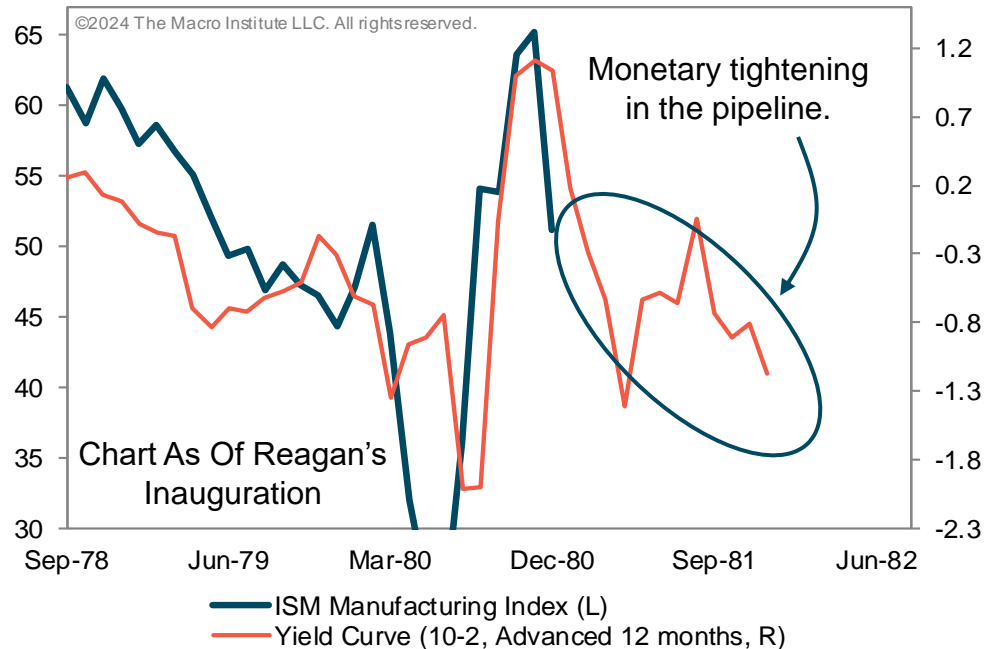


PMIs Rebounded In 2009 Thanks To Earlier Stimulus

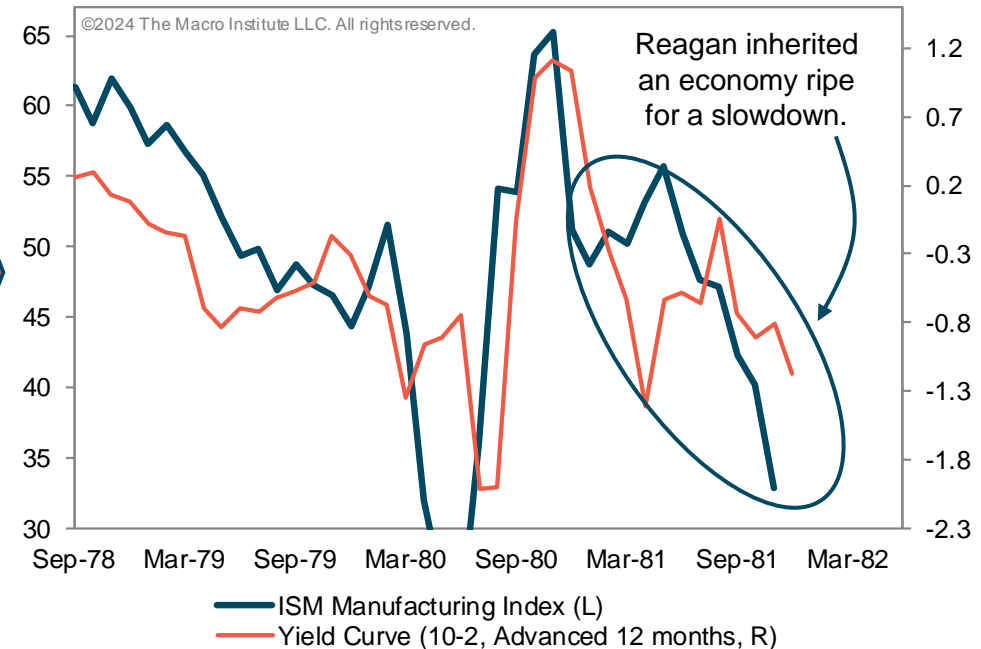


Presidential Inaugurations Vs The State Of Monetary Policy

Reagan Inherited An Economy With Tightening

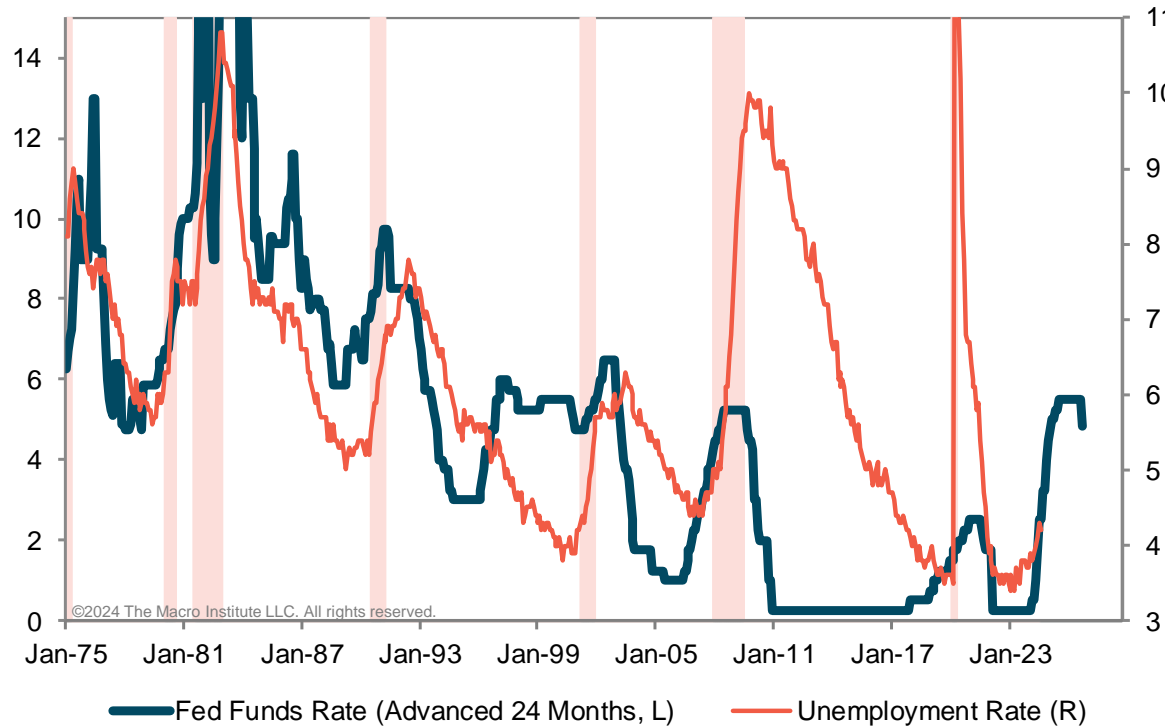


PMIs Declined In 1981 Courtesy Of Earlier Tightening

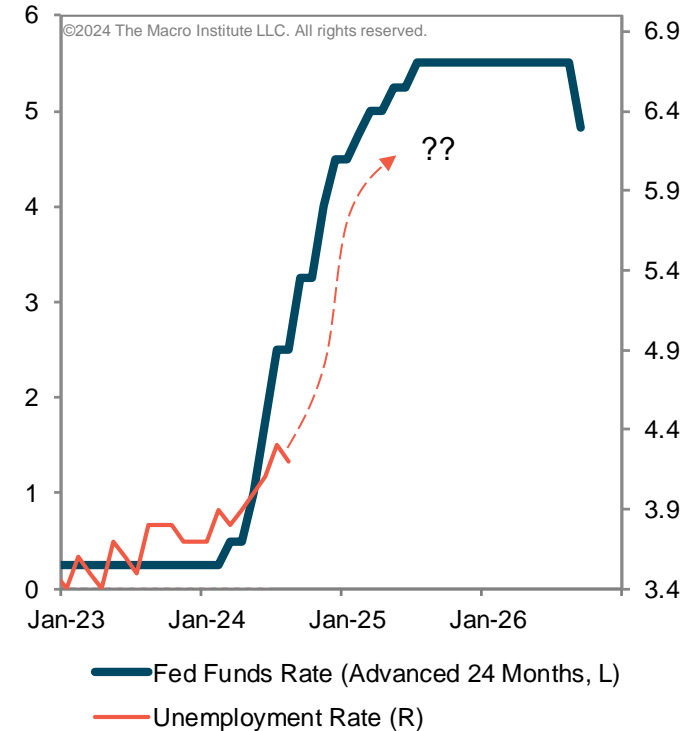


Monetary Tightening STILL An Issue In The Near Future

Trends In Employment Follow Trends In Rates With A 24-Month Lag

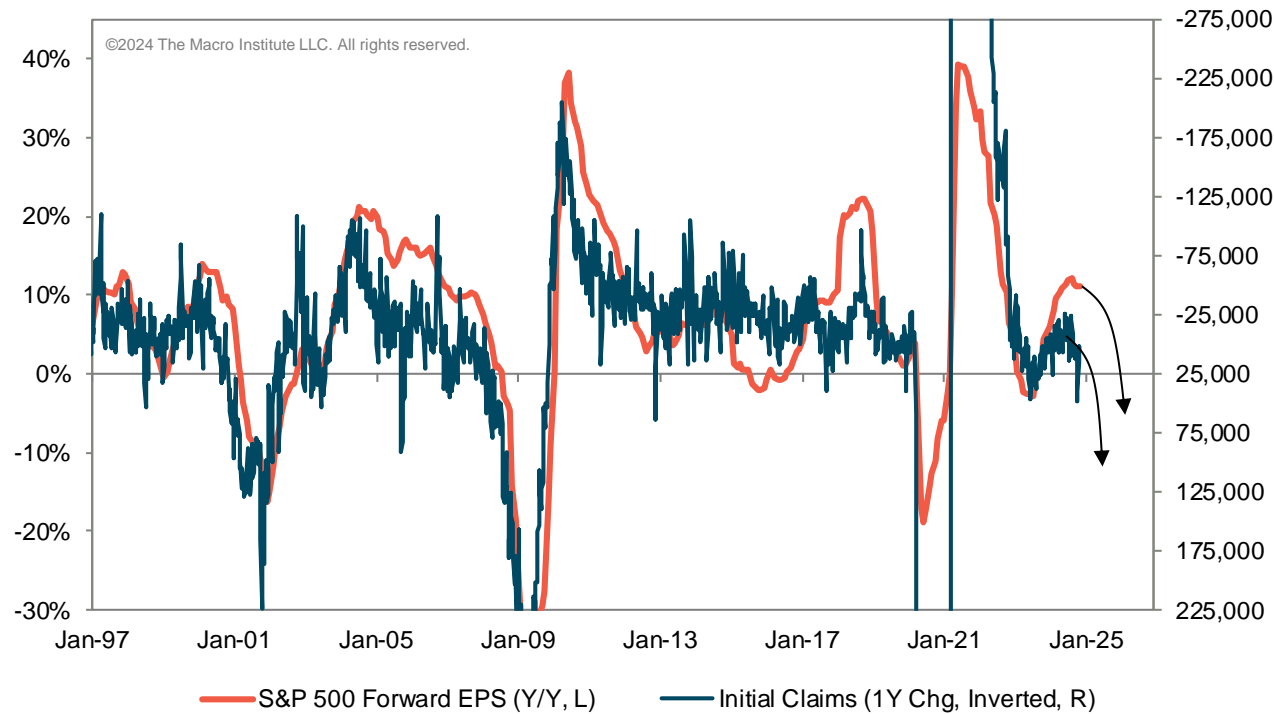


Higher Unemployment Rate Ahead?



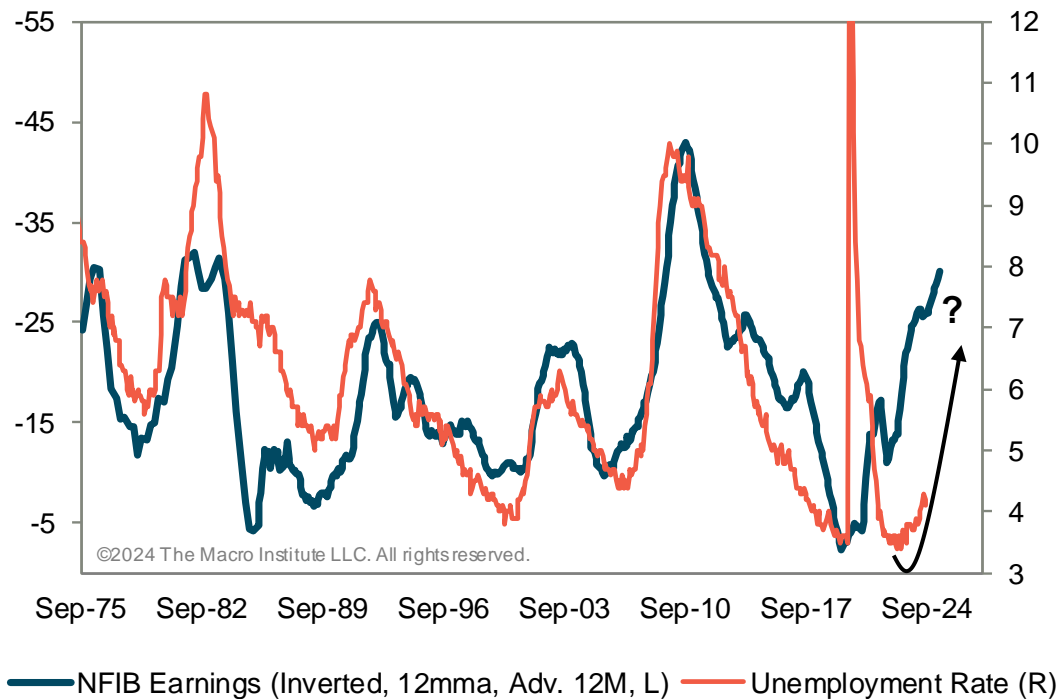
When It Comes To EPS Risk, It's All About Employment

Earnings Expectations And Employment Go Hand In Hand

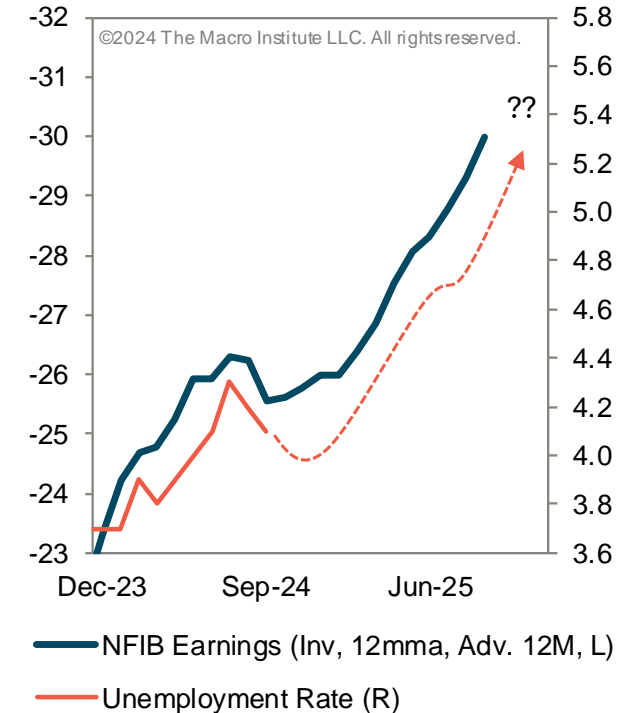


Small Business Earnings Are A Key Driver Of Labor Market Trends

Slowdown In Earnings Points To Increases In Unemployment

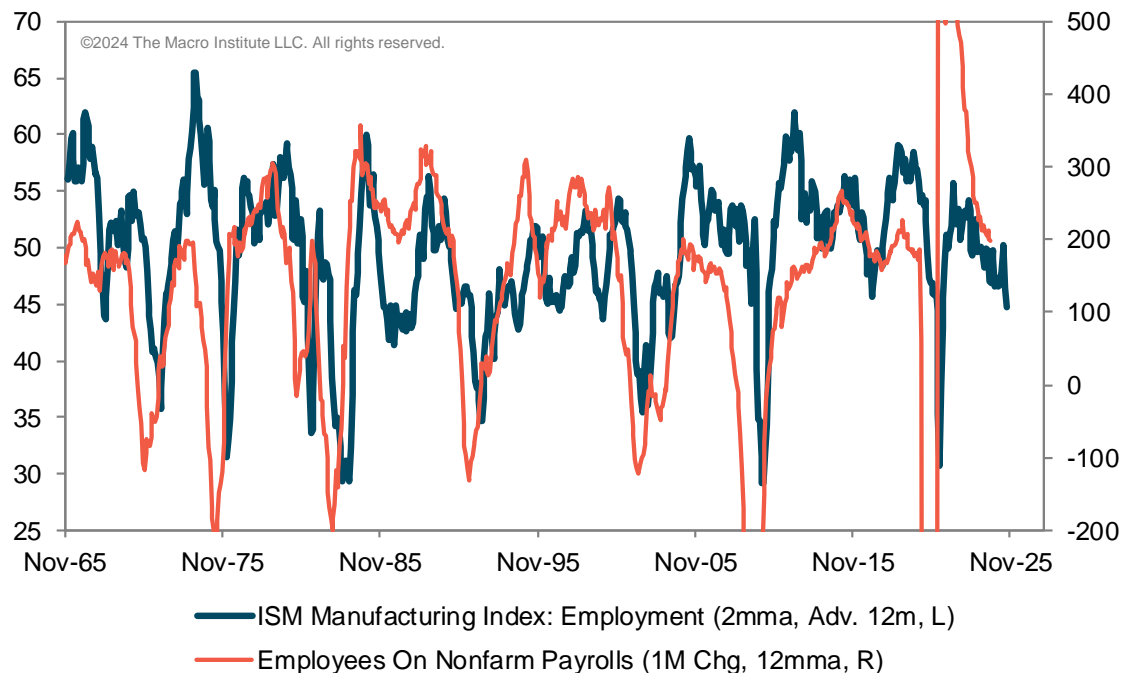


UR Headed Higher?



Independent Surveys Will Tell Us A Lot About Future Labor Market Trends

LEIs Of Employment Pointing To An Ongoing Slowdown

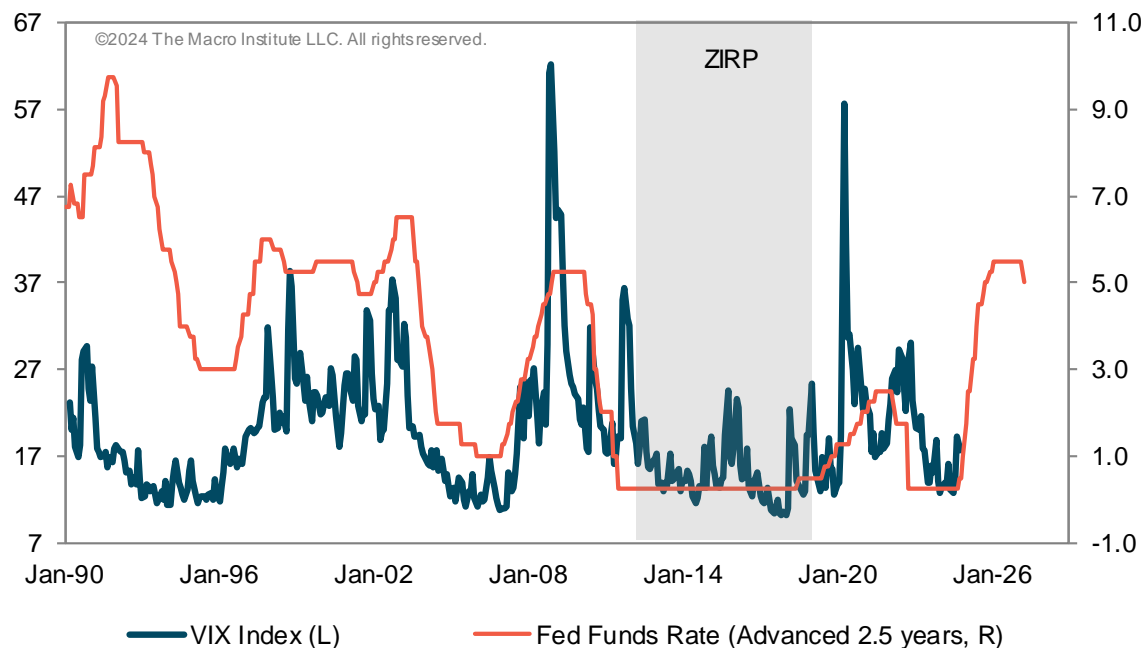


Next ISM Release:

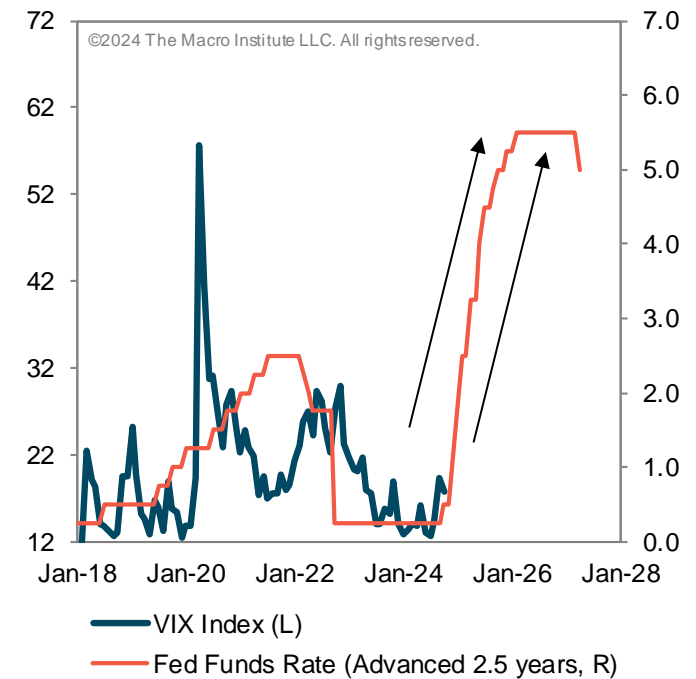
12/02/2024

Fed's Monetary Tightening WAS Just Starting To Catch Up To Market Volatility

Will The Election Dampen Or Heighten This Relationship?

