MacroResearchBoard
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ABSOLUTE RETURN
Independent Investment Strategy
November 20, 2024

Positioning For The New Fat Tail U.S. Economy

- The consensus view is that the Republican sweep will result in pro-growth policies for the U.S. economy. However, Trump's policies are a mix of economically supportive (tax cuts and deregulation) and stagflationary (widespread tariffs and deportations/anti-immigration).
- In turn, the election outcome has significantly fattened the tails for the U.S. (and global) economy, and it will be crucial to understand which policies will be implemented first, and to what degree.
- Also, the macro environment is now very different from 2016 when Trump last entered the White House. Inflationary pressures are more prevalent today and the bond market is becoming sensitive to widening budget deficits. Indeed, most of Trump's policy proposals are bearish for U.S. Treasurys and higher yields could again eventually have adverse knock-on effects for equities.
- We are maintaining exposure to equities and corporate bonds for now, but recommend that investors stay flexible in their pro-growth positioning. Only half of Trump's major policies are supportive for equities, and sector selection will be even more crucial to improve one's risk/reward next year.
- The consensus narrative is overwhelmingly bullish on the U.S. dollar, which is worth challenging. Some of Trump's policies are not supportive of the currency, and much will depend on the Fed's response.

U.S. equities, the dollar and Treasury yields have all risen sharply in response to better-than-expected U.S. economic data, and have received an additional boost from the election outcome (**chart 1**). Besides winning the White House, the Republicans also regained control of the Senate and kept the House of Representatives. As a result, President-Elect Trump will be presiding over a unified government for at least the next two years. This will give Trump the executive and legislative capacity to enact sweeping fiscal and regulatory changes.

Trump's extreme policy proposals have fattened the tail risks for the U.S. economy

The consensus view is that the Republican sweep will result in pro-growth policies for the U.S. economy. However, this is debatable at best, given that Trump campaigned on a mix of policies that are both economically supportive (tax cuts and deregulation) and disruptive or outright negative (widespread tariffs and deportations/anti-immigration). Similarly, Trump's policies during his first Administration initially added further fuel to economic growth (tax cuts) before leading to a credible recession threat (trade war). In turn, the pro-growth consensus narrative during the first 18 months of his Presidency ultimately flipped to being bearish.

MRB *TradeBook*

View print version with historical trades (pdf format)

Current Trades	Initiation Date	Gain/ Loss (%)	Exit Point[1]
Equities			
UPDATE Euro Area: Long Financials Vs Broad Market	17-Aug-23	13.81	**10.0%**
U.S.: Long Financials/Short Broad Market	10-Jan-24	7.01	3.0%
S&P 500: Equally-Weighted Vs Market Cap-Weighted	26-Jul-24	-1.63	-4.0%
Long Global Benchmark	19-Aug-24	2.91	0.0%
Global: Long Industrials/Short Broad Market Ex-Technology	14-Oct-24	-2.36	-4.0%
Euro Area: Long SEU-4[2] / Short Germany	23-Oct-24	-2.21	-4.0%
Foreign Exchange & Fixed Income			
Short CAD/EUR	24-Oct-22	8.33	5.0%
Long EUR/USD	26-Oct-22	5.37	5.0%
UPDATE Long U.S. High-Yield Corporate Debt	14-Nov-22	23.01	**20.0%**
Long EM Currency Basket	23-Sep-24	-3.17	-4.0%
Short U.S. 10-Year Government Bonds	25-Sep-24	4.23	3.0%
5-Year Government Bonds: Long Germany/Short U.S.	26-Sep-24	2.30	0.3%
Short Japan 10-Year Government Bonds	15-Nov-24	0.14	-
Short U.S. 5-Year Swap	15-Nov-24	-0.11	-
Alternatives			
Long U.S. Housing In Tier 2 Cities[3]	10-Sep-20	46.99	35.0%
Long SEU-4[2] Housing	23-Oct-24	1.67	35.0%
Short Japan 10-Year Government Bonds	05-Nov-24	19.14	12.0%
Shadow Trades			
Long Euro Area/Short U.S. Stocks	2-Jun-23	–	Stop-Buy
Short U.S. Growth Stocks	16-Aug-24	–	Stop-Short
Long S&P 600/Short Nasdaq 100	16-Aug-24	–	Stop-Buy
U.S. Stocks: Short Growth/Long Value	23-Aug-24	–	Stop-Short
Long U.S. Aerospace & Defense/Short Consumer Discretionary	13-Sep-24	–	Stop-Buy
Long JPY/AUD	26-Sep-24	–	Stop-Buy
Short Canada/Long Euro Area Financial Stocks	10-Oct-24	–	Stop-Buy
Long U.S. Health Care Stocks/Short Broad Market	11-Oct-24	–	Stop-Buy
Long JPY/USD	18-Oct-24	–	Stop-Buy
Long VIX Index Generic 1st Futures	25-Oct-24	–	Stop-Buy
Long EM Asia	31-Oct-24	–	Stop-Buy
Long U.S. Energy Equipment & Services/Short Benchmark Ex-Technology	31-Oct-24	–	Stop-Buy
Long Brent Oil	31-Oct-24	–	Stop-Buy