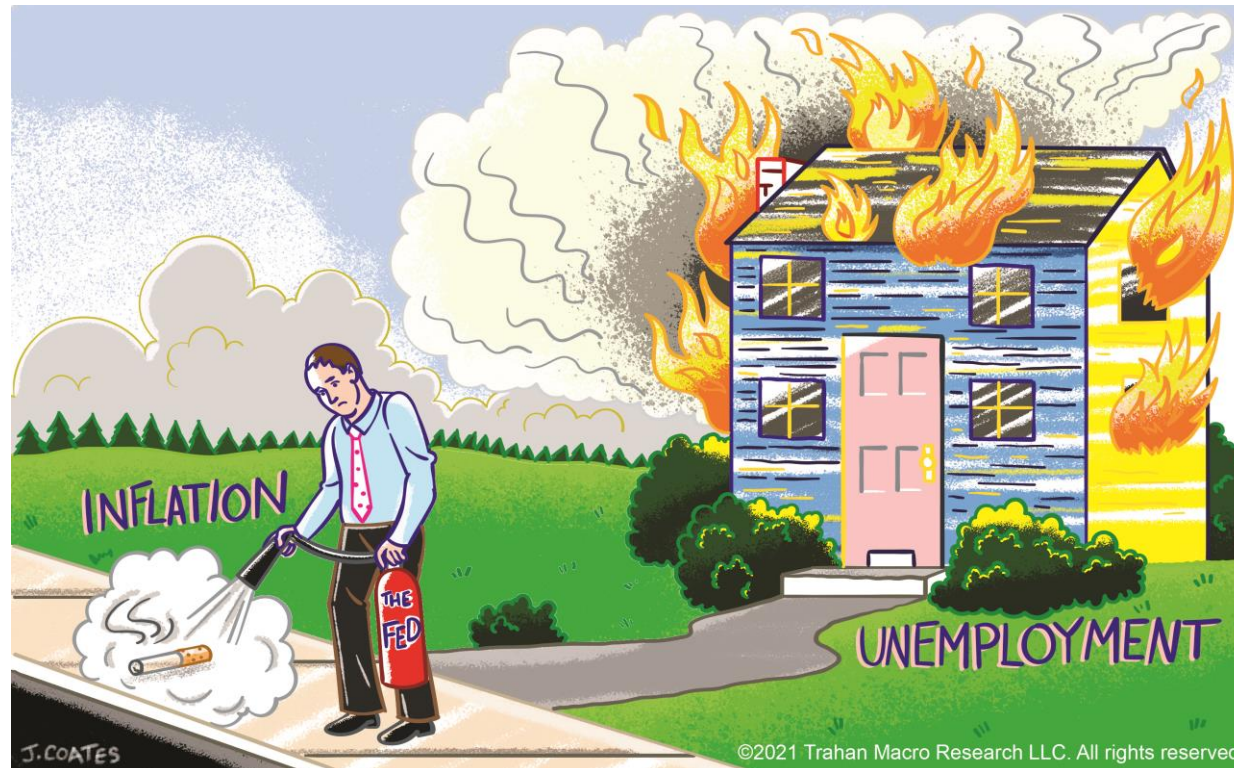


Keep A Close Eye On This One



Section 1: Trump's Proposed Plan ... In An Already Chaotic World

Rarely Used Policy Tools And Their Potential Consequences



On Paper: The New Trump Administration's Policies Would Add A Lot Of Debt

The Proposed Trump Plan

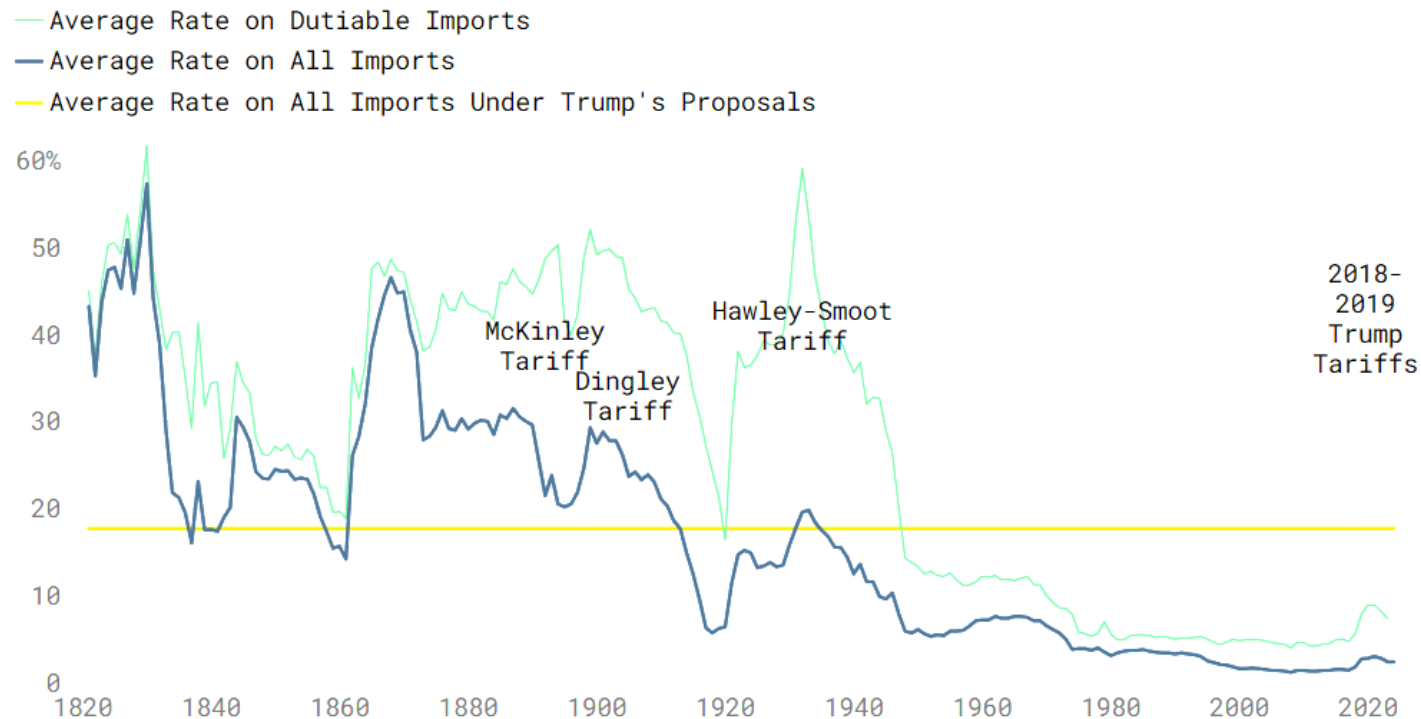
Policy Proposals	Trump Plan (Billions)
Extend TCJA	-\$5,350
Exempt Overtime Income From Tax	-\$2,000
Exempt Social Security From Tax	-\$1,300
Lower Corporate Tax Rate To 15%	-\$200
Exempt Tips From Tax	-\$300
Strengthen Military	-\$400
Secure Border And <u>Deportations</u> ^{#2}	-\$350
Housing Reforms	-\$150
Boost Support For Health Care	-\$150
^{#1} <u>Revenue & Spending Reductions</u> ^{#3}	+\$3,700
Total Estimated Budget Impact	-\$7,500

Source: Committee for a Responsible Federal Budget

#1 Tariffs

#2 Deportations

#3 Austerity

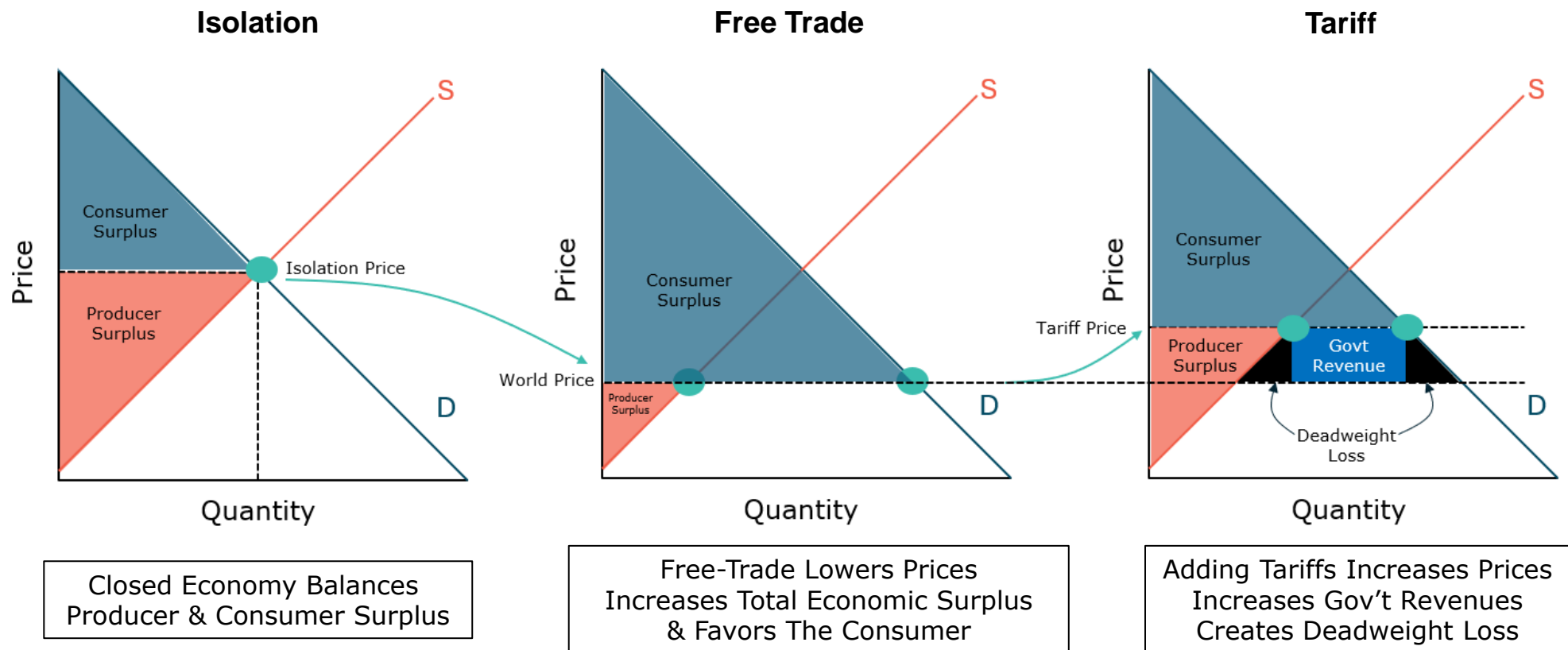
#1: Tariffs**Until Now Tariffs Commonly Considered An Outdated Concept****The U.S. Has Not Imposed Significant Tariffs Since The 1930s**

Source: Tax Foundation

Section 1: Trump's Proposed Plan ... In An Already Chaotic World

#1: Tariffs

Typically Cost Of Trade Tariffs Are Disproportionately Borne By Consumers

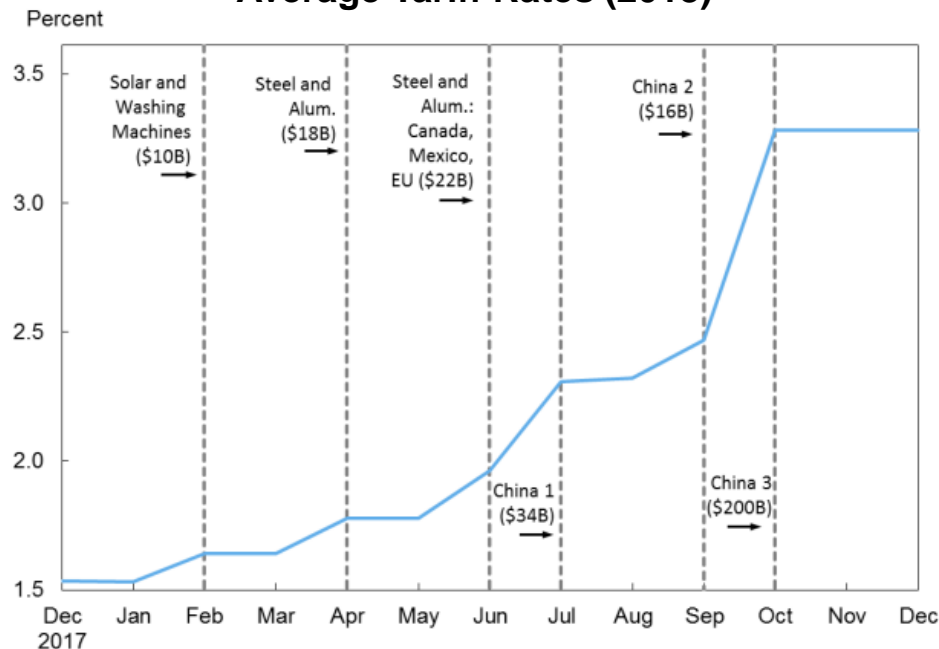


Section 1: Trump's Proposed Plan ... In An Already Chaotic World

#1: Tariffs

A Constant Drip Of Protectionist Policies Emerged In 2018

Average Tariff Rates (2018)



Source: U.S. Census Bureau

Tariffs Are A Two-Way Street

Panel A: Tariffs on U.S. Imports Enacted by U.S. in 2018

Tariff Wave	Date Enacted	Products	2017 Imports	Tariff (%)	
		(# HS-10)	(mil USD)	(%)*	2017 2018
Solar Panels	Feb 7, 2018	8	5,782	0.2	0.0 30.0
Washing Machines	Feb 7, 2018	8	2,105	0.1	1.3 32.2
Aluminum	Mar-Jun, 2018	67	17,685	0.7	2.0 12.0
Iron and Steel	Mar-Jun, 2018	753	30,523	1.3	0.0 25.0
China 1	Jul 6, 2018	1,672	33,510	1.4	1.3 26.2
China 2	Aug 23, 2018	433	14,101	0.6	2.7 27.0
China 3	Sep 24, 2018	9,102	199,264	8.3	3.3 12.9
Total		12,043	302,970	12.7	2.6 16.6

Panel B: Retaliatory Tariffs on U.S. Exports Enacted by Trading Partners in 2018

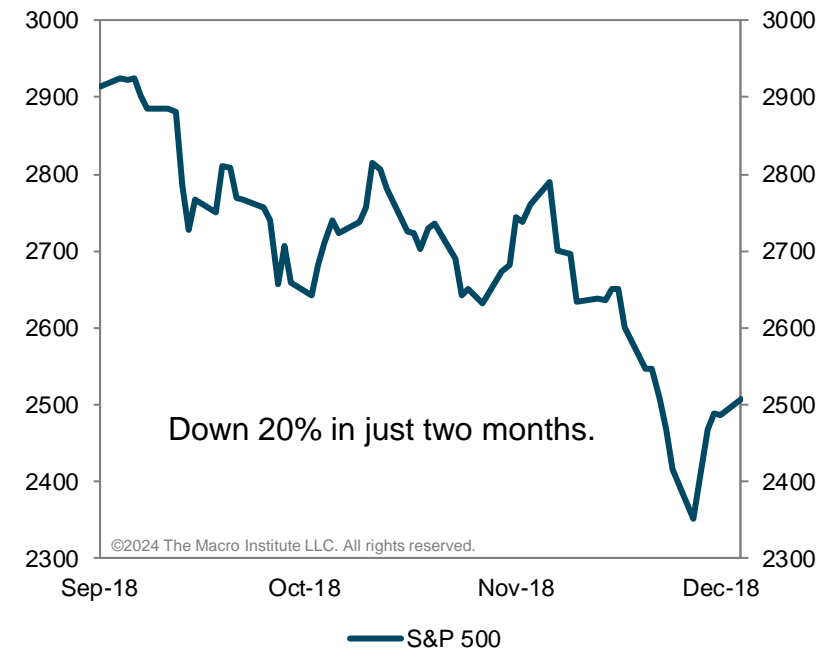
Retaliating Country	Date Enacted	Products	2017 Exports	Tariff (%)	
		(# HS-10)	(mil USD)	(%)*	2017 2018
China	Apr-Sep, 2018	7,474	92,518	6.0	8.4 18.9
Mexico	Jun 5, 2018	232	6,746	0.4	9.6 28.0
Turkey	Jun 21, 2018	244	1,554	0.1	9.7 31.8
European Union	Jun 22, 2018	303	8,244	0.5	3.9 29.2
Canada	Jul 1, 2018	325	17,818	1.2	2.1 20.2
Russia	Aug 6, 2018	163	268	0.0	5.2 36.8
Total		8,073	127,149	8.2	7.3 20.4

Source: UCLA

#1: Tariffs**Wall Street Eventually Spooked By 2018 Rounds Of Tariffs****2018 Tariffs Raised Purchase Costs For U.S. Consumers**

2018 Tariffs	Tax Payments	Deadweight Loss	Total Cost To Consumers
Monthly Cost	\$3.0 Bn	\$1.4 Bn	\$4.4 Bn
Annual Cost	\$36.0 Bn	\$16.8 Bn	\$52.8 Bn
Per Household Annual Cost	\$282	\$132	\$414

In 2018, this added up approximately to 0.8% for an average income of about \$50k

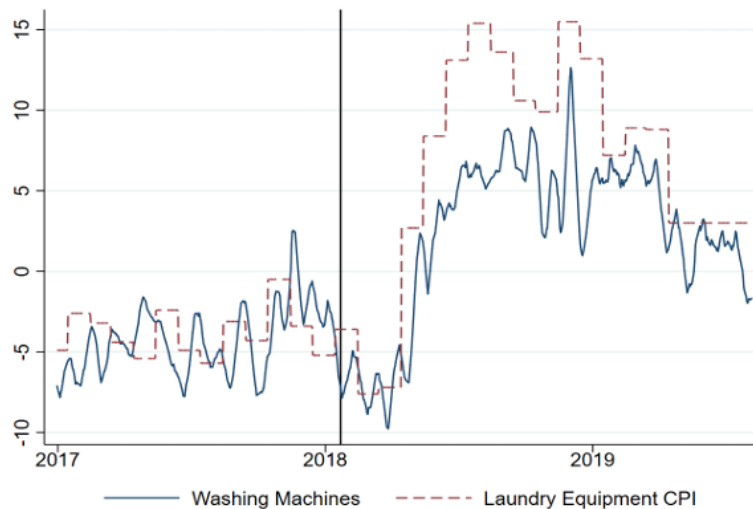
S&P 500 Took A Huge Hit

Section 1: Trump's Proposed Plan ... In An Already Chaotic World

#1: Tariffs

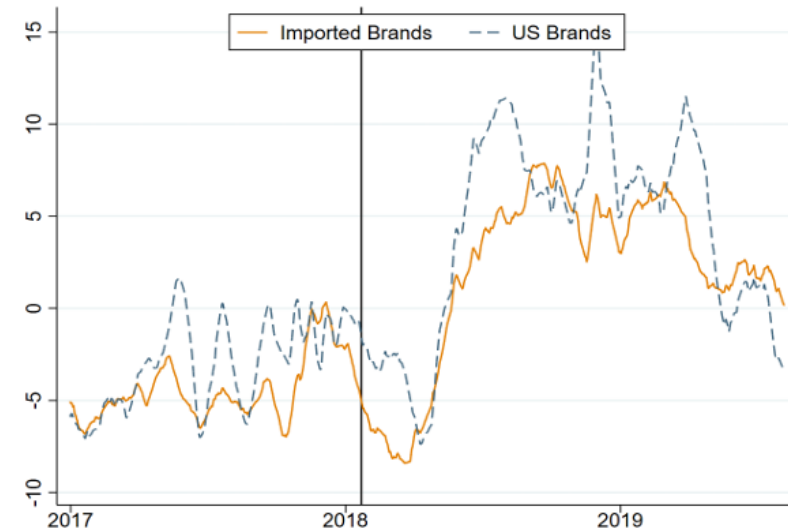
Normal: The 2018 Trade Tariffs Led To Higher Inflation

Washing Machine Prices Spiked Due To Tariffs

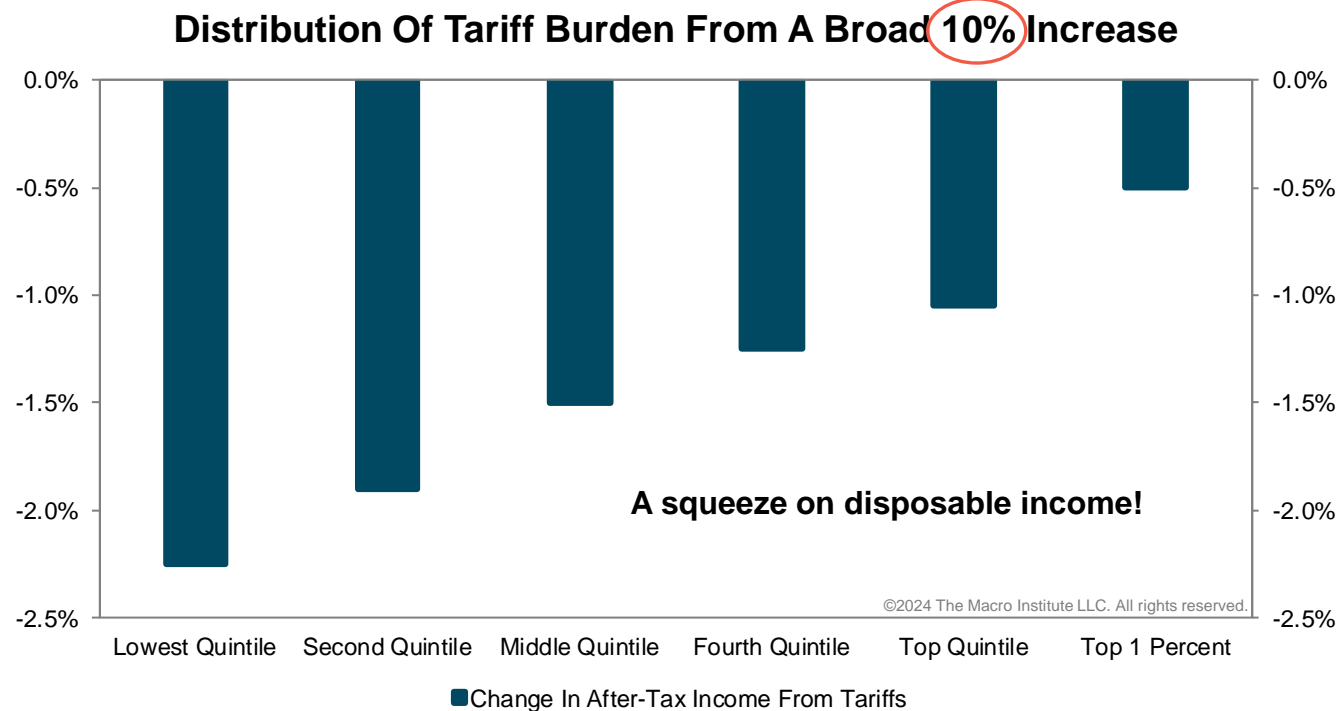


Source: Cavallo, Alberto, *Tariff Passthrough At The Border And At The Store: Evidence From US Trade Policy*, 2019.