[1] Exit points for equities and stock/bond ratios are expressed as the % gain/loss generated if trade is stopped out.
[2] Includes Greece, Italy, Portugal and Spain
[3] Proxied by the 10 cities in the U.S. S&P/Case Shiller 20-city index not in the 10-city index

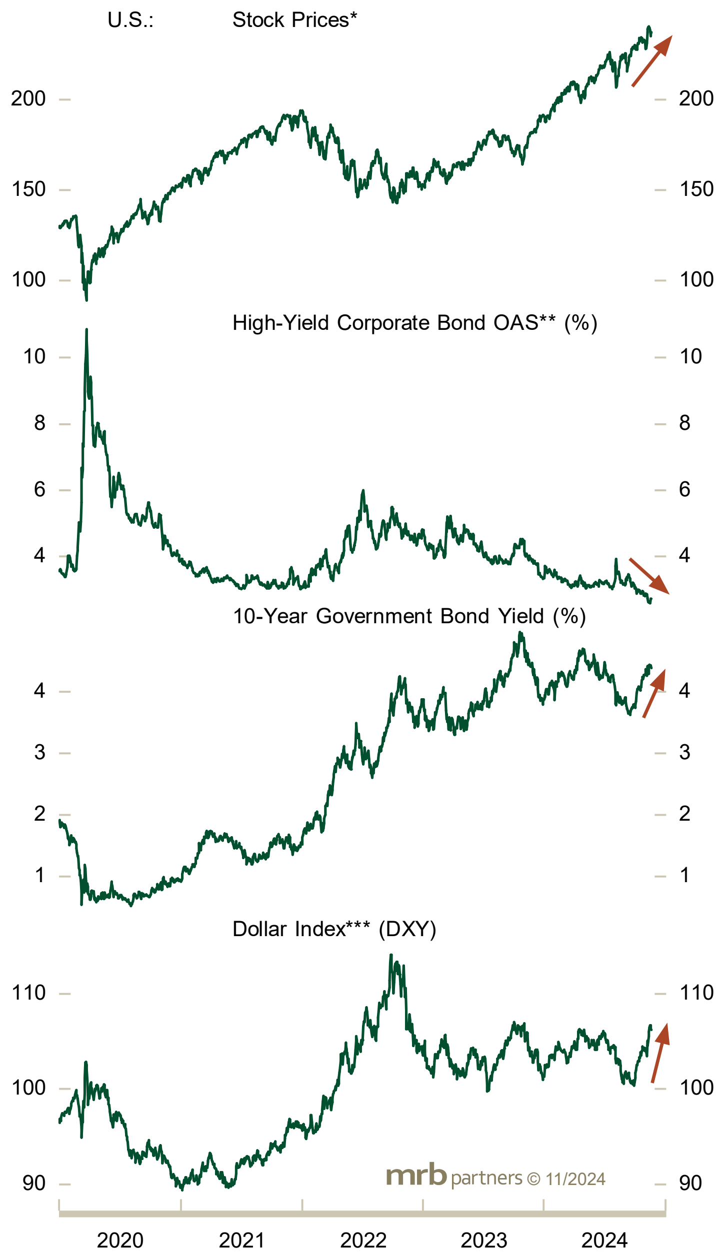
Note: Gain/losses are based on daily closing values and is calculated in U.S. dollars unless otherwise stated. Recommended trades are intended to be held for a minimum of three months, and may last more than a year. Nevertheless, we use exit points in order to control risk. *Shadow Trades* are investment opportunities that we plan to implement once timing is appropriate.

Investors should be careful not to be dogmatic in their views and positioning, as there will be considerable uncertainty for some time. The election outcome has significantly fattened the tails for the U.S. economy, and it will be crucial to understand which policies will be implemented first, and to what degree[1]. There is a likelihood that a blend of pro-growth and destabilizing policies will occur simultaneously, or that Trump will ping-pong between these objectives for maximum press attention, thereby heightening uncertainty as well as economic and financial market volatility.

Moreover, it is important to note that macro conditions are also vastly different than in 2016. Back then, the economy was operating with more slack and underlying inflation was muted (**chart 2**). Hence, it had greater capacity to absorb pro-growth policies without overheating. At the same time, the federal deficit as a share of GDP was half as large as today and the debt/GDP ratio was far lower, and not on the radar screens of bond investors.

At this point, it is too early to know the sequencing of policy objectives, and which of them will ultimately be watered down. Therefore, we devote this report to dissecting the four major policy pillars upon which Trump campaigned. We analyze the macro impact if implemented and the ramifications for U.S. Treasurys, equities, and the dollar (**table 1**). This should help provide a useful framework for understanding the opportunities and risks that lie ahead. For example, all of the policies put upward pressure on bond yields, while only half are supportive of equities (investors will need to pick the right sectors to improve their risk/reward profile), and most policies are not constructive for the U.S. dollar despite the current consensus view.

Chart 1 **Investors Are Making U.S. Pro-Growth Bets**



* U.S. dollars; rebased; source: MSCI
** Option-adjusted spread; source: BofA Merrill Lynch
*** Source: Bloomberg

[1] MRB "*Weekly Macro Strategy: Beware The Fat Tails*", November 8, 2024

Table 1 **Trump's Policies Fatten The U.S. Economic Tail Risks**

Policy	Economic Impact				U.S. Financial Market Implications		
	Growth	Inflation	Debt/Deficits	Uncertainty	Treasurys	Equities	Dollar
Tax Cuts	Up	Up	**Up**	----	**Bearish**	**Bullish**	----
Deregulation	Up	Up	----	----	Bearish	**Bullish**	Bullish
Tariffs	**Down**	**Up**	Up	**Up**	**Bearish**	**Bearish**	Bearish
Deportation & Anti-Immigration	**Down**	**Up**	Up	**Up**	**Bearish**	**Bearish**	**Bearish**

Note: Bold text denotes where policy has greatest impact

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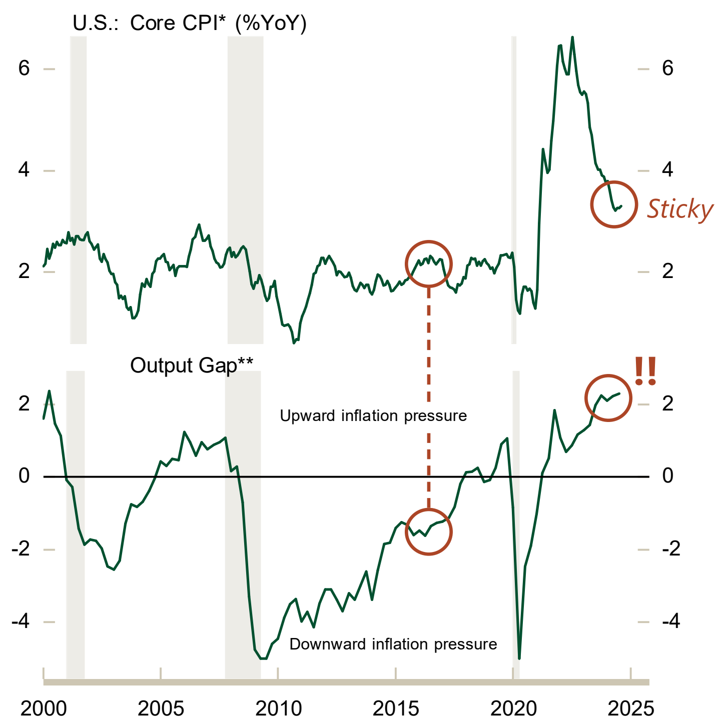
Policy #1: Tax Cuts

Trump has plans to fully extend the 2017 tax cuts and further reduce corporate and personal taxes. Corporate tax cuts are directionally beneficial for profits and equities (**chart 3**). However, one should keep in mind that the "effective" tax rate that corporations actually pay is, and will remain, meaningfully below the statutory rate[2] (**chart 4**). This mutes the boost for corporate profitability (particularly for large cap multinational companies) and will be more than offset by swings in the economy. Moreover, the boost to GDP will be minimal, given that businesses already have record high profits and profit margins, and current tax burdens have not presented a drag on hiring or expansion plans.

Chart 2 **The U.S. Economy's Capacity To Absorb Pro-Growth Policies Is Less Than In Trump 1.0**



* Core excludes food & energy; source: U.S. Bureau of Labor Statistics
** GDP as a percent of potential GDP; truncated below -5; sources: Bureau of Economic Analysis and Congressional Budget Office
Note: Shaded for NBER-designated U.S. recessions; vertical line denotes 2016 election

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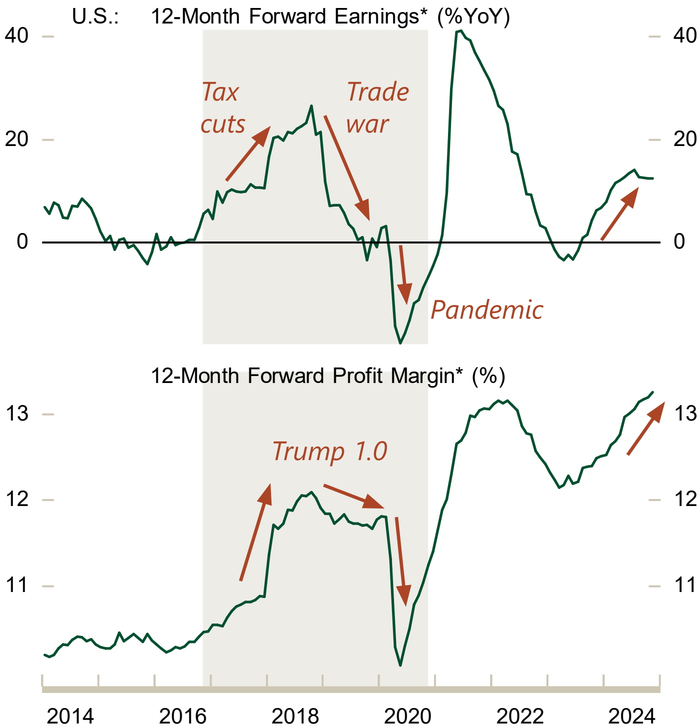
Likewise, consumer spending has been strong (driven by healthy household balance sheets as well as solid employment and wages) and has not been restrained by the level of income taxes. Also, the tax cuts during the first Trump Administration were heavily skewed in favor of those with higher incomes that have a lower propensity to spend any extra discretionary income (which will be extended). Thus,