Both Imported & U.S. Brands Got More Expensive

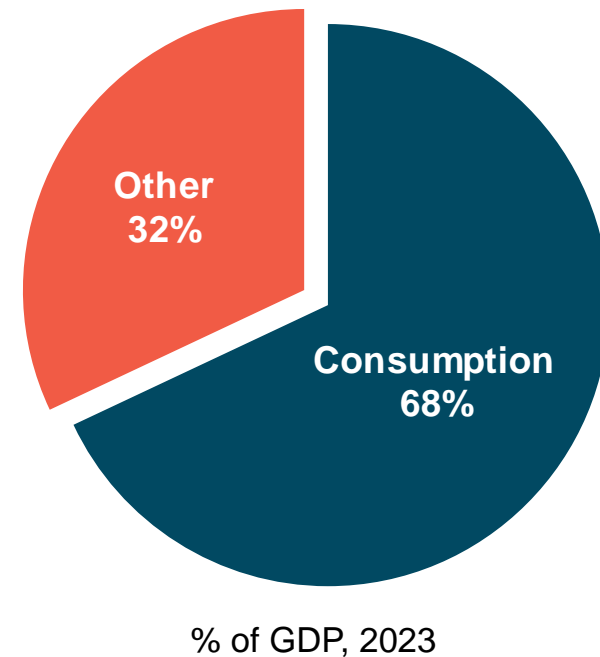
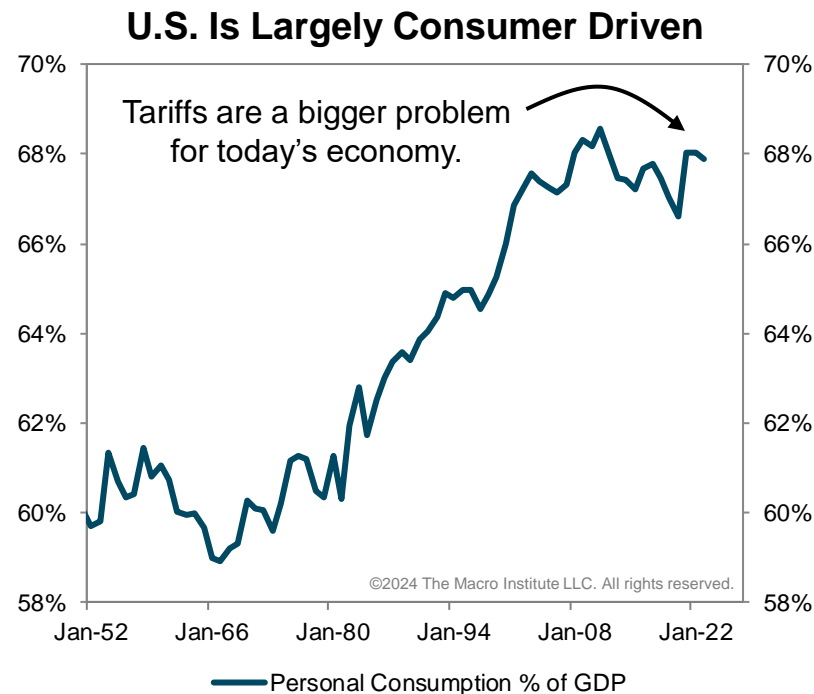


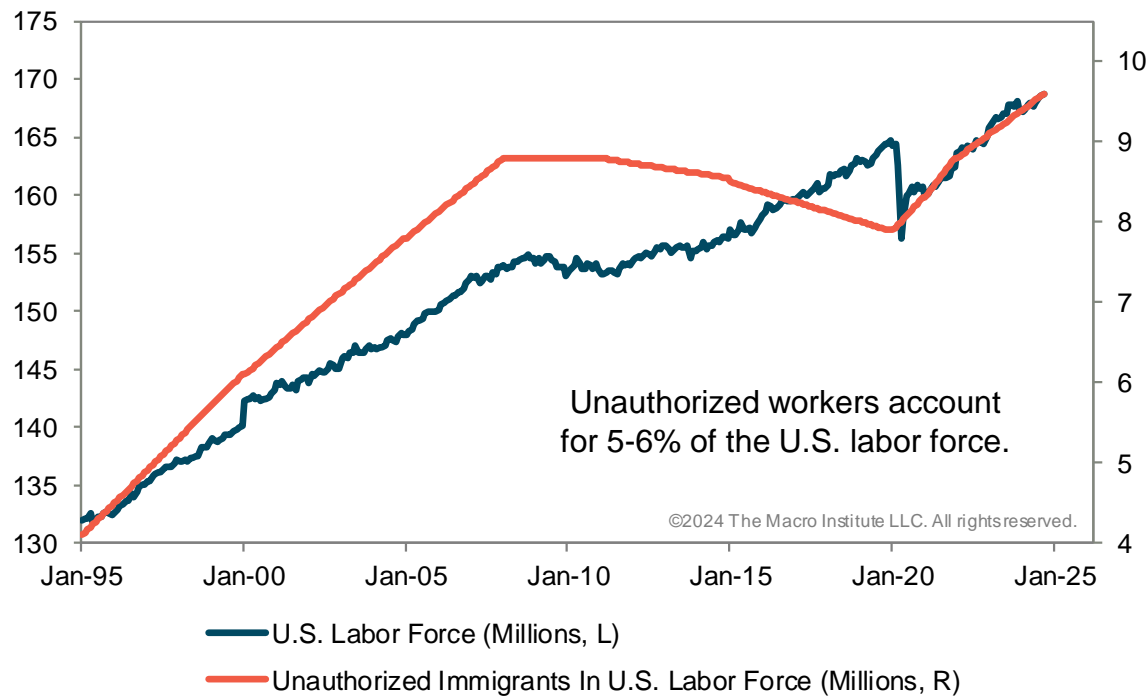
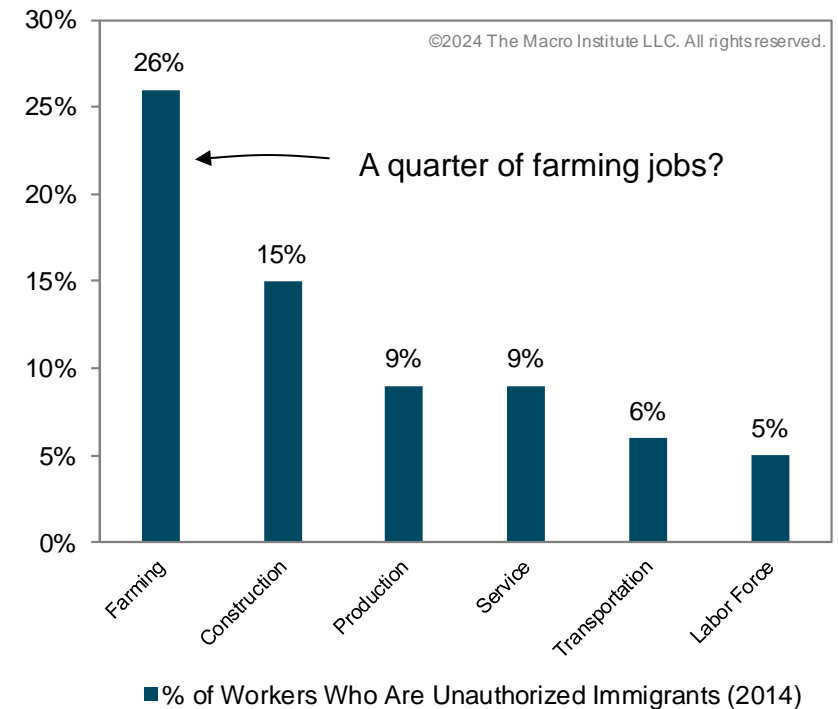
Source: Cavallo, Alberto, *Tariff Passthrough At The Border And At The Store: Evidence From US Trade Policy*, 2019.

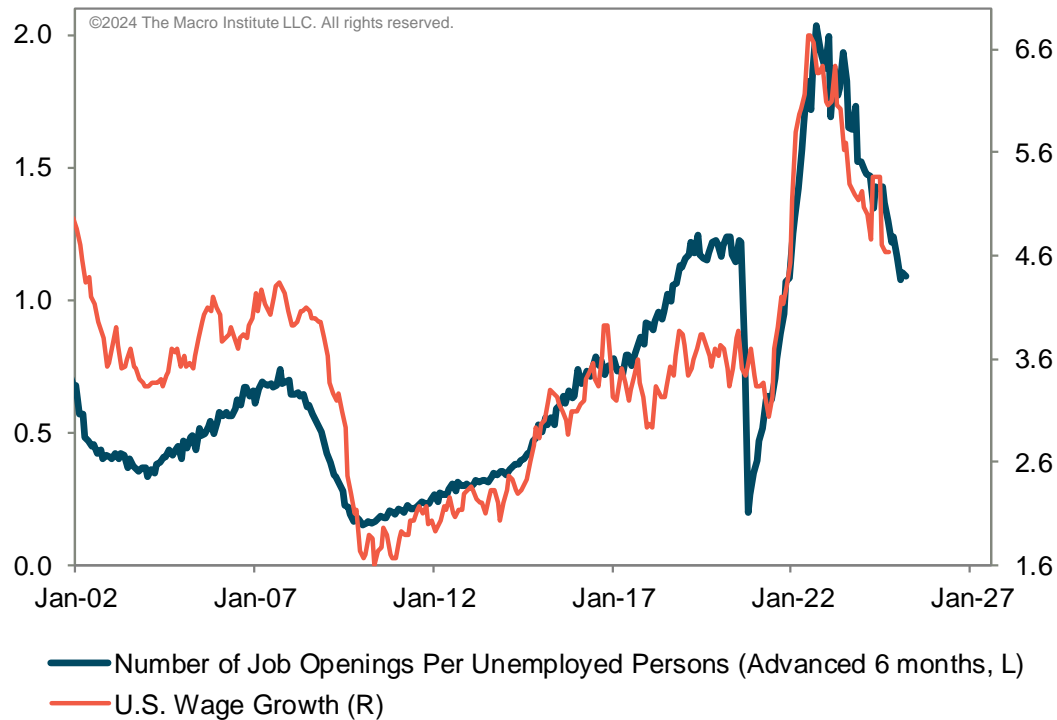
#1: Tariffs**Lower-Income Households Usually Bear The Biggest Burden From Tariffs**

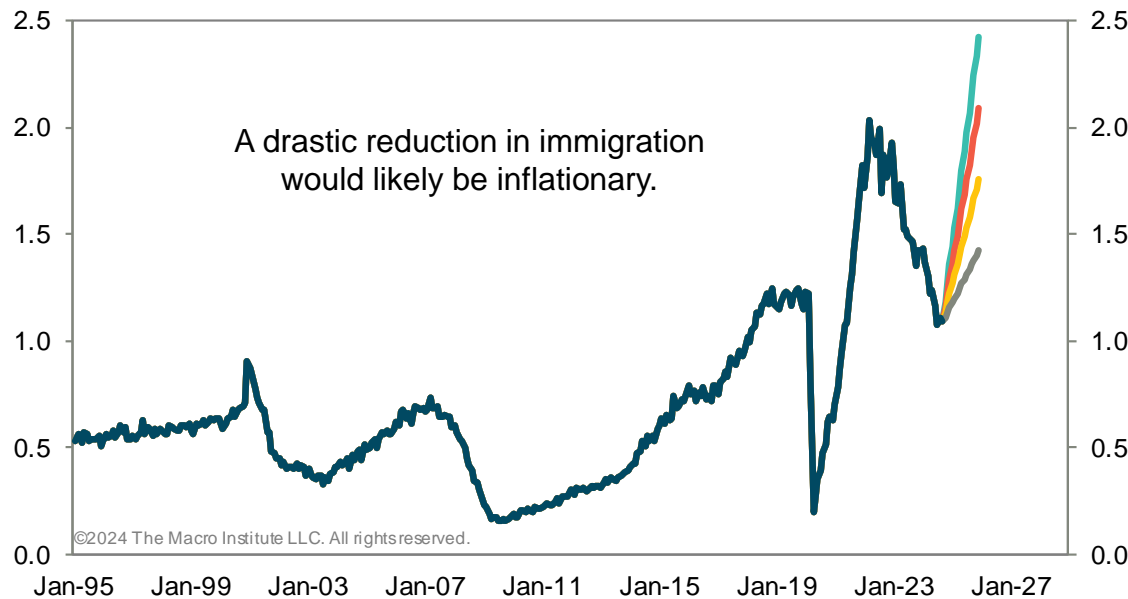
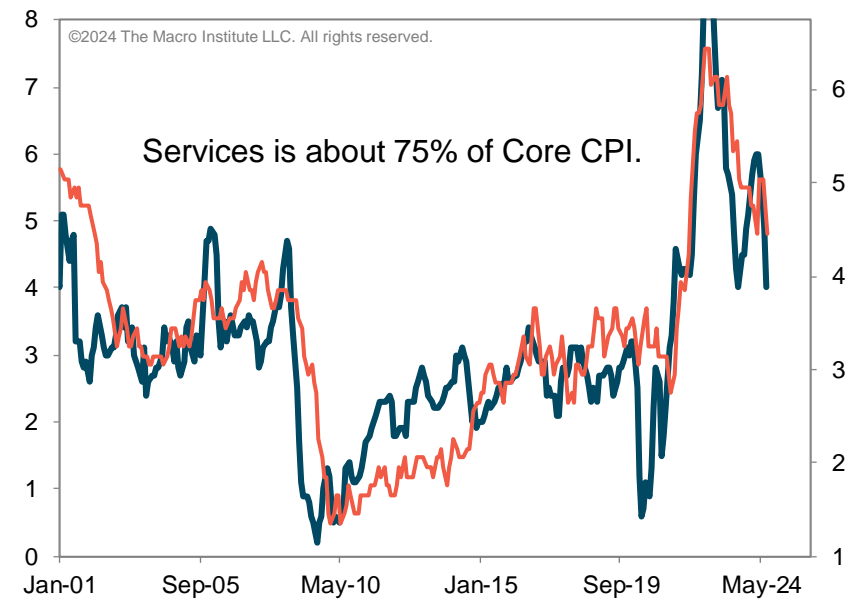
Source: Council of Economic Advisers

Half of what is
currently being
proposed.

#1: Tariffs**Few Modern-Day Economists Are Trained In The Economics Of Tariffs**

#2: Deportations**Immigration Policy Could Also Alter The Traditional Election Playbook****Unauthorized Workers In The U.S. Number Almost 10 Million****A Real Problem In Some Industries!**

#2: Deportations**Inflation Trends Largely At The Mercy Of Labor Market Dynamics****Looser Labor Markets Have Led To Slower Inflation Overall****Immigration Policy Uncertainty?!?**

#2: Deportations**An Immigration Policy Change Would Alter The Dynamics Of U.S. Labor Markets****Labor Market Dynamics At The Heart Of U.S. Inflation Trends****Wage Inflation \cong Services Inflation**

— U.S. Services Inflation (Conference Board, L)
— U.S. Wage Inflation (Y/Y, R)

100% 75% 50% 25% Jobs Per Unemployed Worker

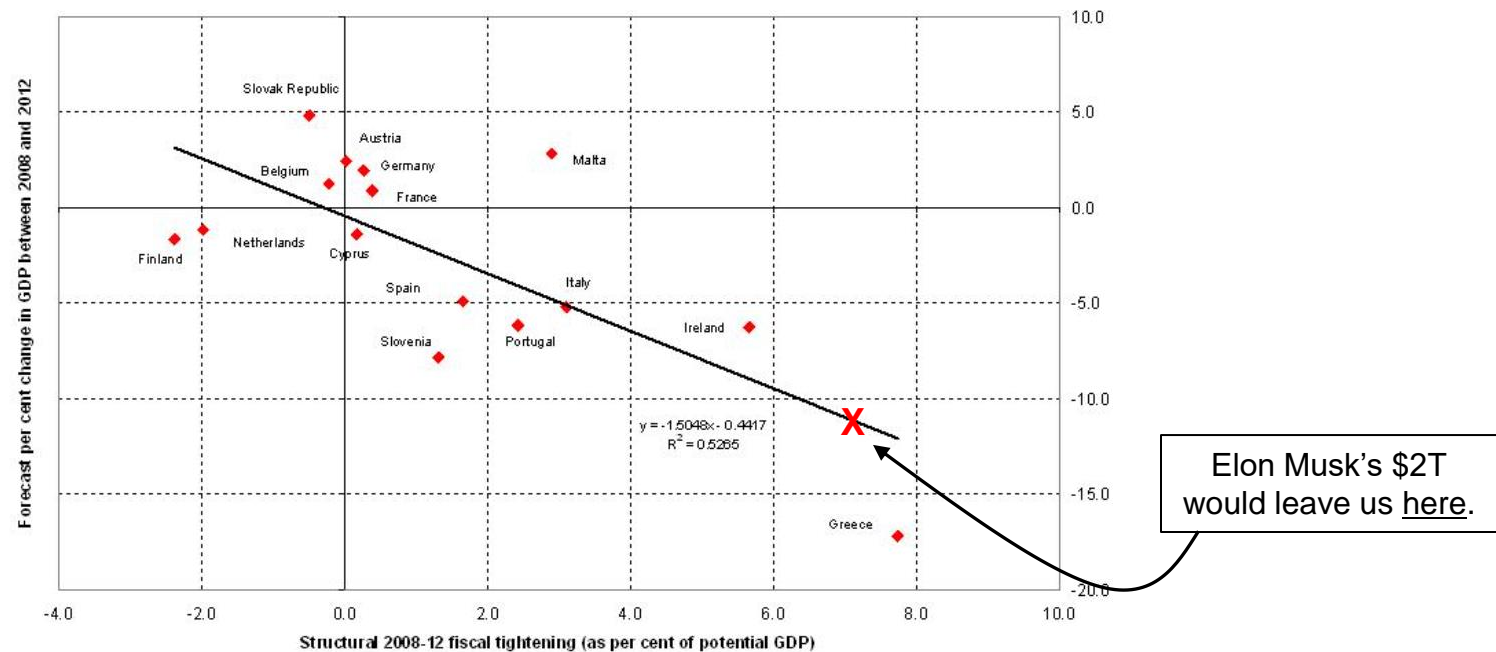
These two scenarios would be worse for inflation than the 2021 inflation experience.