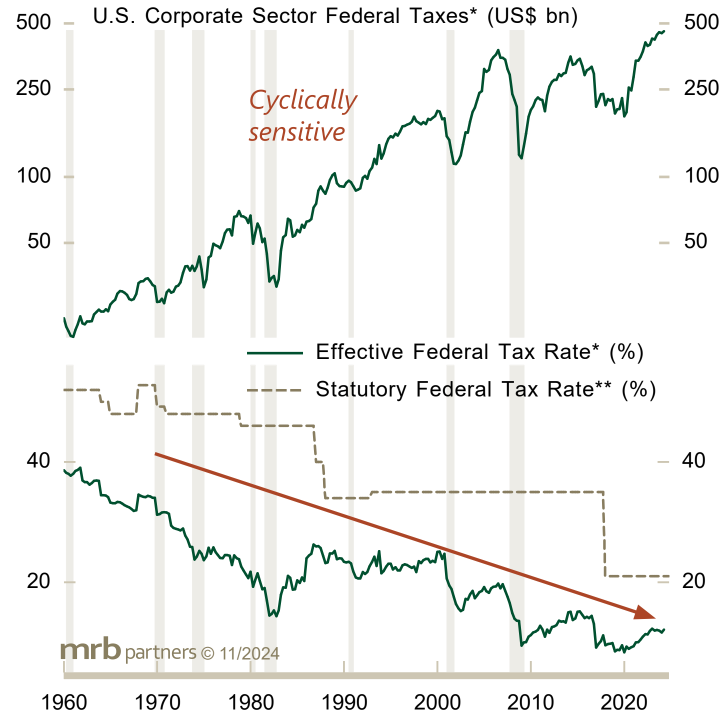
[2] MRB "*U.S. Election 2024: Are Big Changes Ahead For Corporate Tax Policy?*", August 29, 2024

Chart 3 **The Timing Of Trump's Policies Matters**



* Source: Refinitiv I/B/E/S Global Aggregates
Note: Shaded for Trump 1.0

Chart 4 **Long-Term Downtrend In U.S. Corporate Tax Rates**



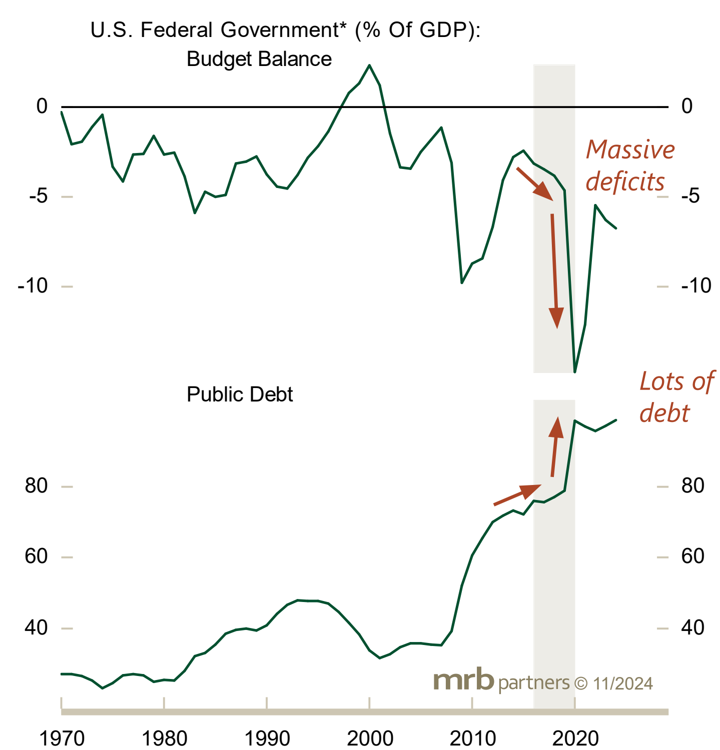
* Source: U.S. Bureau of Economic Analysis
** Source: Tax Policy Center
Note: Shaded for NBER-designated U.S. recessions; panel 1 shown in log scale

it is questionable how much of an economic boost will occur if taxes are cut, albeit this may be a necessary policy to offset the implicit consumption "tax" from tariffs (see below).