Section 1: Trump's Proposed Plan ... In An Already Chaotic World

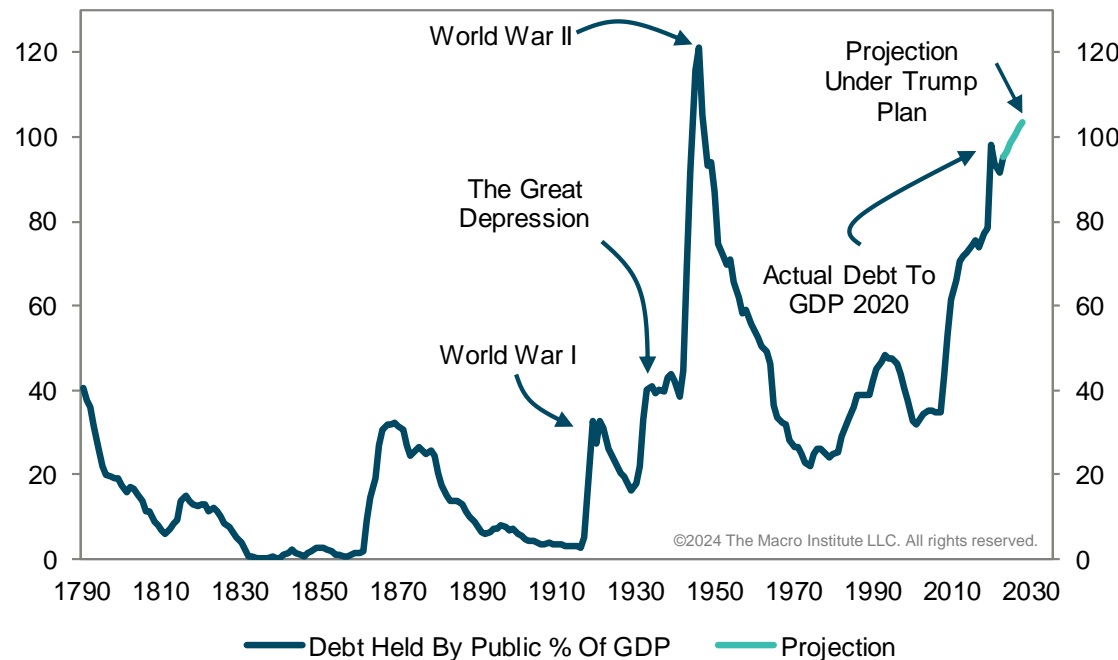
#3: Austerity

Extreme Austerity Always A Headwind For The Economy

Fiscal Tightening And Eurozone GDP (2008–2012)



Source: IMF, World Economic Outlook

#3: Austerity**The Dire State Of U.S. Public Finances Could Alter The Fiscal Playbook****Trump's Policies Projected To Exacerbate U.S. Debt Issues**

YC Un-Inversion Dates	Deficit % Of GDP
1989	-2.75%
2000	+2.34%
2007	-1.12%
2019	-4.62%
Current	-6.73%

Will the next downturn widen the deficit even further?

Section 2: An Unusually Bullish Backdrop For The USD



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Three Frameworks With The Same Bullish Conclusion For The USD

Growth Prospects

Likely To Slow More In RoW Due To Tariff Drag

- Tariffs

Interest Rates

Likely To End Up Higher Than Otherwise

- Tariffs
- Deportations

Flows

More \$\$\$ Likely To Remain In The U.S.

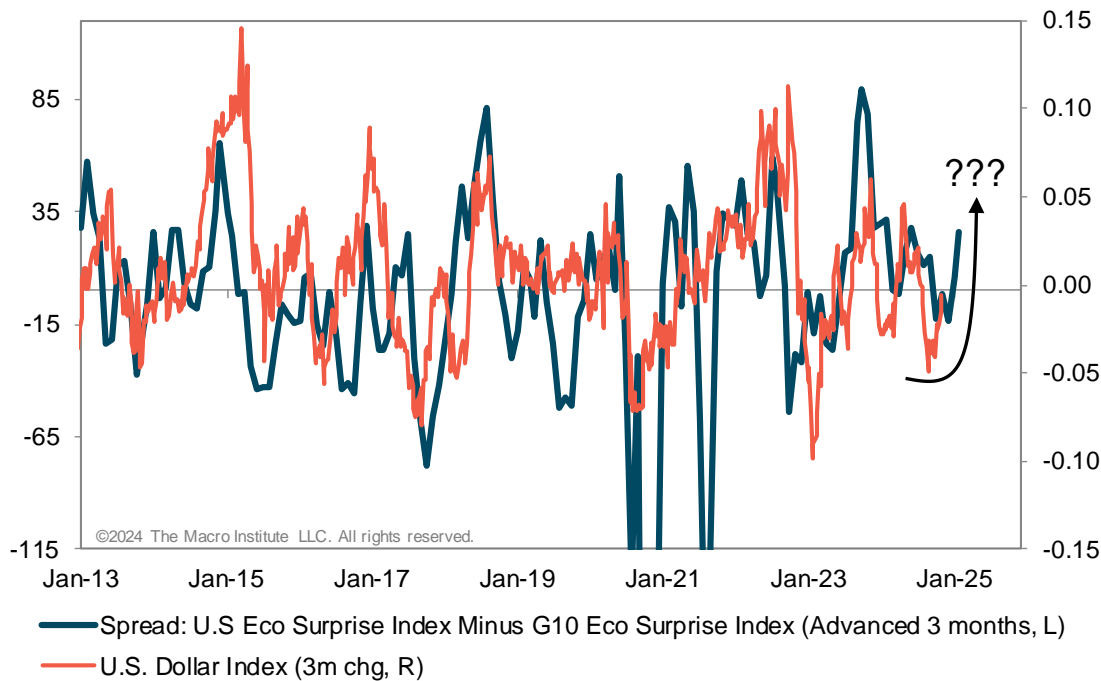
- Tariffs
- Deportations
- Austerity

Section 2: An Unusually Bullish Backdrop For The USD

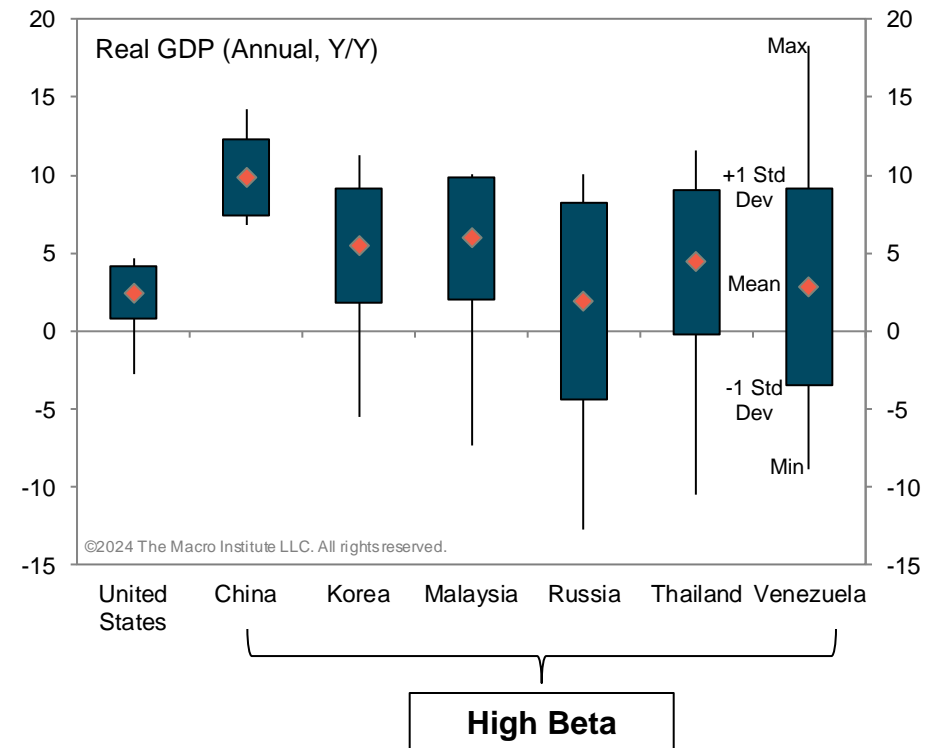
#1: Growth Prospects

Differentials In Economic Performance Key To Currency Trends

Rest Of World At Greater Economic Risk From Tariffs



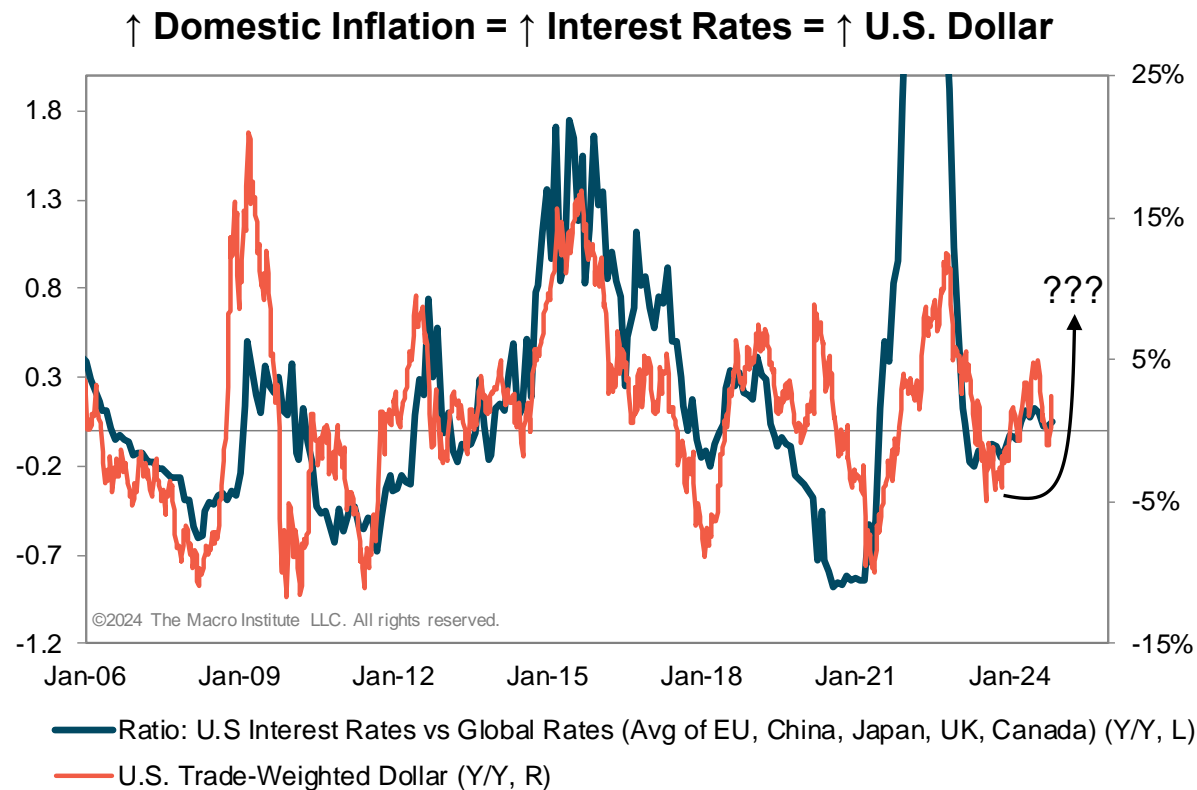
The U.S. Is More Stable Than EM Economies



Section 2: An Unusually Bullish Backdrop For The USD

#2: Interest Rates

Inflationary Pressures On U.S. Interest Rates Generally USD Bullish

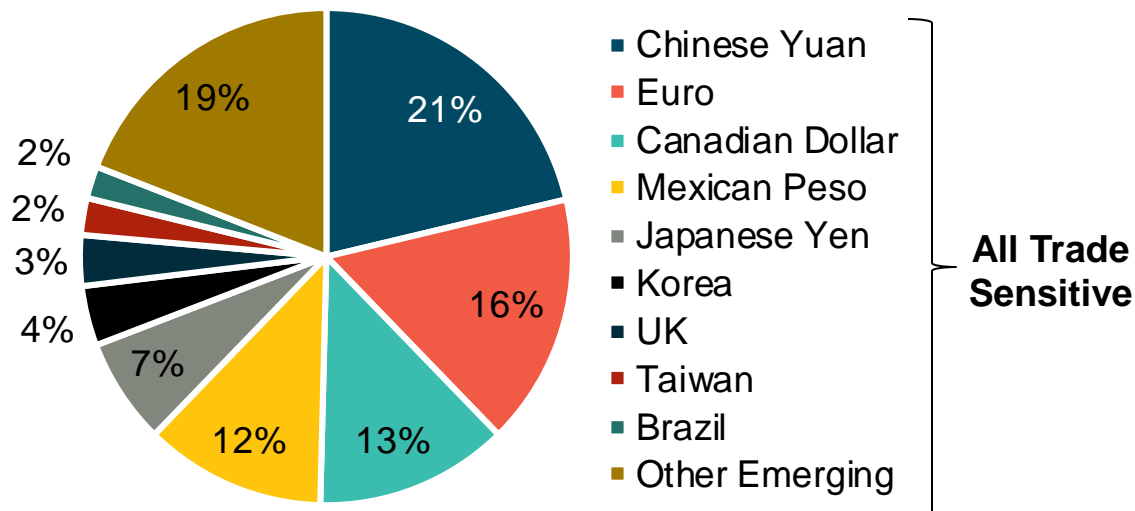


Section 2: An Unusually Bullish Backdrop For The USD

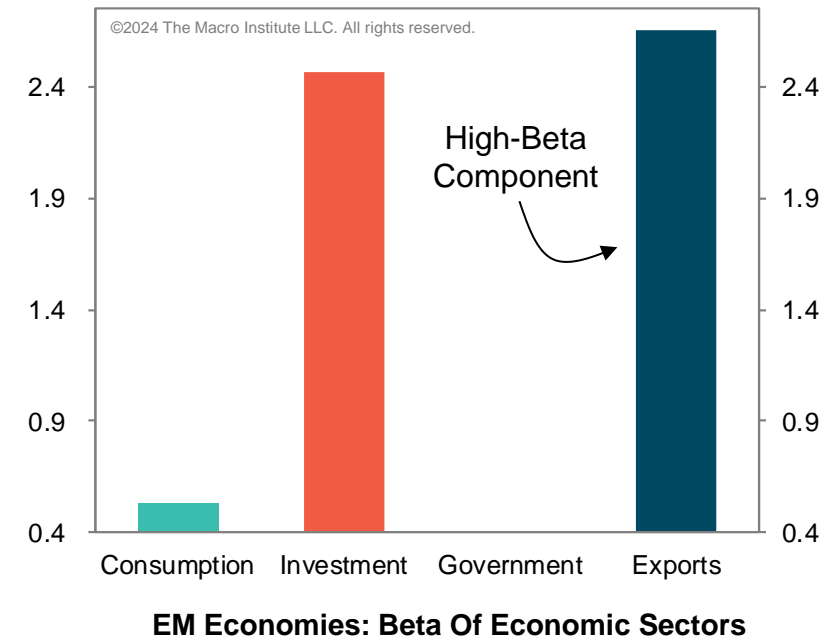
#3: Flows

U.S. Trade Partners At Real Risk From Protectionist Policies

U.S. Trade-Weighted Dollar Composition



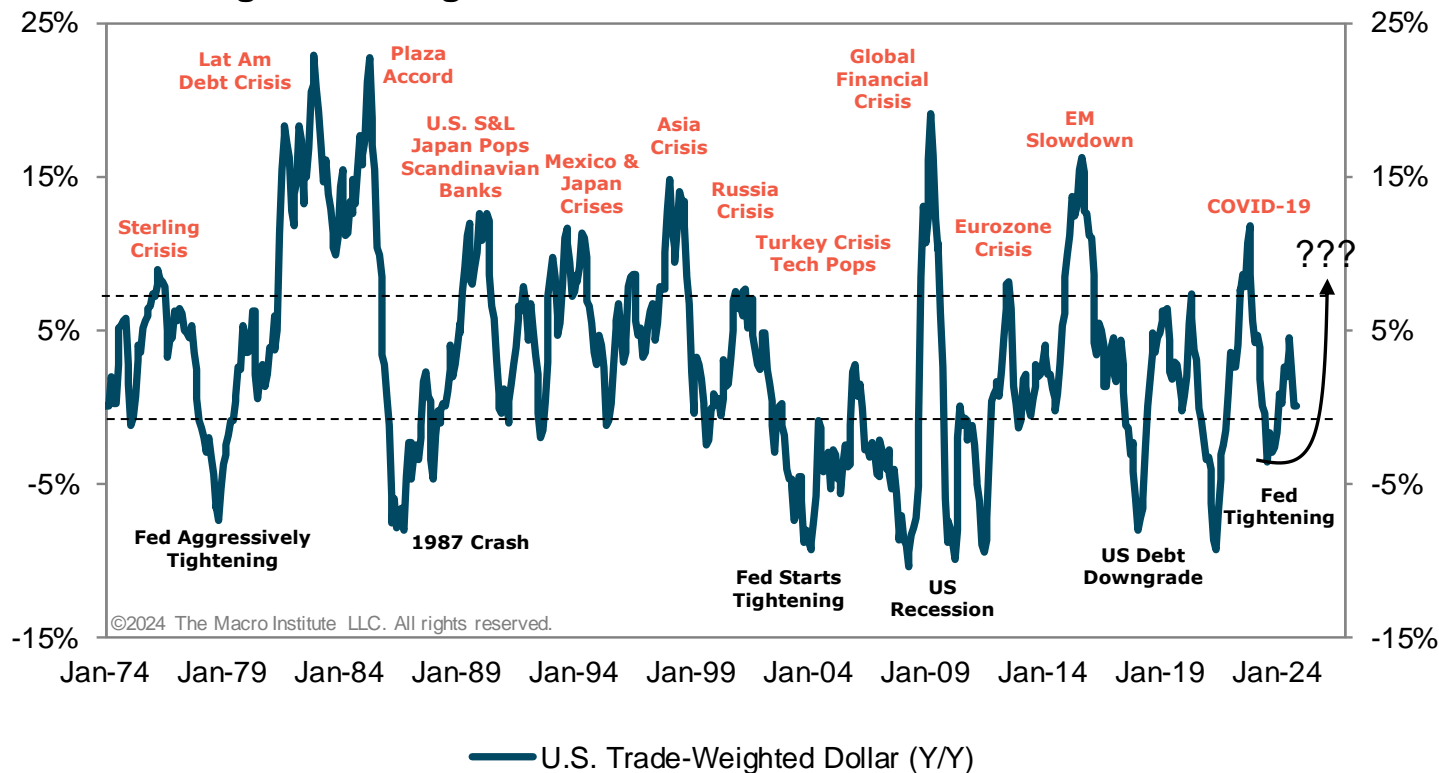
EM Largely Dependent On Trade



Section 2: An Unusually Bullish Backdrop For The USD

USD Swings Create Problems In Different Parts Of The Global Economy

Stronger USD Regimes Often A Problem In The West Of The World



**Strong USD →
Global Tightening Territory**

*Problem for the rest of world
as a stronger USD weighs on
global PMIs*

**Weak USD →
U.S. Tightening Territory**

*Problem for the U.S. as a
weaker USD weighs on the
U.S. consumer*

Section 3: Increasingly Risky Backdrop For The Rest Of The World



An Already Shaky Backdrop In The Rest Of The World

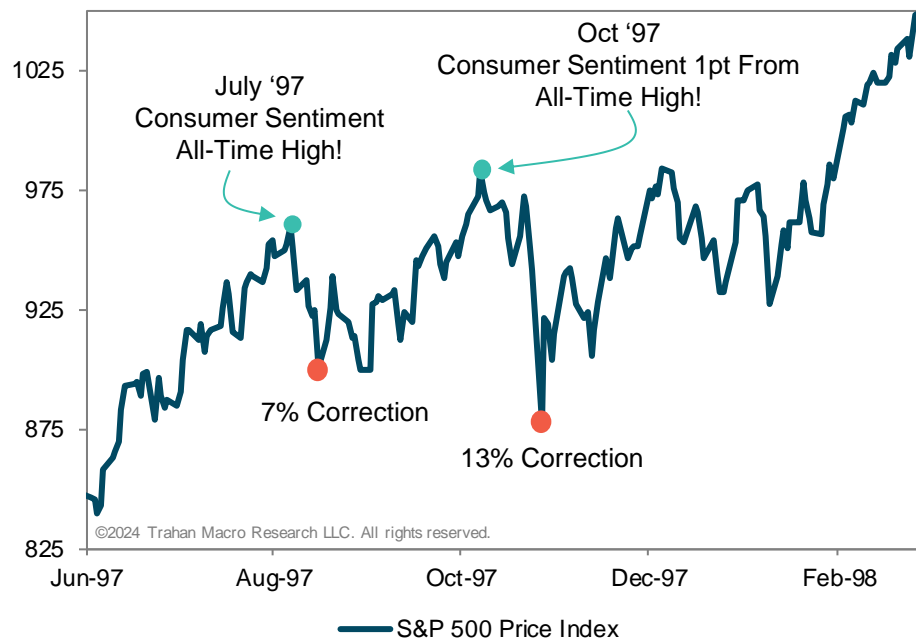
The Rest Of The World Is Losing Economic Steam



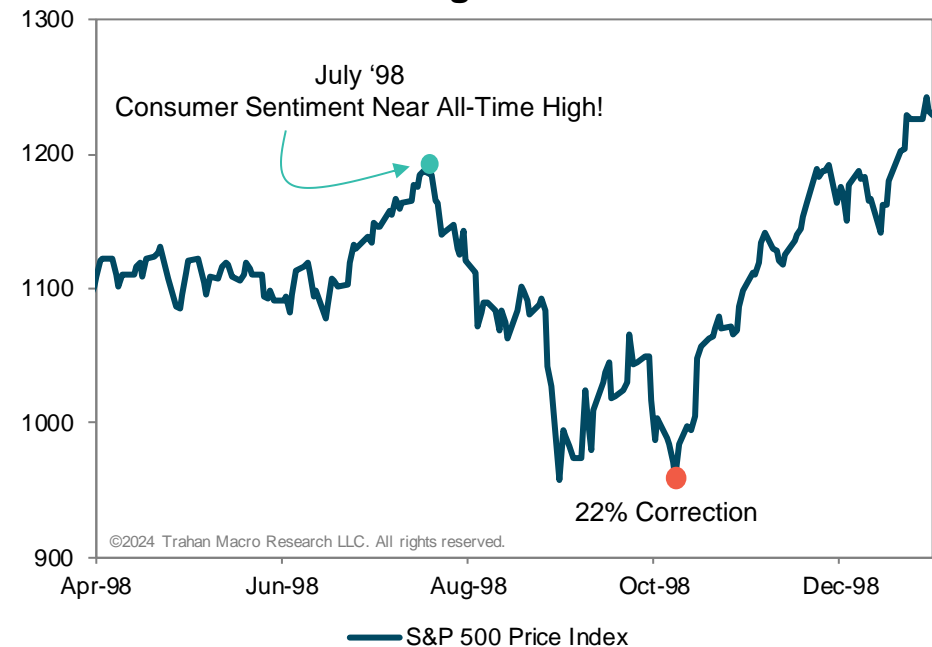
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The S&P 500 Is Not Always Immune From Global Issues

1997 Global Contagion: S&P 500 Down 13%

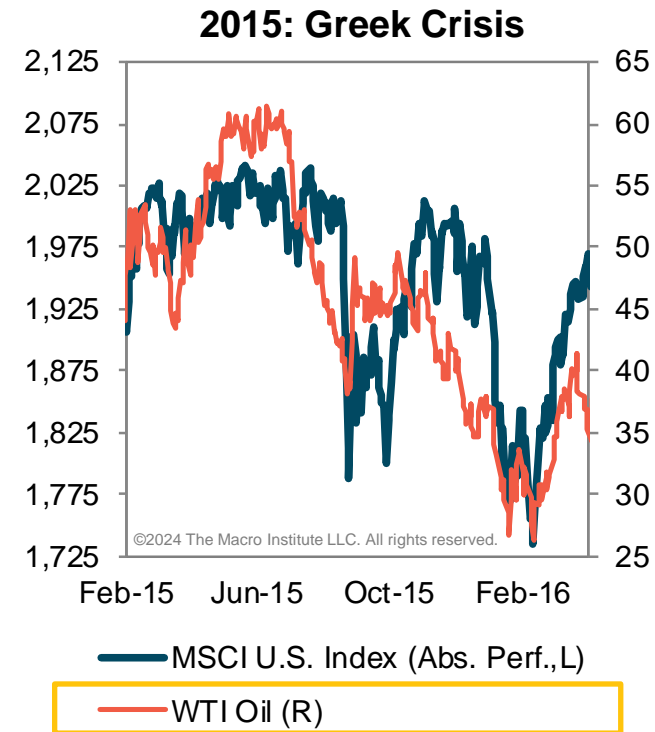
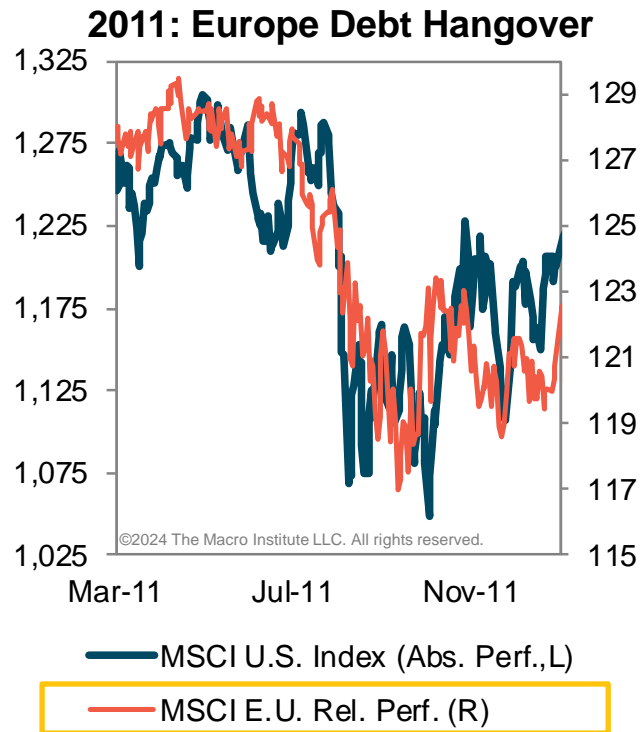


1998 Global Contagion: S&P 500 Down 22%



Section 3: Increasingly Risky Backdrop For The Rest Of The World

Foreign Issues Weighed On U.S. Equities Throughout The 2010s



China's GDP: Only One Place To Turn (Devaluation?)

$$\text{GDP} = C + I + G + (X - M)$$

46%

✗ **Investment:** Excess Capacity, Housing Crisis, “Ghost Cities”

38%

✗ **Consumption:** Small Employment Multiplier, Poor Consumer Confidence

22%

✗ **Exports:** Slowing ROW Volumes ← **More Tariffs Coming???**

13%

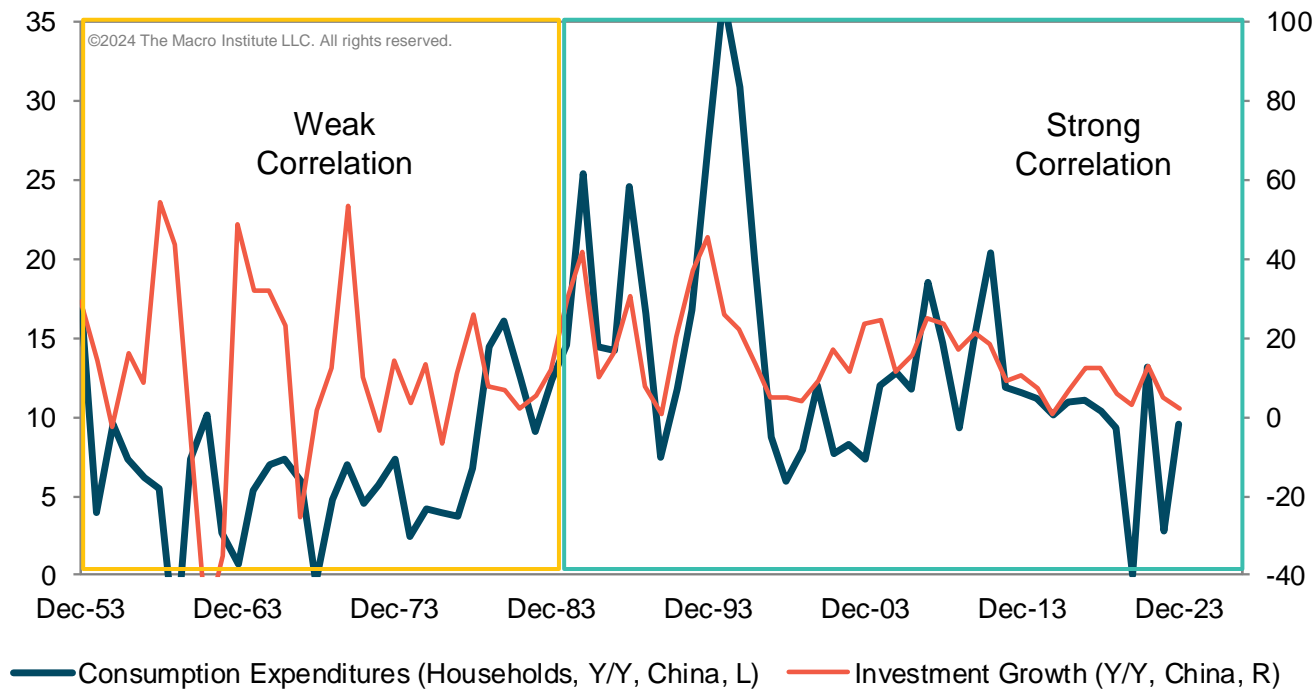
✗ **Government Spending:** High Government Debt Levels

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(As of 2015)

Investment: Can Consumption Fill The Gap Left By Slowing Investments?

Consumption Growth Linked To Investment Growth

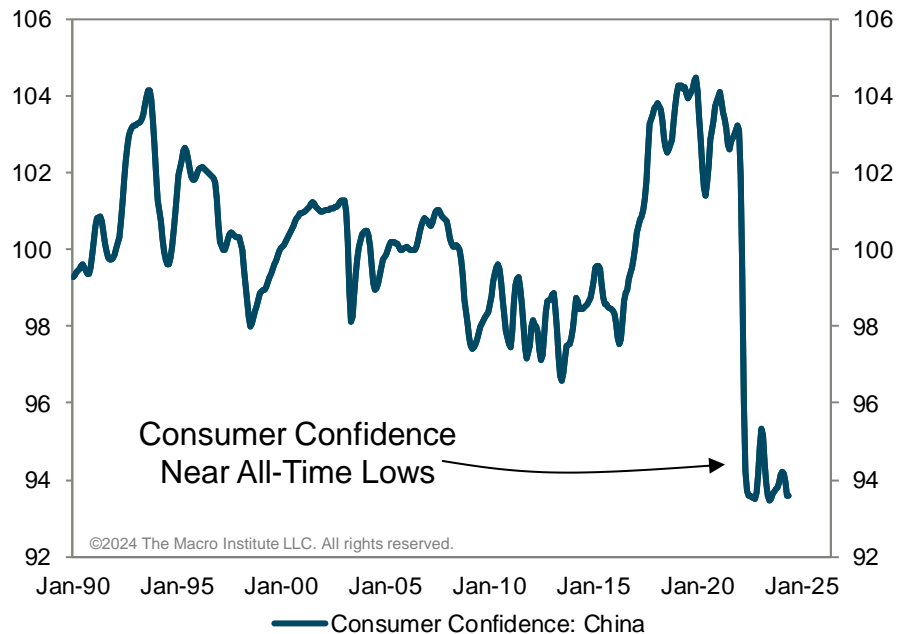


Multiplier Effect Employees/\$1Mn Of GDP	
Consumption	3.7
Investments	12.2
Government	6.9
Exports	16.8

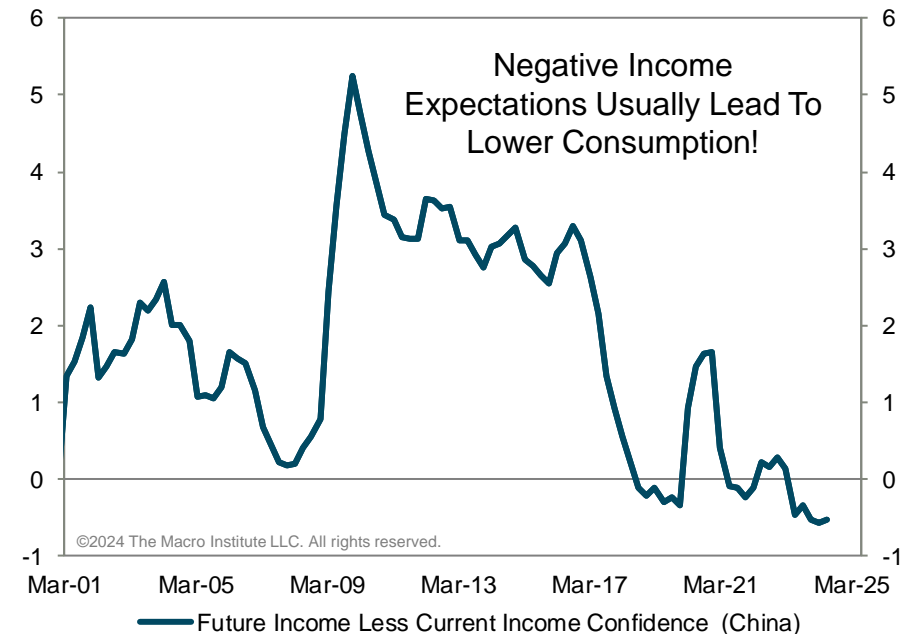
The employment multiplier is much smaller for **Consumption** than **Investments**.

Consumption: Weaker Employment Erodes Consumer Confidence

Consumer Confidence At Historic Lows



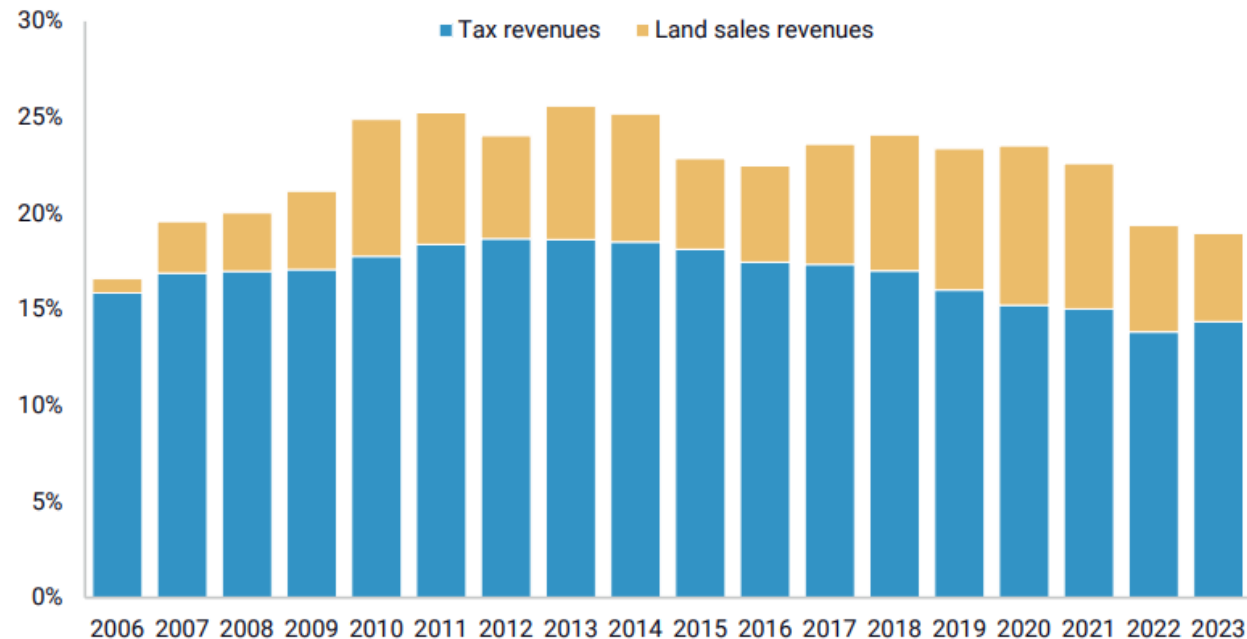
Dismal Future Earnings Prospects



Government: China's Housing Issues Limit Fiscal Policy Options

Major Revenue Sources Continue To Wane

China's tax revenues and revenues from land sales as a share of GDP, 2006 – 2023
Percent

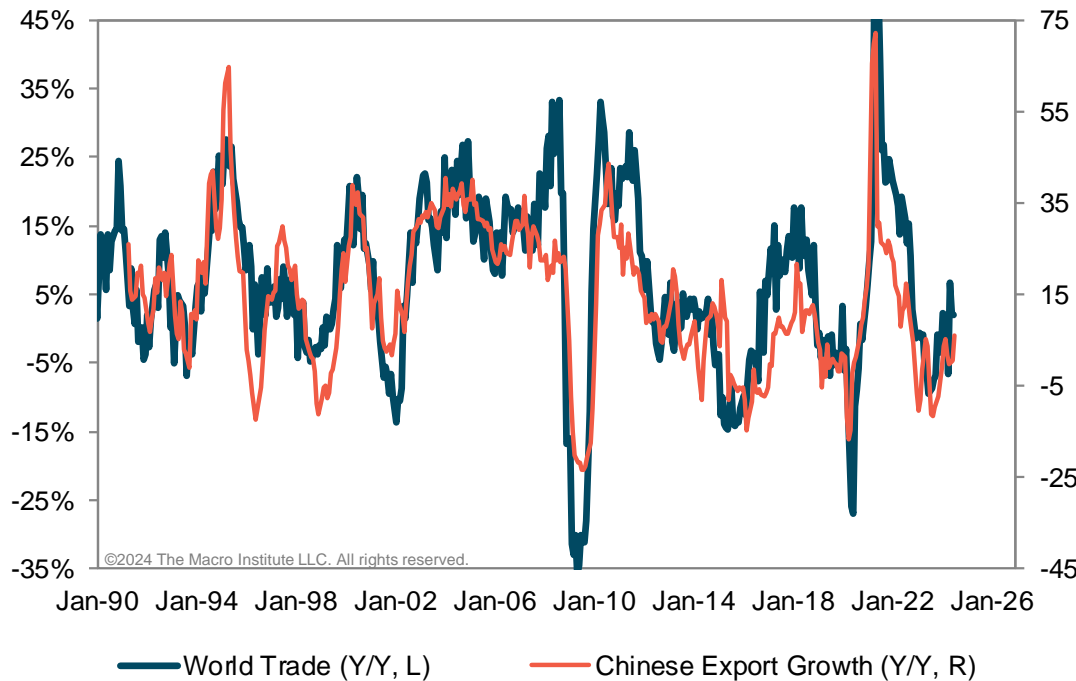


Source: RHG

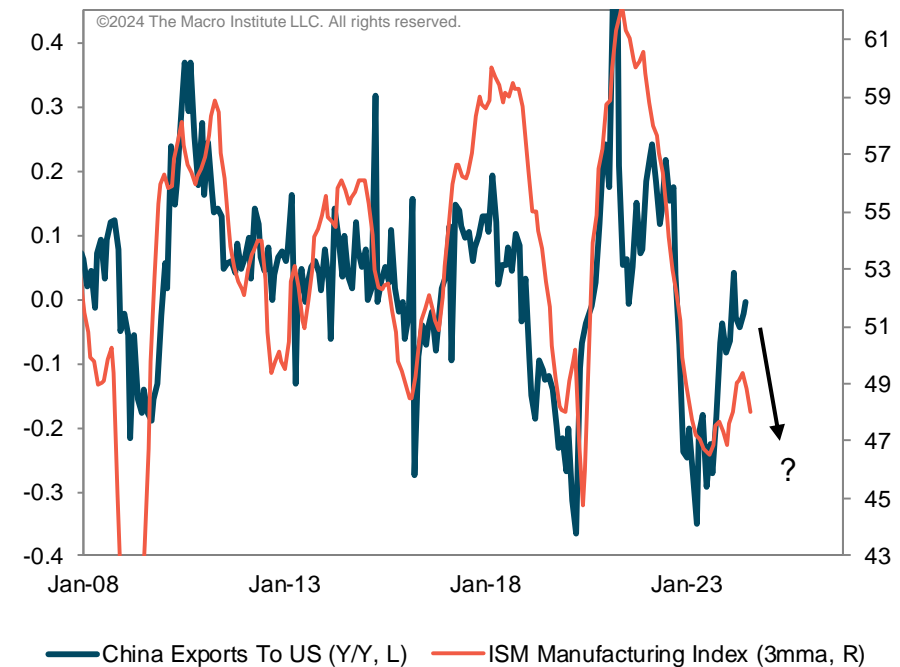
Total Debt-to-GDP in China around 305%!