In the end, tax cuts will provide a boost for corporate profitability and mild support for economic growth and inflation. They will also lead to a material deterioration of the federal budget balance since the stimulus provided will not create sufficient growth to adequately increase government tax receipts. This was the case during the first Trump administration when the budget balance steadily eroded well before pandemic-related fiscal spending packages occurred (**chart 5**).

Financial Market Impact: Tax cuts are beneficial for U.S. equities, albeit more so for domestically-oriented smaller companies, rather than the mega-cap growth stocks that pay a much lower effective

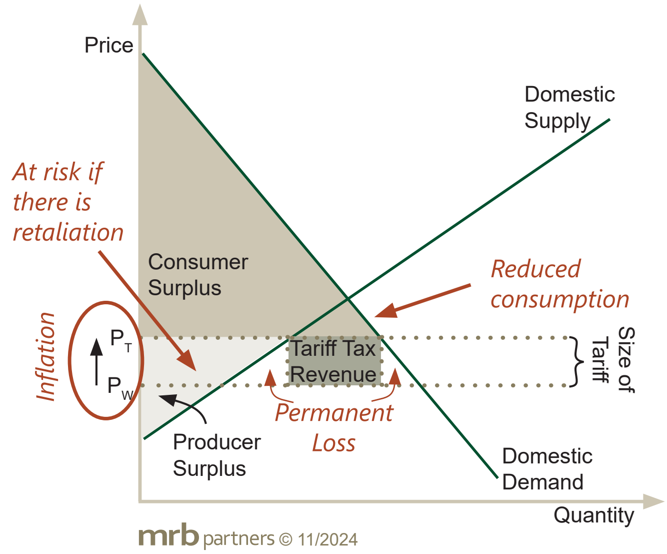
Chart 5 **U.S. Federal Government: Alarming Debt Trends**



* Includes 2024 projection; source: Congressional Budget Office
Note: Shaded for Trump 1.0

tax rate. This policy is bearish for U.S. Treasurys, driven more because of larger government deficits than the upward pressure on economic growth and inflation. Finally, tax cuts are mixed for the U.S. dollar, and will depend on whether investors focus on the marginally better relative growth, or fixate on much weaker public finances and slightly greater inflationary pressures.

Chart 6 Imposing Tariffs Is Stagflationary And Risks Retaliation



Policy #2: Deregulation

Deregulation provides a similar macro impact as corporate tax cuts, without the corresponding deterioration in the federal government balance sheet. This policy is mostly beneficial for U.S. corporations and specifically for those that are heavily regulated such as the banks and energy companies[3]. However, there will be only a modest GDP boost since regulations have not held back hiring and expansion plans of the aggregate U.S. business sector.

In short, deregulation is mildly supportive of economic growth and inflation, while negligible in terms of the federal budget deficit. Of course, the very long-run impact of de-regulation could have negative consequences if excessive risk-taking were to eventually develop, but this should not be an issue during the next Administration.

Tax cuts and deregulation will be beneficial for specific sectors but will not create much economic growth

Financial Market Impact: This policy would be beneficial for U.S. equities, particularly the financial and energy sectors (and the aggregate value cohort). Deregulation is also mildly bearish for U.S. Treasurys to the extent that it boosts economic growth and inflation, while modestly supportive of the U.S. dollar via an improvement in relative growth and the international appeal of U.S. equities.

Policy #3: Tariffs

Tariffs are stagflationary by design

Tariffs are stagflationary regardless of how these policies are sold to the public[4] (**charts 6** and **7**). If the tariffs are implemented as proposed, then consumer prices

[3] **MRB** "*U.S. Equities: The Implications Of A Red Sweep*", November 14, 2024