Exports: China Unwillingly Levered To The Rest Of The World Via Trade

China's Exports At The Mercy Of Global Growth

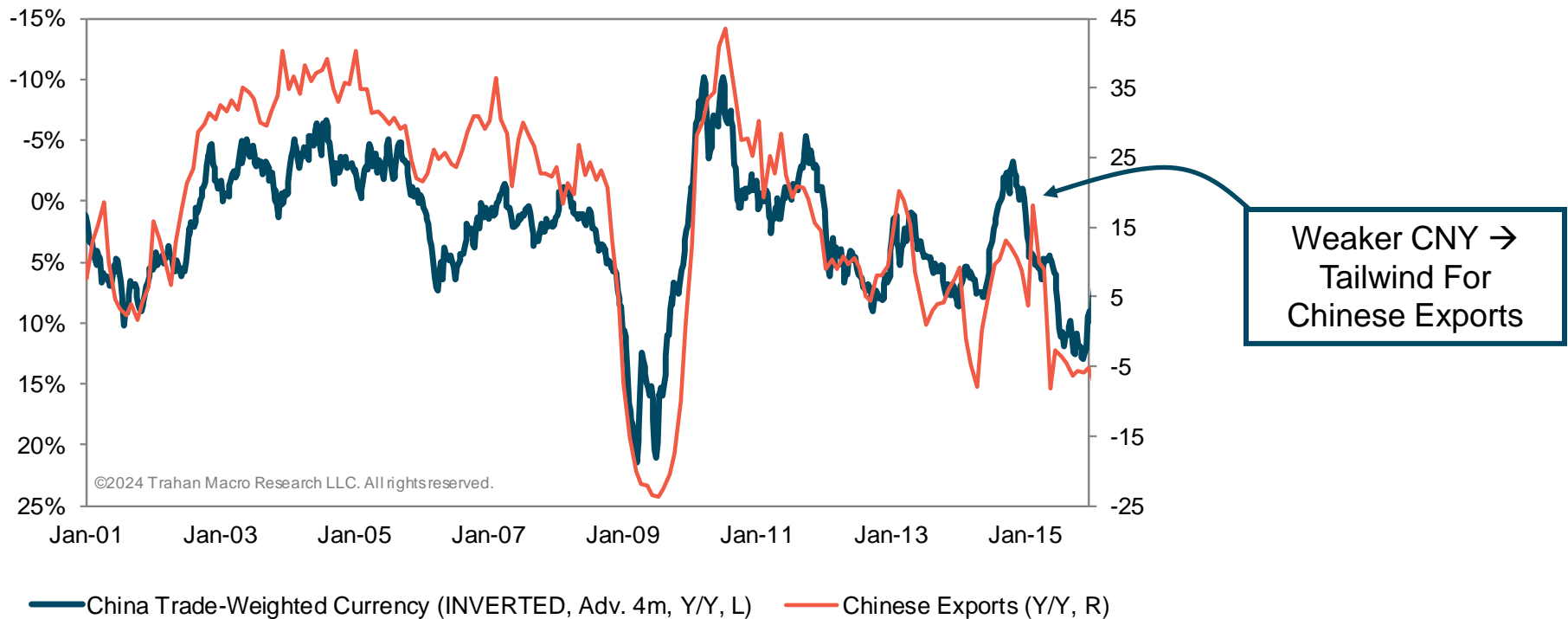


U.S. Slowdowns Are Dire For China's Prospects



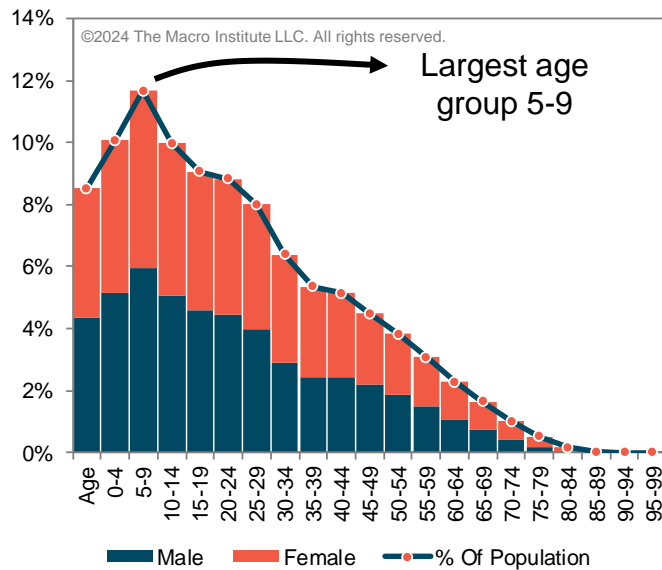
One "Inevitable" China Risk To Consider ... A Major Currency Devaluation?

All Other Things Equal: A Weaker CNY Supportive Of China's Exports

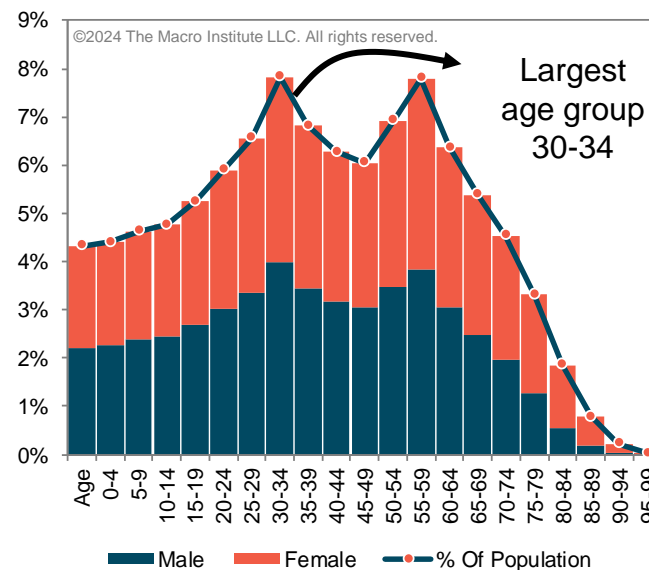


A Demographic Timebomb – Just One Of Many Structural Issues In Japan

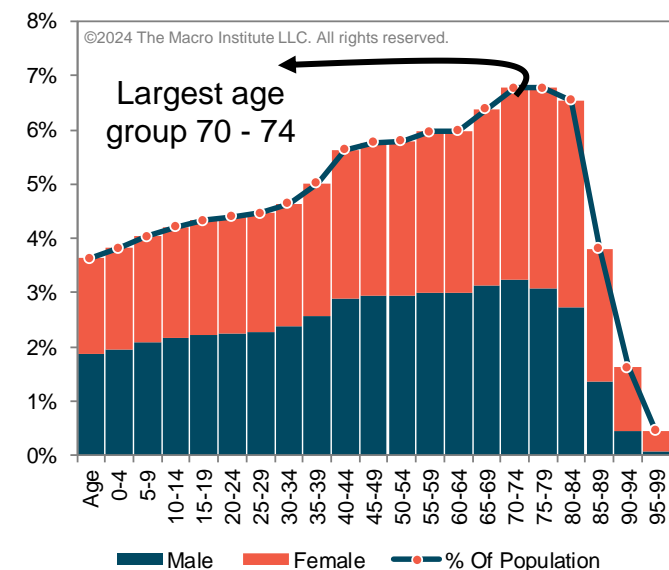
1960



2010



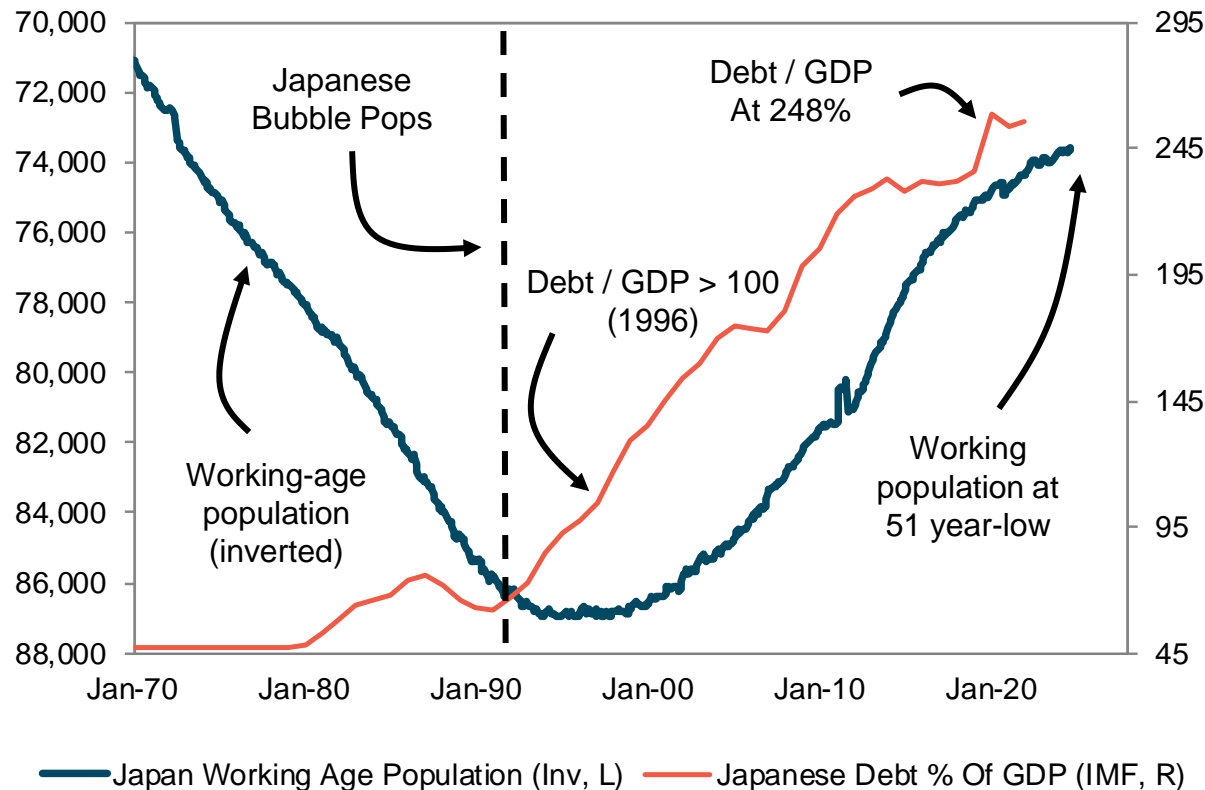
2060



Source: PopulationPyramid

Debt And Demographic Trends Are Difficult To Untangle In Japan

The Rise In Debt Coincided With The Decline In The Workforce

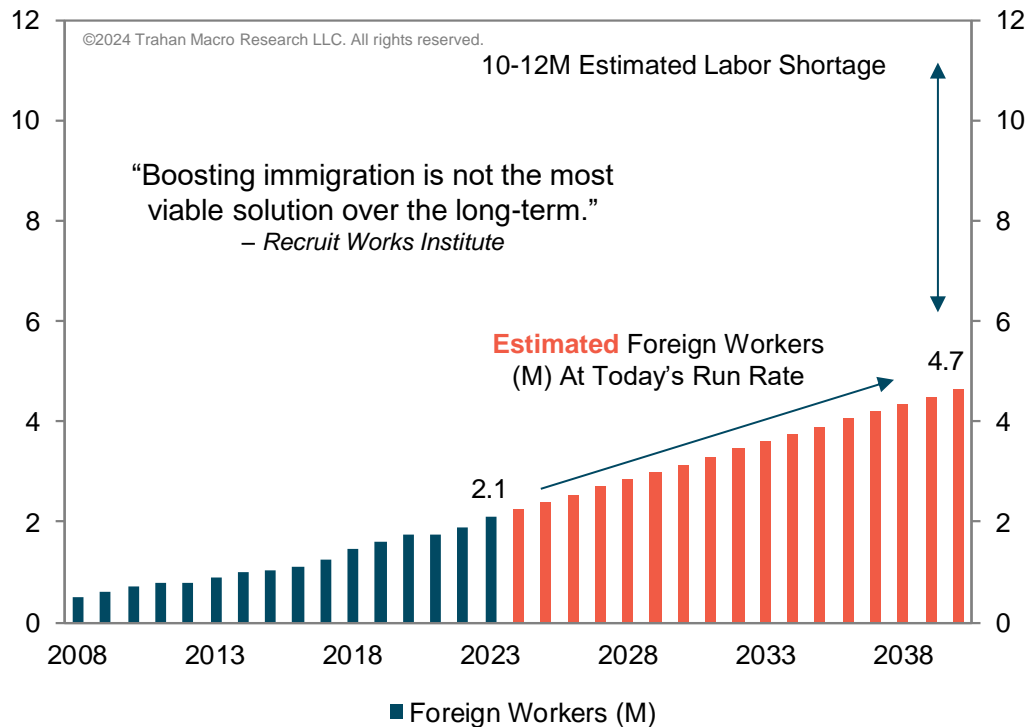


Structural Headwind:

Japanese population shrunk at a time when debt made up 248% of its GDP.

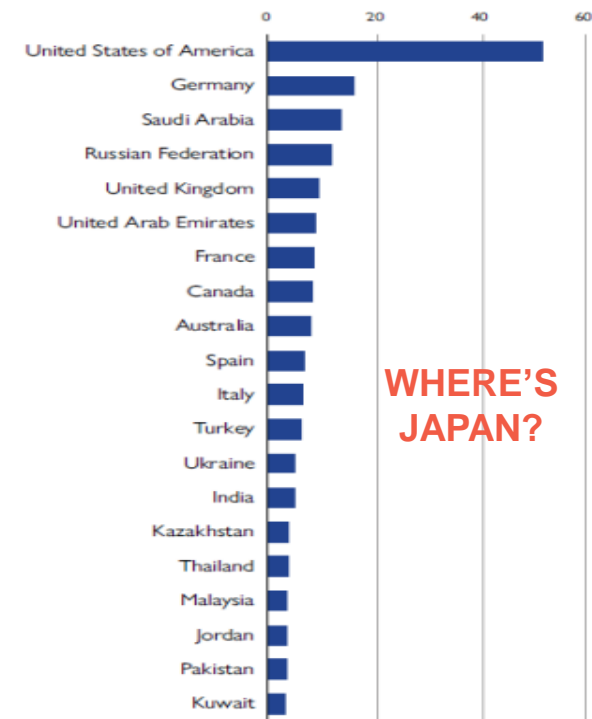
Japan NOT A Popular Destination For Immigration

Immigration Lever Is A Tough Pull



Source: Ministry of Health, Labour and Welfare, TMI Estimate

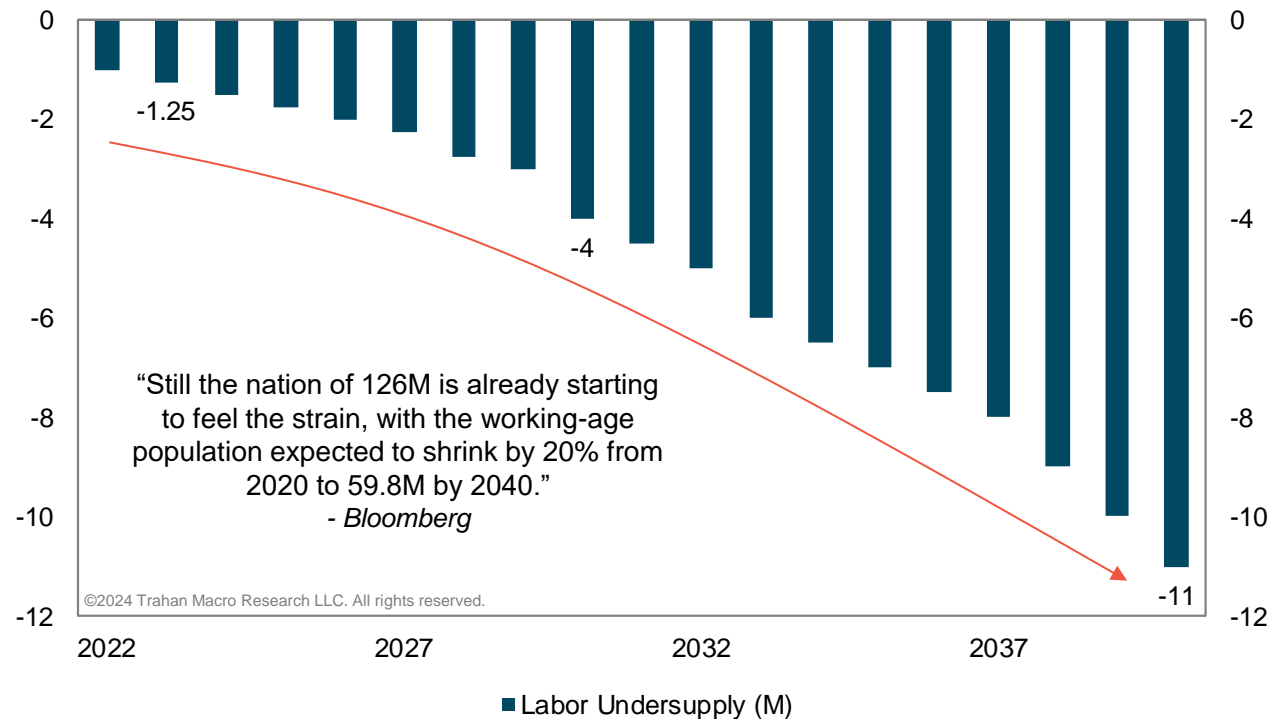
Top Destinations Of Migrants (M, 2020)



Source: United Nations

An Inflationary Labor Market Dynamic In Japan

Aging Workforce Results In Labor Undersupply Of 10-12M

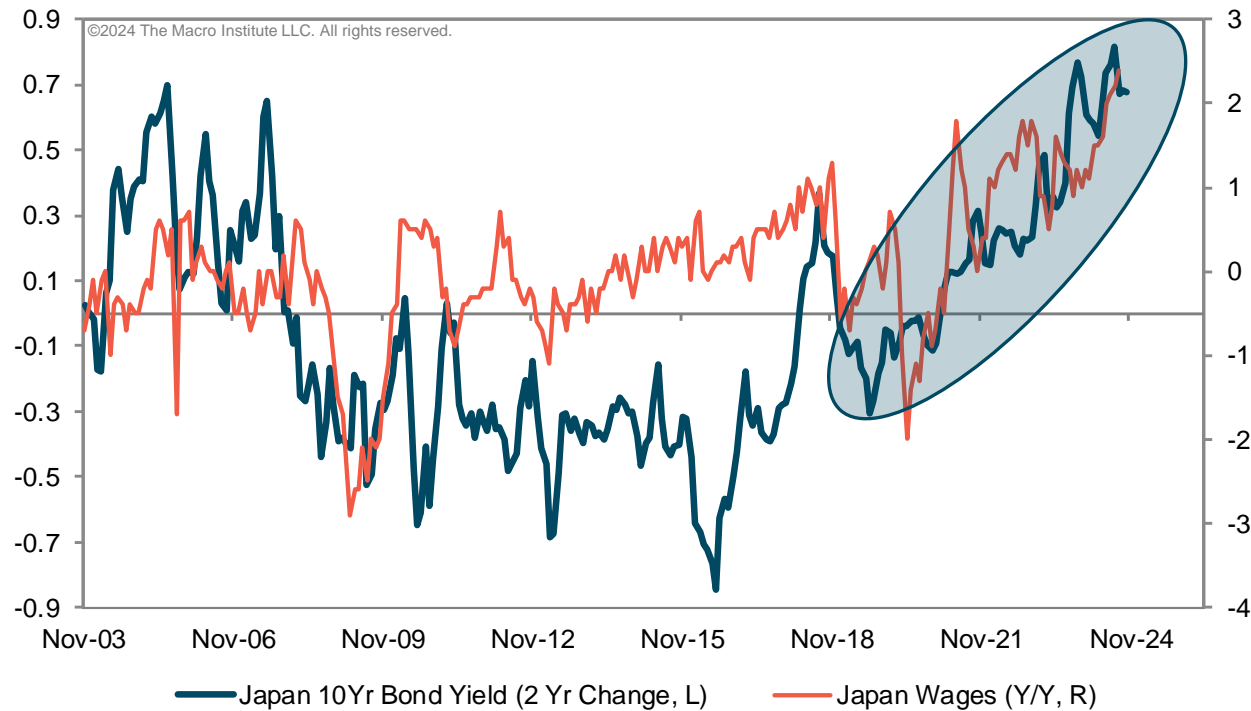


Source: Recruit Works Institute

11M workers represents
~10% of Japan's estimated
population in 2040.

Tight Labor Markets Fueling Higher Interest Rates

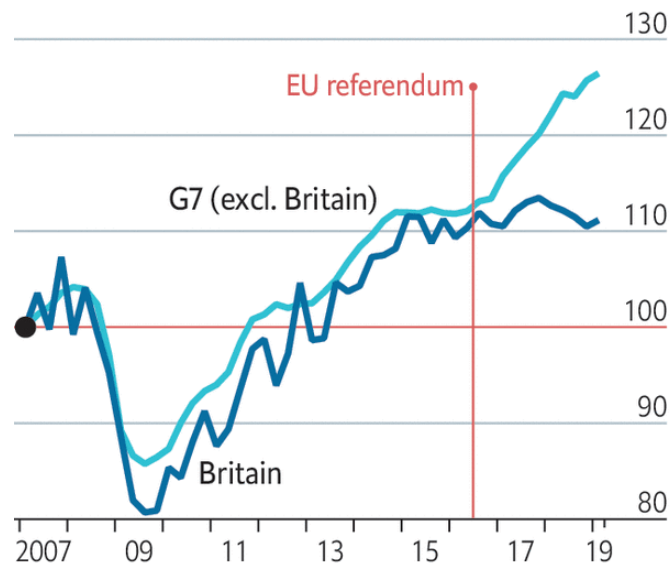
Japanese Bond Yields Sniffing Out A Tighter Labor Market



“Japan Labor Group
 “Zensen” (1.9M Members)
 to Demand 6% Pay Hike.”
 —Jiji Press 11/6

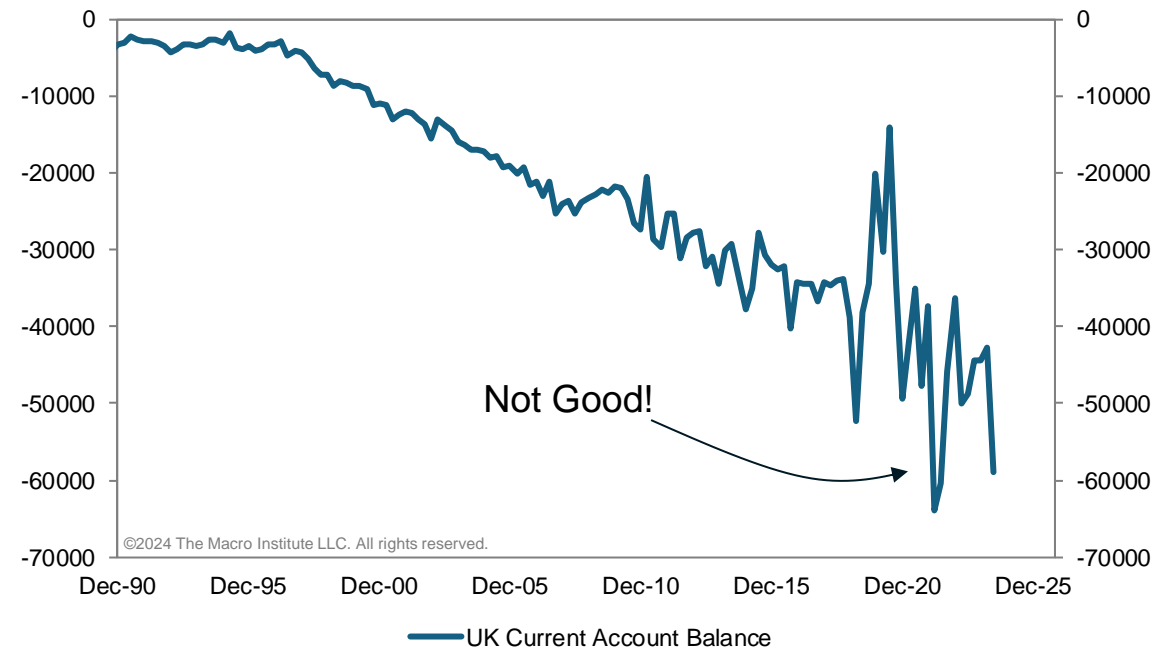
U.K.'s Brexit Experience A Teachable Moment For U.S. Protectionist Policies

Real business investment, Q1 2007=100



Source: The Economist

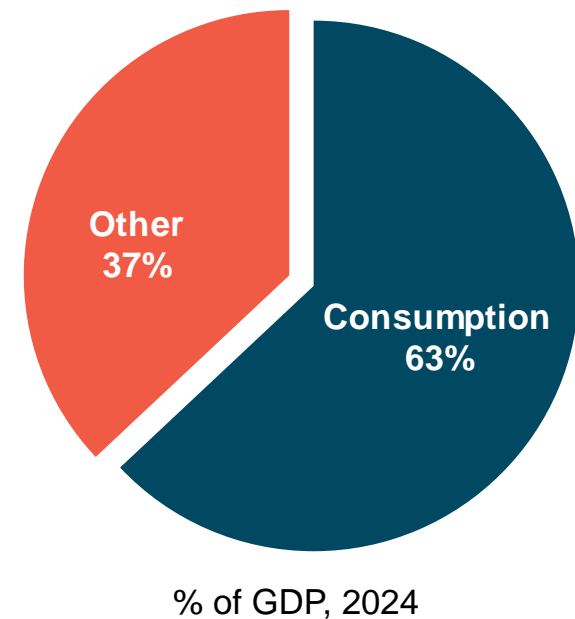
The U.K.'s Trade Balance Continues To Deteriorate



U.K.'s Housing Market A Good Proxy Of Consumer Sentiment

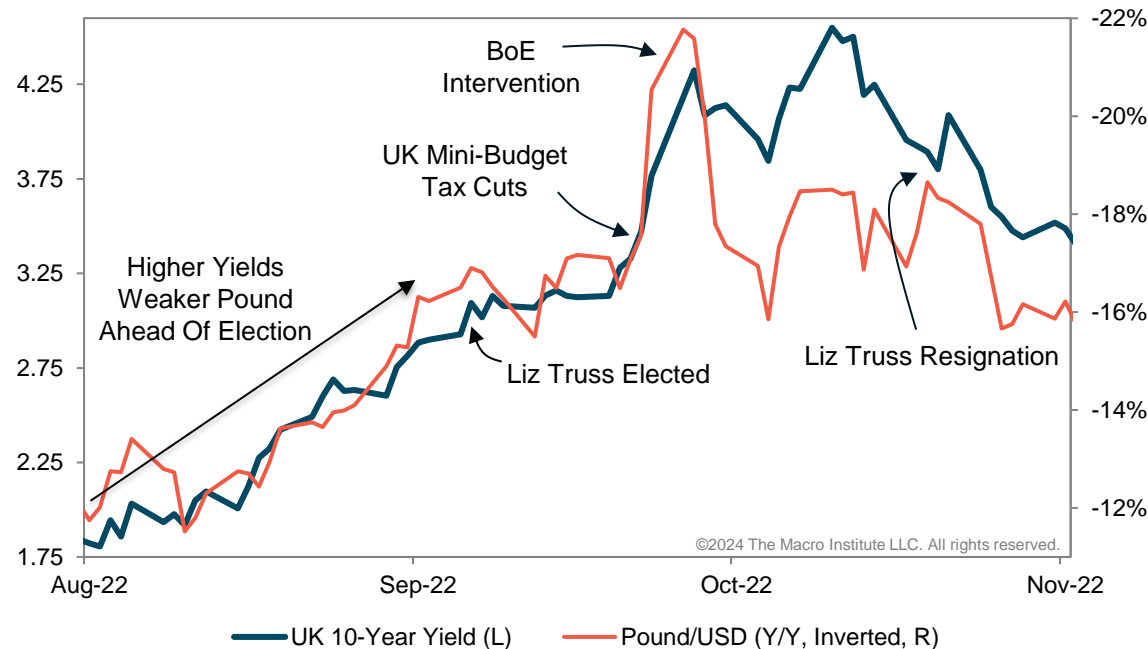


U.K. Is Consumer Driven

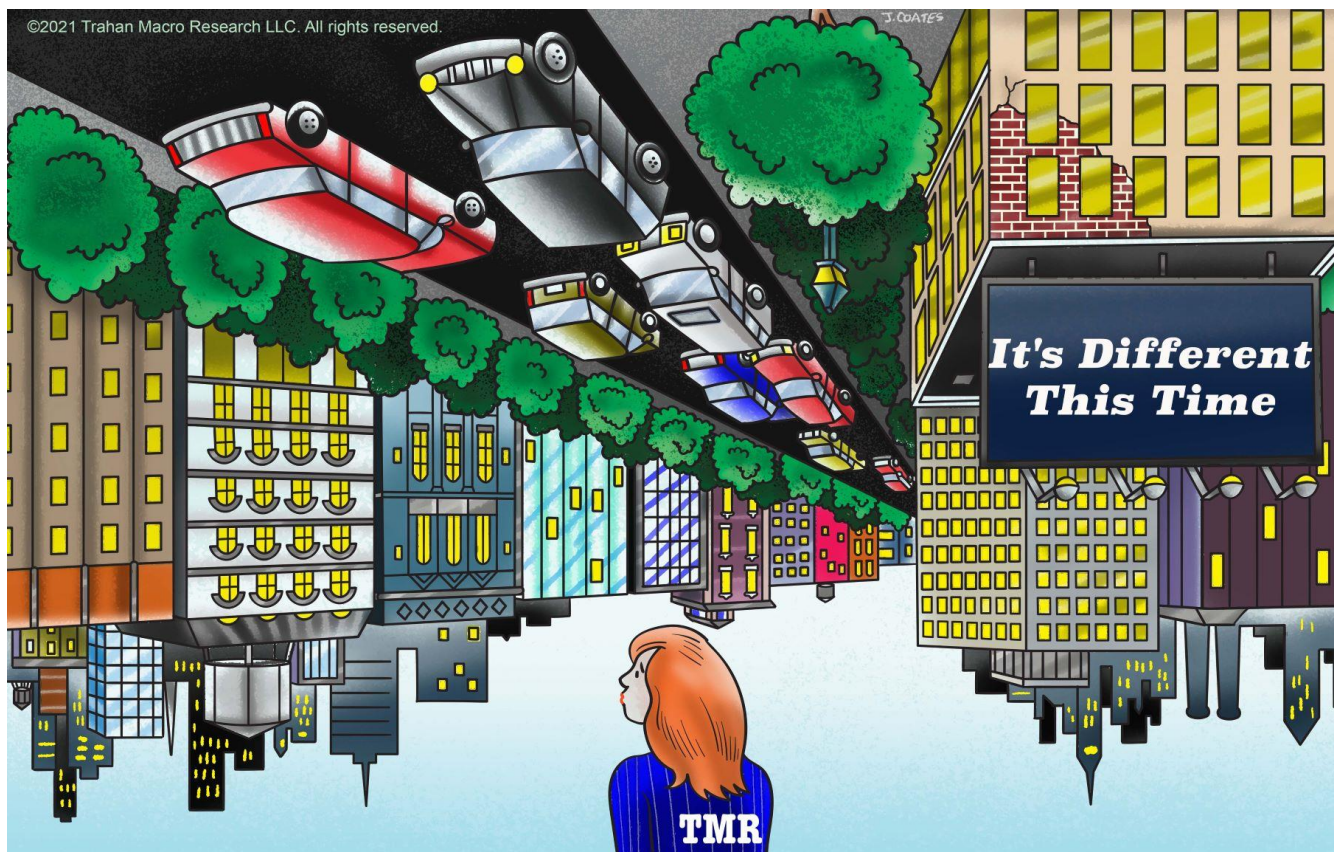


Could The Bond Vigilantes Impact The U.S. Fiscal Outlook?

U.S. Policy Makers Should Heed Lessons From U.K.'s 2022 Experience



Conclusion: Unusual Policies For An Already Chaotic World



Conclusion: Unusual Policies For An Already Chaotic World

Bond Market Clearly Concerned About ... Inflation?!?

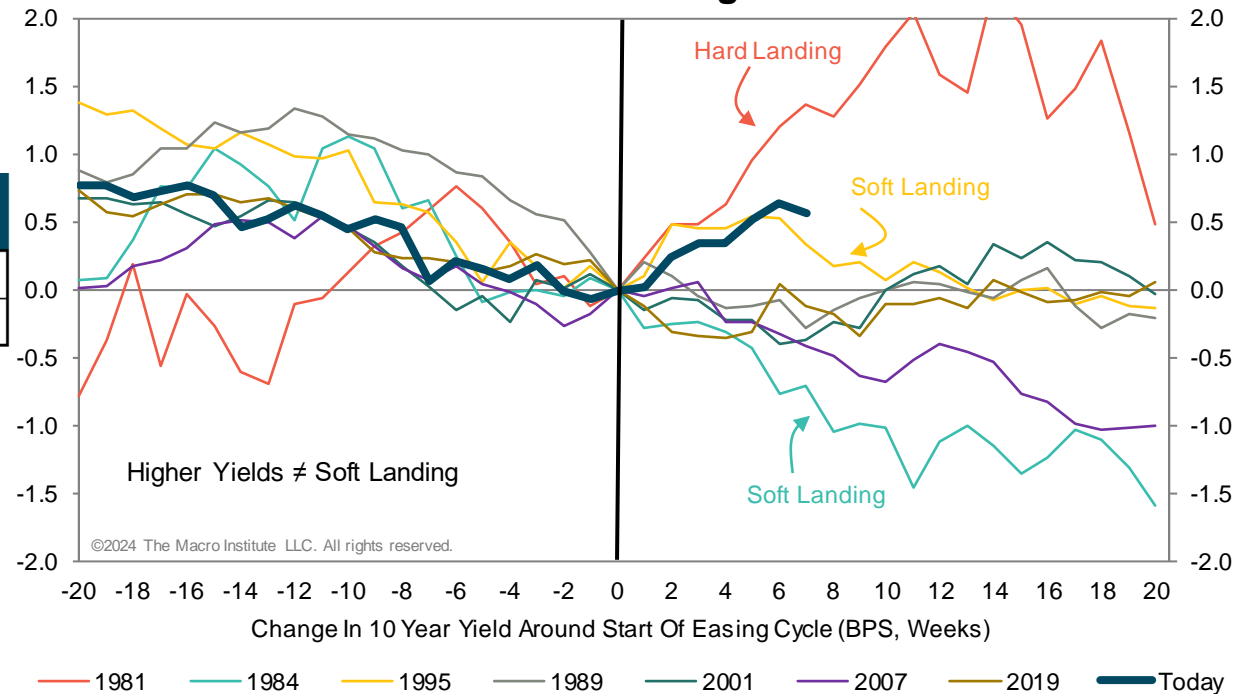
Kim Wright Model

	10-Yr Yield Chg (bps)	=	Growth Outlook	+	Inflation Component	+	Term Premium
Since Fed Cut	66		3		25		38
	100%		4%		39%		57%

Interesting

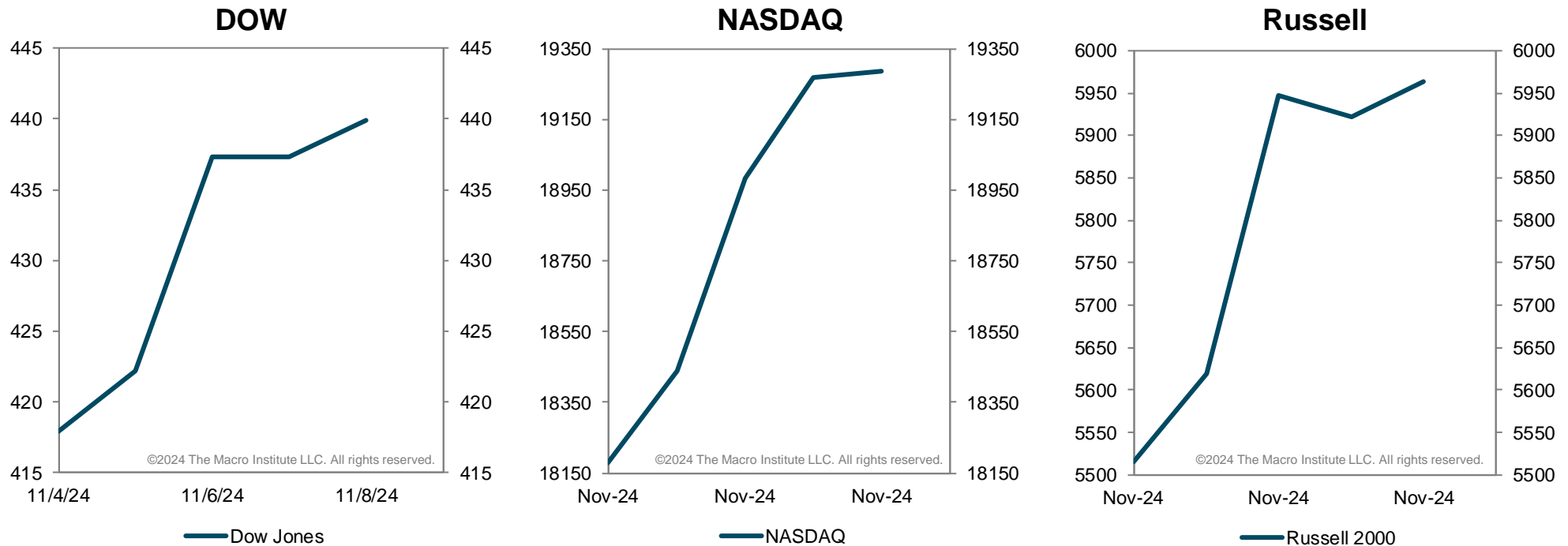


NOT Unusual For Yields To Move Higher As Fed Cuts Rates



Conclusion: Unusual Policies For An Already Chaotic World

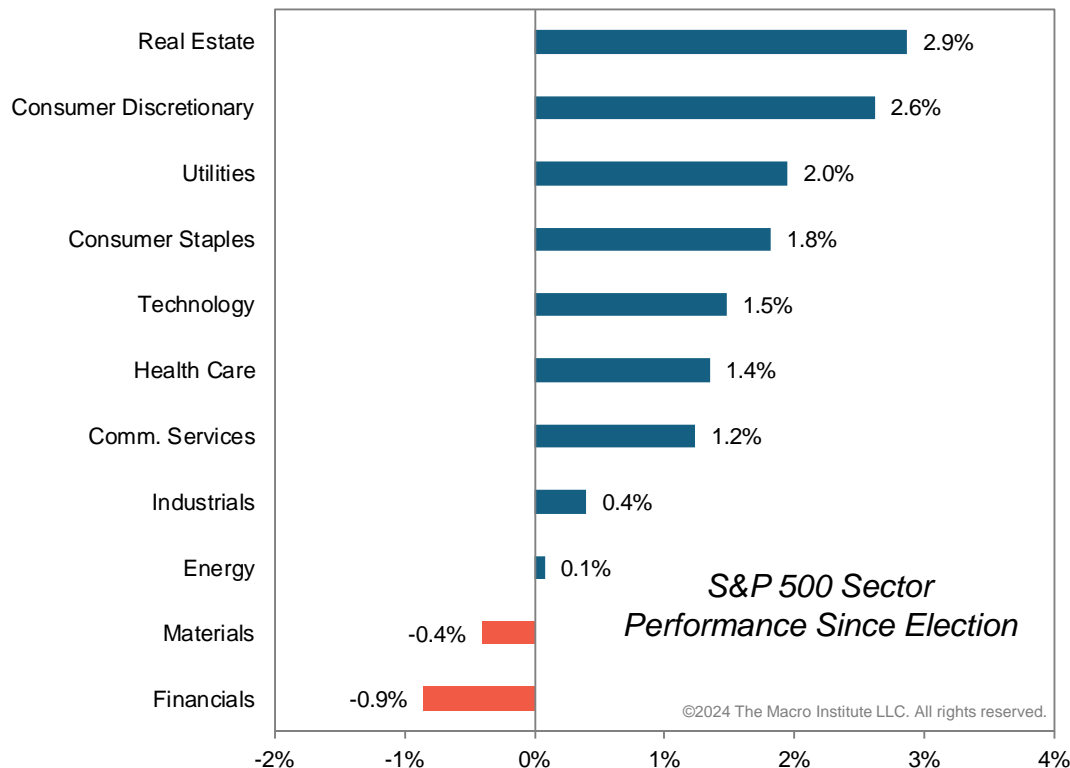
Equity Market Clearly Thrilled ... Or Is It?



Conclusion: Unusual Policies For An Already Chaotic World

Sector Leadership Somewhat Cautious??

Defensives & Growth Leading The Charge



Factor	Performance
Defensives	+1.83%
Growth	+1.78%
Cyclicals	-0.20%

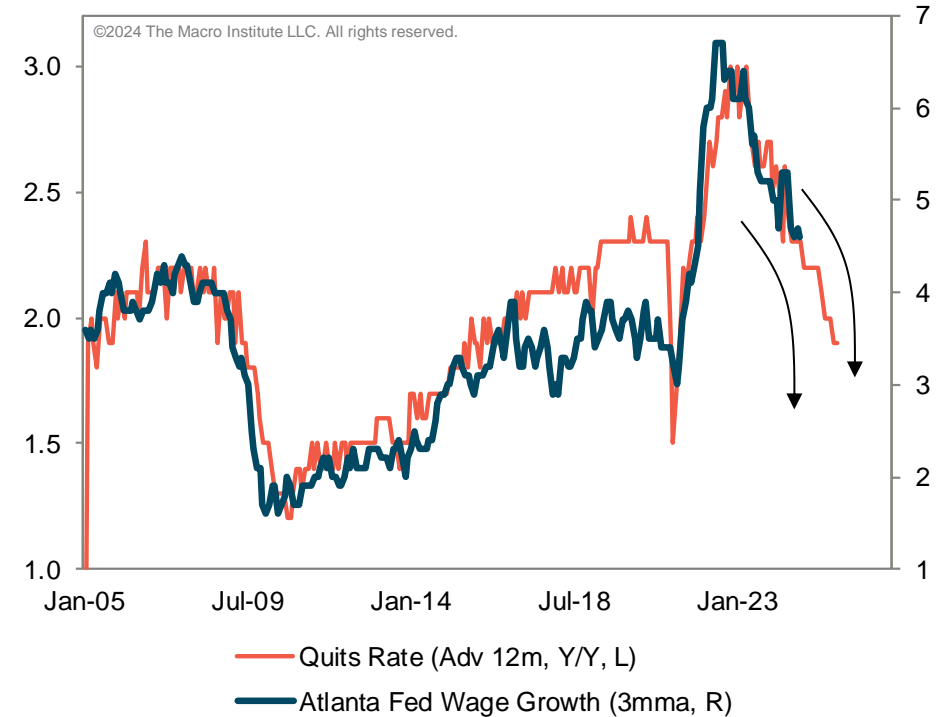
Conclusion: Unusual Policies For An Already Chaotic World