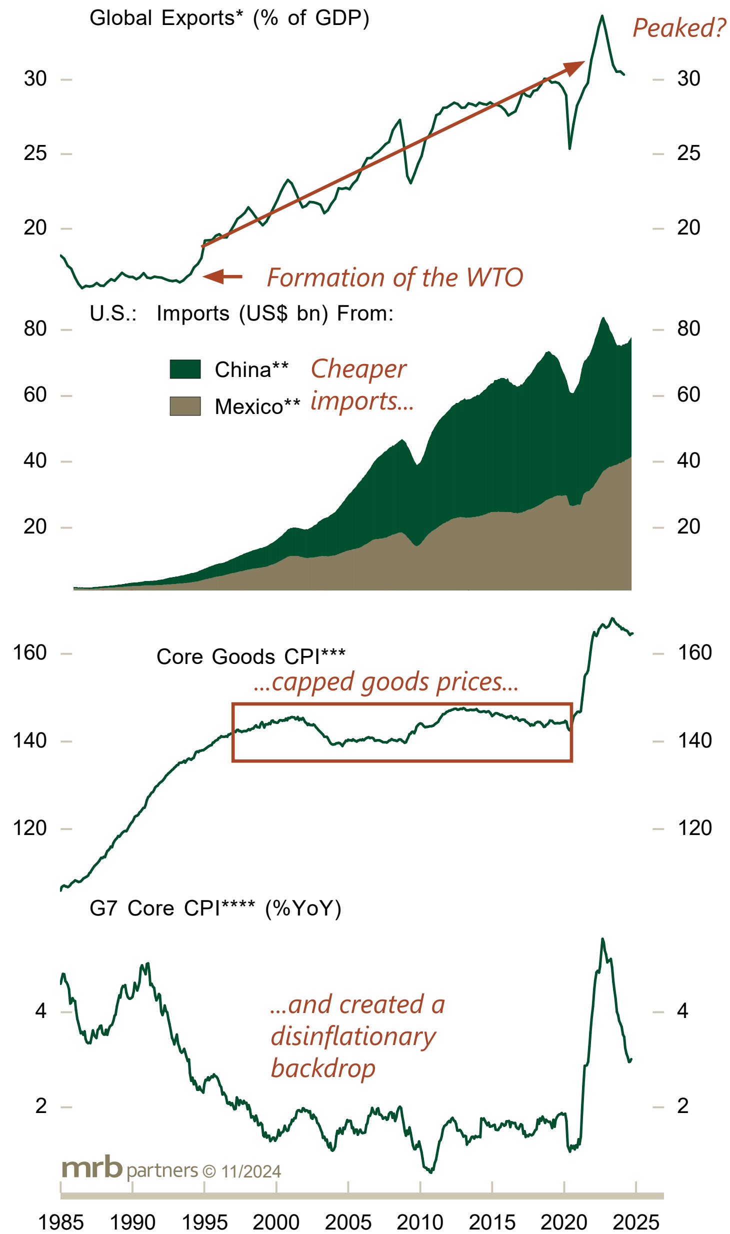
[4] **MRB** "*Fixed Income: The Return Of The Term Premium*", October 31, 2024 and **MRB** "*Pivoting To Protectionism = Self-Inflicted Pain*", August 22, 2024 and **MRB** "*Webcast – Protectionism: A Dangerous And Losing Trade*", September 4, 2024

will rise, most likely meaningfully at major retailers, while consumption would be pared back in response to tariffs adding an inflation "tax" on discretionary incomes. The profitability of domestic businesses will be curbed by higher input costs, lower domestic demand, and potentially lower foreign demand if other countries retaliate on U.S. exports, as seems highly likely (based on the trade war episode in the late-2010s). Tariffs substantially increase economic uncertainty.

The U.S. federal government will collect some tax revenue from tariffs, but it will take much more than this to fill in the hole from the private sector losses due to protectionist policies. Thus, the federal government will experience a net reduction in tax receipts. If policymakers also opt to cut personal income taxes to offset the economic drags from higher tariffs (as is currently proposed by Trump), it will blow an even larger hole in the budget deficit.

Similar to now, the U.S. economy had a solid head of steam when Trump was elected during his first term, and was given a further boost when taxes were cut in 2017 (**chart 8**). However, by 2018 it was becoming clear that economic risks were escalating in response to the trade war, with equity prices down sharply, credit spreads widening, the U.S. economy cooling markedly and global trade contracting.

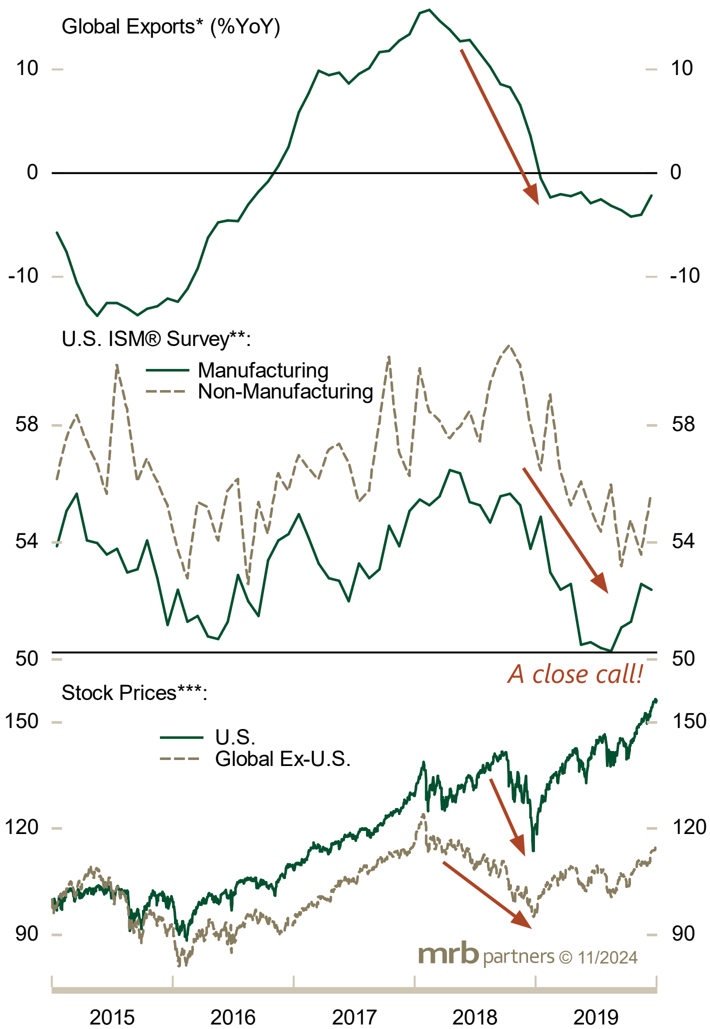
Chart 7 **Has Globalization (And Disinflation) Peaked?**