Fed Should Continue To See Friendly Inflation Data In The Near Term

Wage Inflation \cong Services Inflation



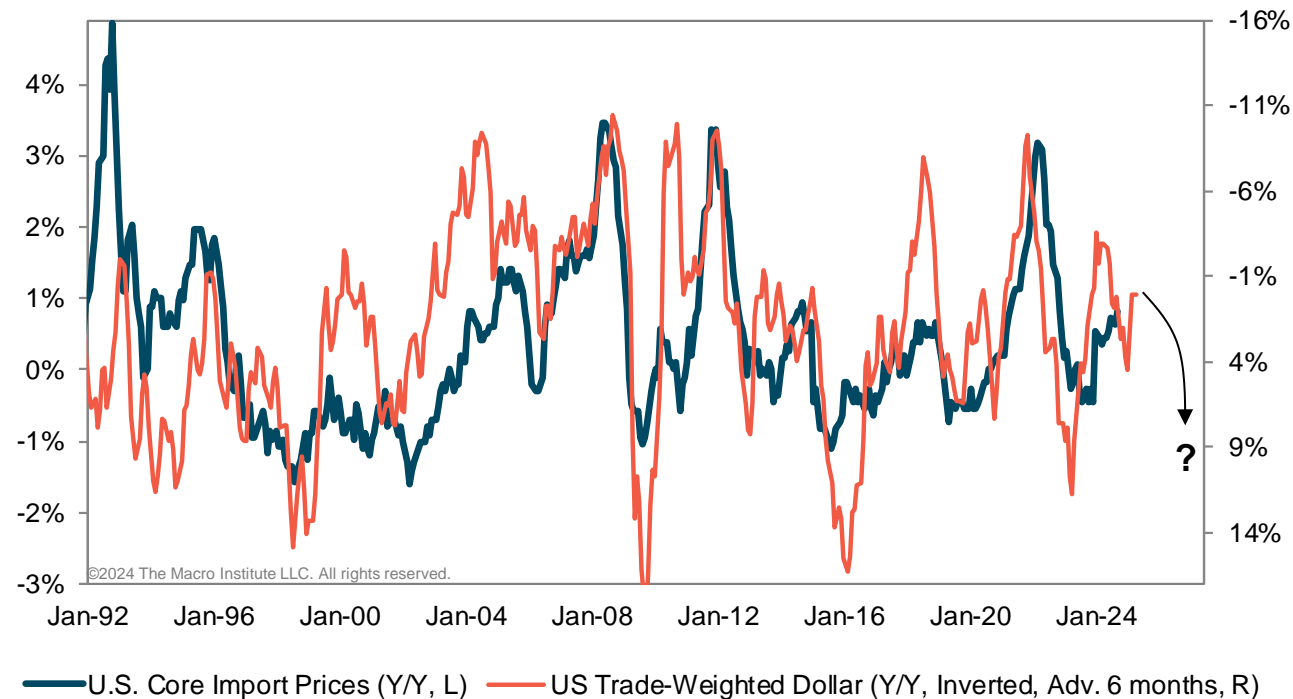
Wages Set To Come Under Pressure

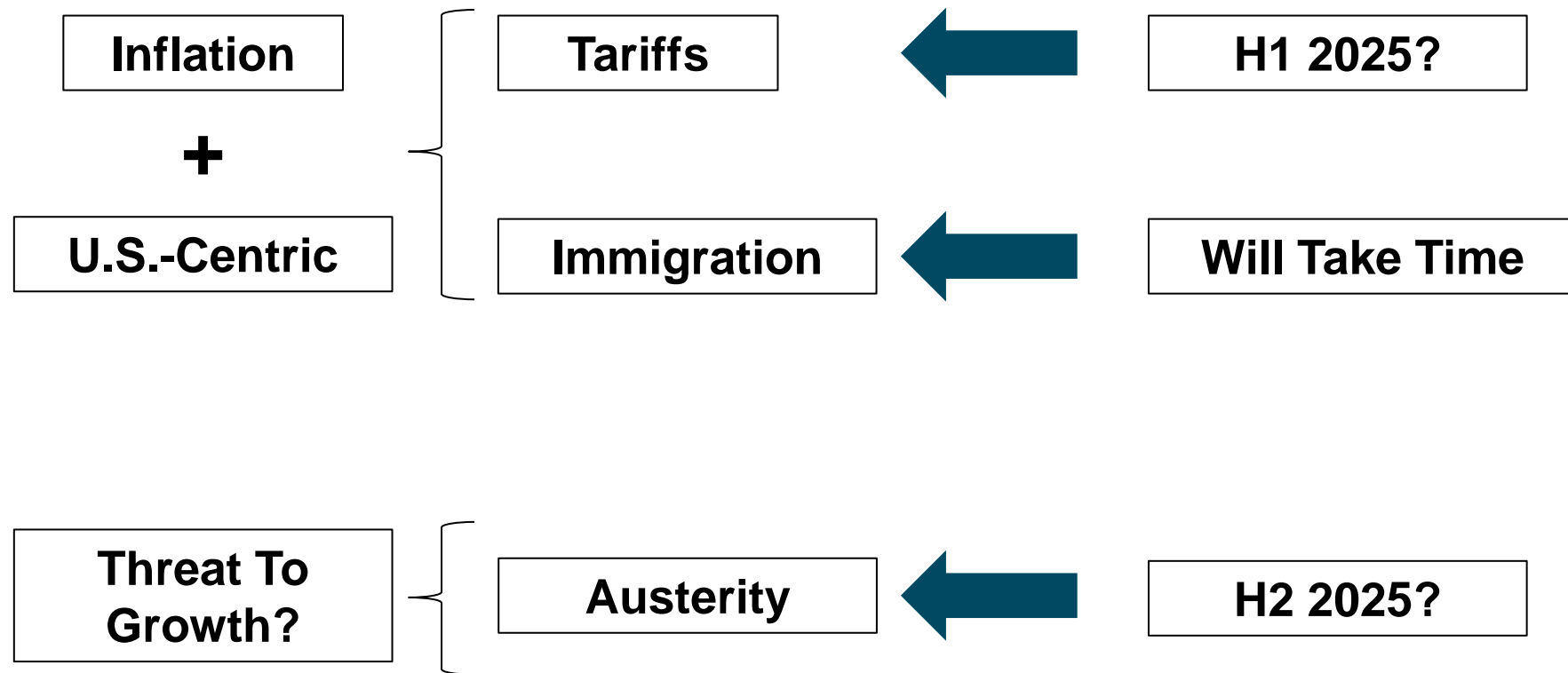


Conclusion: Unusual Policies For An Already Chaotic World

A Strong USD Should Also Help Restrain Inflation

An Appreciating Currency Usually Leads To Weaker Import Prices

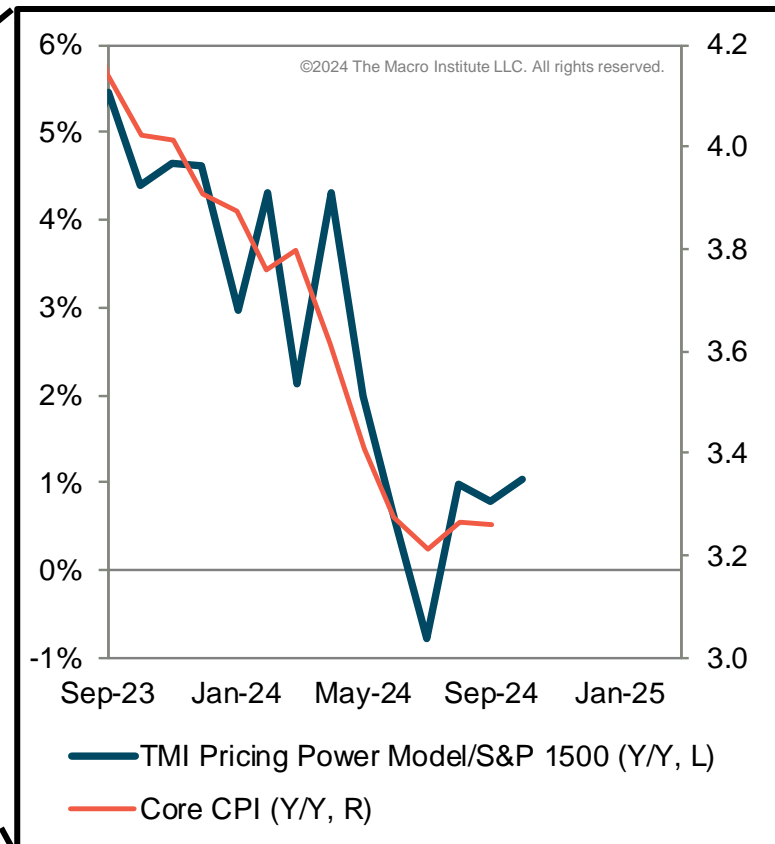
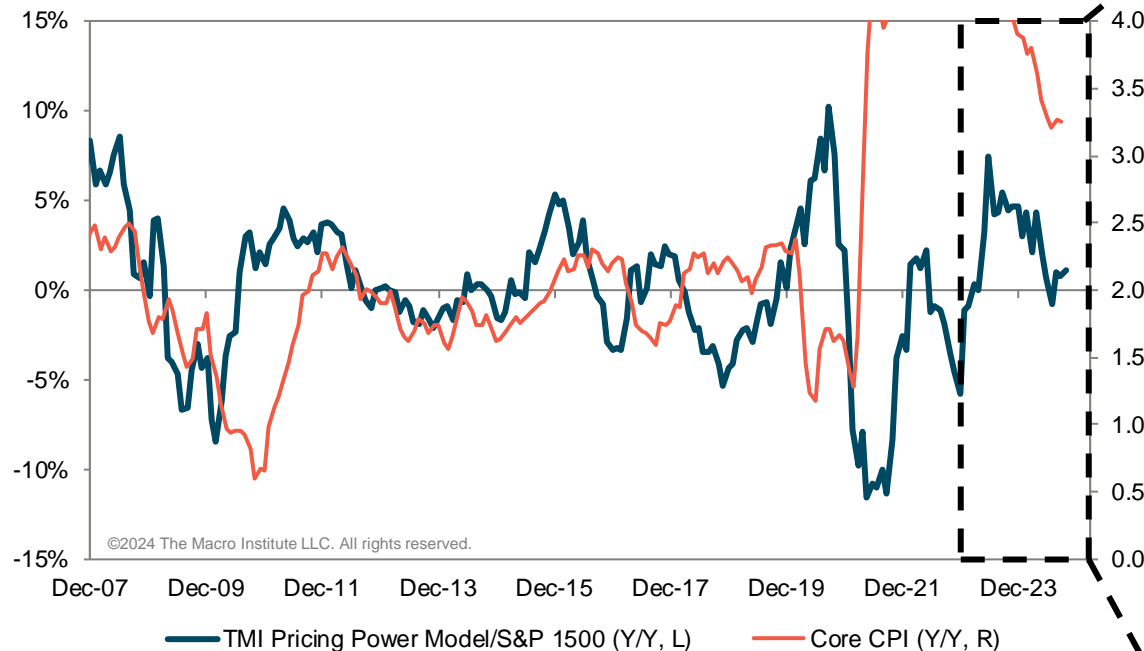


A Hypothetical Timeline Of The Trump Administration's Policies

Conclusion: Unusual Policies For An Already Chaotic World

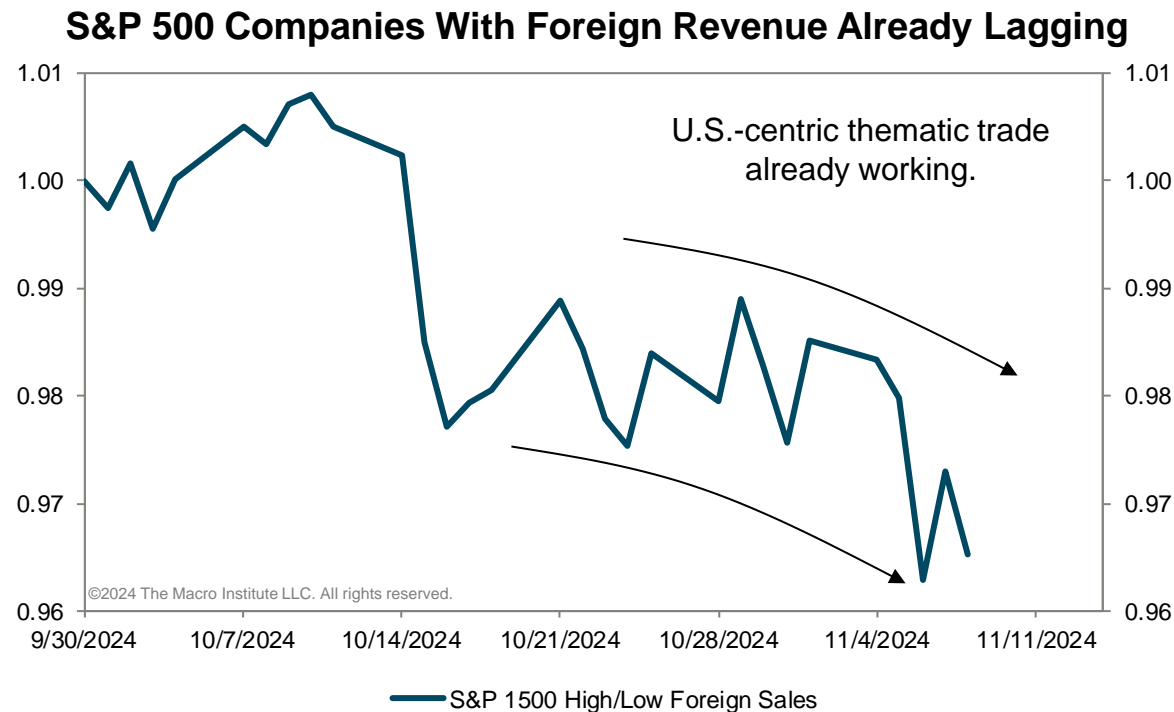
Three Key Factors To Emphasize For Trump's Policies: #1 Pricing Power

Pricing Power A Real Plus When Inflation Is Rising



Conclusion: Unusual Policies For An Already Chaotic World

Three Key Factors To Emphasize For Trump's Policies: #2 U.S. Centric



Conclusion: Unusual Policies For An Already Chaotic World

Three Key Factors To Emphasize For Trump's Policies: #3 Stability/Quality

The F&G Score: A Macro-Agnostic Stock-Picking Model

		Factor	Category	
TMI F&G Score Model	F-Score Factors	CFROA > 0	Profitability	
		CFROA > ROA	Profitability	
		Share Decrease	Leverage/Liquidity	
	G-Score Factors	CFROA > Industry	Profitability	<p><i>There are four Profitability factors in the TMI F&G Model.</i></p>
		CF Op > Net Income	Profitability	
		R&D > Industry	Consistency	
		Adv. Expense > Industry	Consistency	

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Conclusion: Unusual Policies For An Already Chaotic World

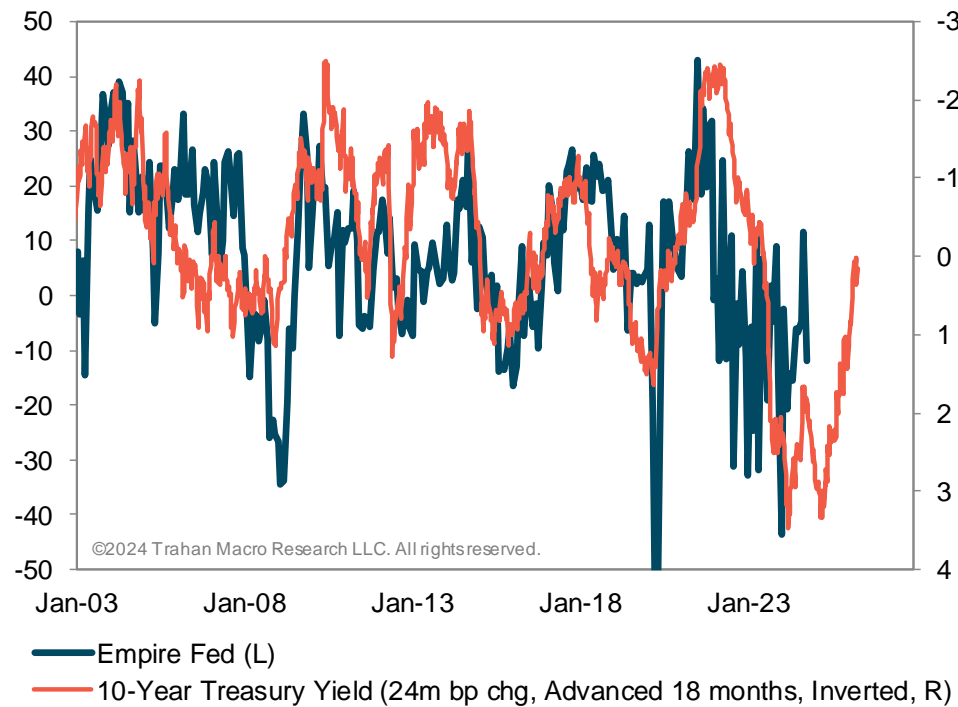
Positioning For A Trump Presidency In H1 2025

 Lower Deciles Rank Better In All Categories										
Universe: S&P 500 TMI Trump Portfolio										
Ticker	Name	Trump Portfolio	F&G Model	Domestic Revenue	Margin Growth	Market Share Growth	Price	Market Value	Sector	Industry
CINF	Cincinnati Financial Corporation	1	1	1	1	2	\$ 148.69	23,242.5	Financials	Insurance
ERIE	Erie Indemnity Company Class A	1	1	1	1	5	\$ 427.42	19,905.1	Financials	Insurance
GILD	Gilead Sciences, Inc.	1	1	3	1	1	\$ 96.57	120,222.7	Health Care	Biotechnology
PGR	Progressive Corporation	1	3	1	1	1	\$ 261.52	153,201.4	Financials	Insurance
TRV	Travelers Companies, Inc.	1	1	2	1	3	\$ 256.89	58,318.9	Financials	Insurance
TT	Trane Technologies plc	1	2	3	1	1	\$ 410.58	92,390.3	Industrials	Building Products
WEC	WEC Energy Group Inc	1	3	1	1	3	\$ 97.59	30,873.0	Utilities	Multi-Utilities
ALL	Allstate Corporation	1	3	2	1	2	\$ 196.90	52,139.8	Financials	Insurance
NI	NiSource Inc	1	3	1	1	4	\$ 35.97	16,790.0	Utilities	Multi-Utilities
O	Realty Income Corporation	1	4	2	1	1	\$ 57.51	50,333.4	Real Estate	Retail REITs
CLX	Clorox Company	1	2	2	1	6	\$ 165.16	20,443.7	Consumer Staples	Household Products
ECL	Ecolab Inc.	1	2	4	1	2	\$ 250.04	70,801.8	Materials	Chemicals
IRM	Iron Mountain, Inc.	1	3	3	1	2	\$ 119.71	35,130.1	Real Estate	Specialized REITs
OKE	ONEOK, Inc.	1	4	1	1	4	\$ 107.16	62,601.2	Energy	Oil Gas & Consumable Fuels
PNR	Pentair plc	1	1	3	1	6	\$ 104.35	17,241.9	Industrials	Machinery
SBAC	SBA Communications Corp. Class A	1	1	3	1	6	\$ 223.92	24,076.5	Real Estate	Specialized REITs
PCG	PG&E Corporation	1	1	1	2	2	\$ 20.60	44,031.7	Utilities	Electric Utilities
GS	Goldman Sachs Group, Inc.	1	1	1	1	1	\$ 589.26	184,974.5	Financials	Capital Markets
ETN	Eaton Corp. Plc	1	1	1	1	1	\$ 144.90	44,900.0	Industrials	Electrical Equipment
LLY	Eli Lilly and Company	1	2	3	2	1	\$ 831.54	789,393.9	Health Care	Pharmaceuticals

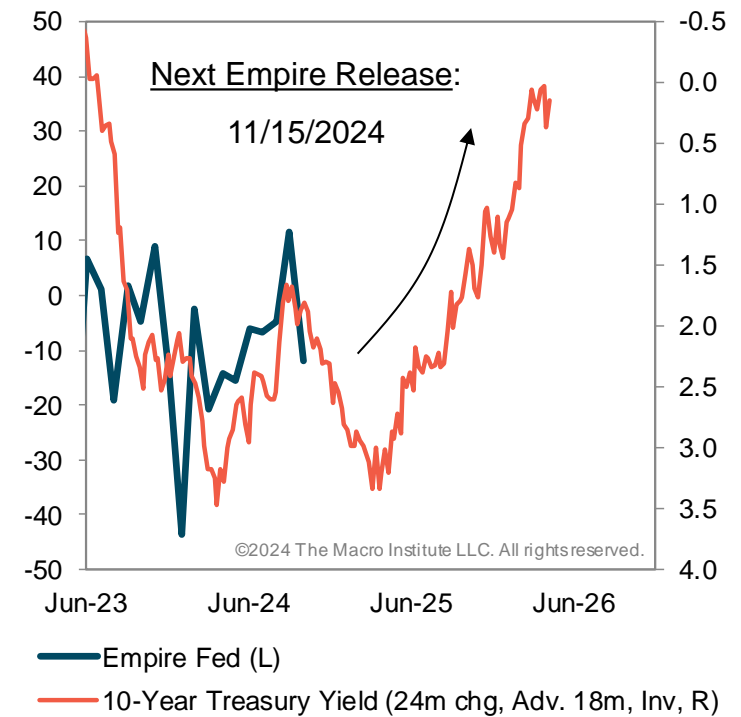
For complete list, different benchmark, or monthly model updates:
Email quant@trahanmacroresearch.com or visit trahanmacroresearch.com/screens

The Wildcard ... Fed Rate Cuts Eventually Lift Growth Prospects?

Could Leading Indicators Recover Sustainably In 2025?



Something To Keep An Eye On



Executive Summary

Monetary Policy Still Matters



Monetary policy usually drives equity markets over the medium-term regardless of which U.S. political party gains control. The continued lagged effects of previously-higher interest rates on labor markets suggest a further deterioration in employment is likely.

The Implications Of Fiscal Policy Proposals



The implications of the incoming Trump administration's major policy proposals on tariffs, immigration, and fiscal austerity add up to likely headwinds to economic growth – both in the U.S. and abroad – and higher inflation.

A Very Bullish USD Setup



We are very bullish the USD over the medium term. It remains our top-pick based on slowing global growth prospects post-tariff enactment, potentially higher interest rates, and a higher share of currency flows remaining in the U.S.

Challenging Macro Backdrop Internationally



Despite near-term exuberance, U.S. equity markets are not immune from issues overseas which may be exacerbated by new trade policies. History is littered with instances where U.S. economic growth was solid, but equity market returns still suffered due to issues abroad.

Emphasize Pricing Power, U.S.-Centricity, Quality



Depending on the scope and severity of new fiscal policy proposals, investors should highlight equity factors such as pricing power, U.S.-centricity, and quality. In the case of the latter, the TMI F&G Score model is great option as it emphasizes profitability within both Value and Growth.

For any additional questions:
ftarahan@trahanmacroresearch.com