* Source: OECD
** Smoothed; sources: U.S. Census Bureau; U.S. Bureau of Economic Analysis
*** Excludes energy and food; source: U.S. Bureau of Labor Statistics
**** Excludes energy and food; source: OECD

Financial Market Impact: In the absence of triggering a recession, tariffs are a net negative for U.S. Treasurys (softer economic growth, but higher inflation, larger budget deficits, and increased uncertainty which lifts the term premium) and negative for U.S. equities (weaker corporate profits and higher discount rates). While investors believe such policies are generally supportive of the U.S. dollar, this is only true if the U.S. inflicts more pain on its major trading partners than

Chart 8 **Trump 1.0: Protectionism Came Close To De-Railing The Economy**

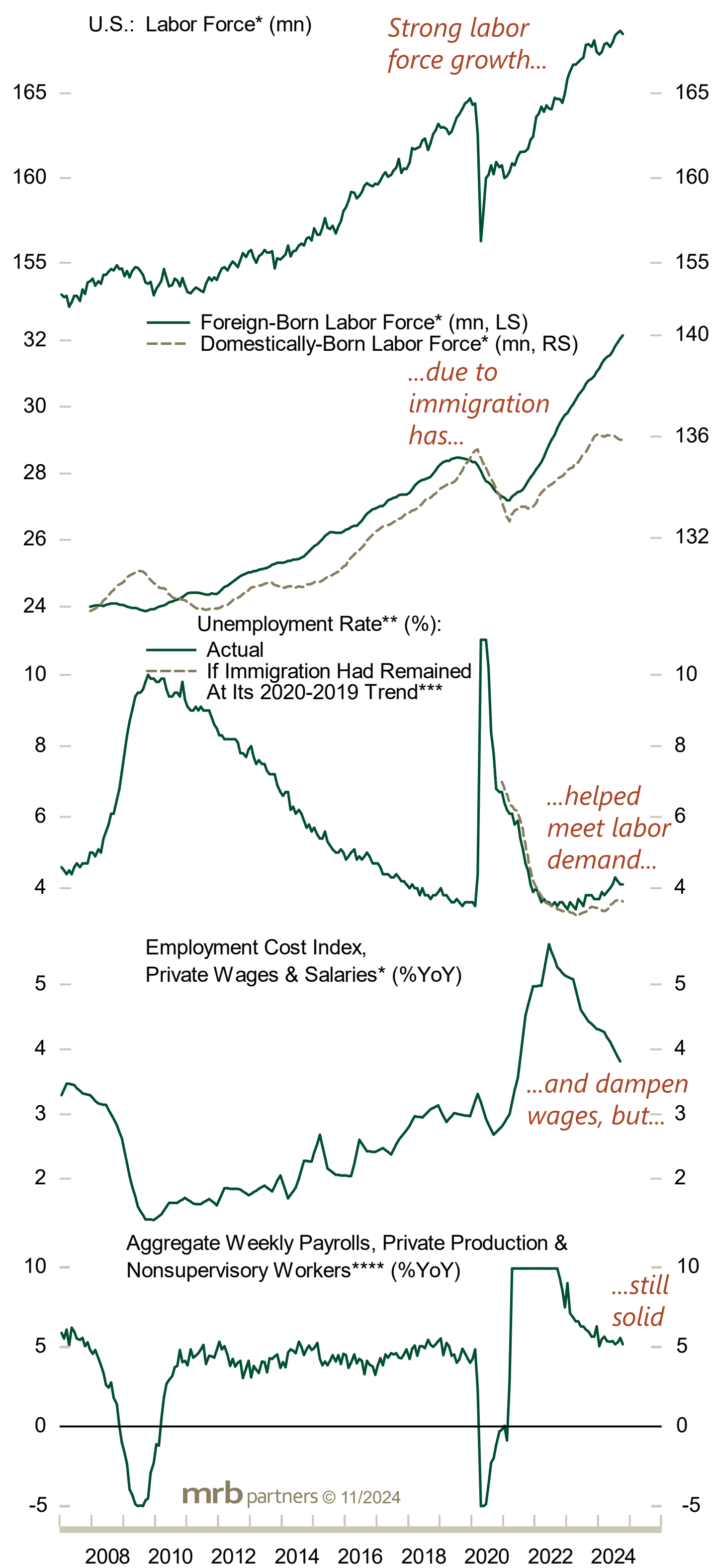


* Source: Netherlands Bureau for Economic Policy Analysis
** Source: Institue of Supply Management®
*** U.S. dollars; rebased; source: MSCI

on itself (every country involved loses, but to varying degrees). If China is the primary target of tariffs, the major weights in the DXY index may look relatively appealing, leading to a weaker U.S. dollar[5]. Indeed, the relative winners from a U.S.-led trade war could very well be non-U.S. equities and currencies that are not involved or caught in the crossfire (if any such countries exist).

[5] In this situation, economic growth would be curbed in China (less exports) and in the U.S. (less consumption) but may not be materially different for other economies. In fact, consumers elsewhere could benefit from lower costs of Chinese goods imports as Chinese manufacturers find themselves with excess capacity.

Chart 9 **Immigration Has Helped Ease A Very Tight U.S. Labor Market**



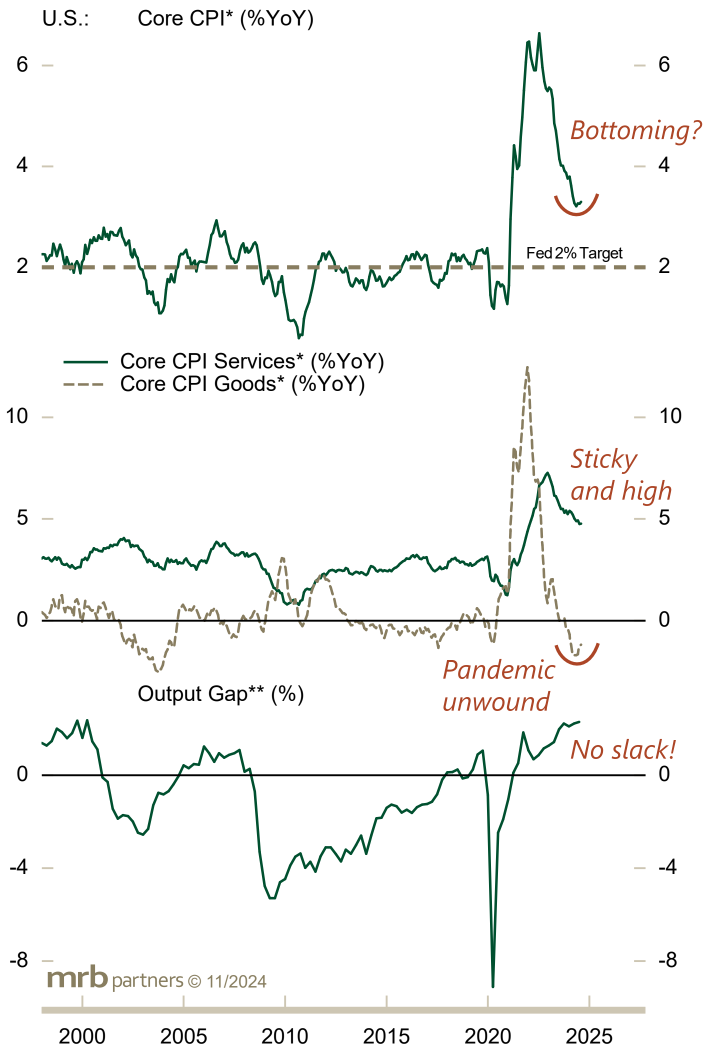
* Source: U.S. Bureau of Labor Statistics
** Trucated at 11.3%; source: U.S. Bureau of Labor Statistics
*** MRB calculation
**** Truncated above 10 and below -5; source: U.S. Bureau of Labor Statistics

Policy #4: Deportations & Anti-Immigration

Curtailing immigration and the aggregate labor force (by definition) reduces potential GDP growth. More importantly, our research has shown that stronger U.S. immigration has been crucial in helping to ease an historically tight labor market[6]. Indeed, the rise in unemployment earlier this year was primarily driven by a sharp increase in immigration which has boosted the labor force, rather than due to sizable layoffs or weakness in final demand (**chart 9**, previous page). In turn, immigration has helped temper wage pressures from what they otherwise would have been.

Even so, household income growth is still increasing at a 5% year-over-year rate, and solid real wages are supporting strong consumer spending. This is helping keep consumer price inflation sticky, particularly for core services which has a greater link to domestic wages than goods, where prices are set globally (**chart 10**).

Chart 10 U.S. Inflation Will Trend Above 3%



* Core excludes food & energy; source: U.S. Bureau of Labor Statistics
** Current GDP relative to potential GDP; source: Congressional Budget Office

Thus, meaningfully curtailing immigration and/or enforcing deportations will, on the margin, lead to weaker economic growth, even higher wages and consumer price inflation (i.e. this policy is ultimately stagflationary). Moreover, it will crimp federal tax receipts, leading to a wider deficit and interest expense, while substantially increasing economic uncertainty.

Financial Market Impact: This policy is unequivocally bearish for U.S. Treasurys and U.S. equities (in absolute terms and possibly relative to some other regional equity markets). It is also bearish for the U.S. dollar via relatively weaker growth and higher inflation.

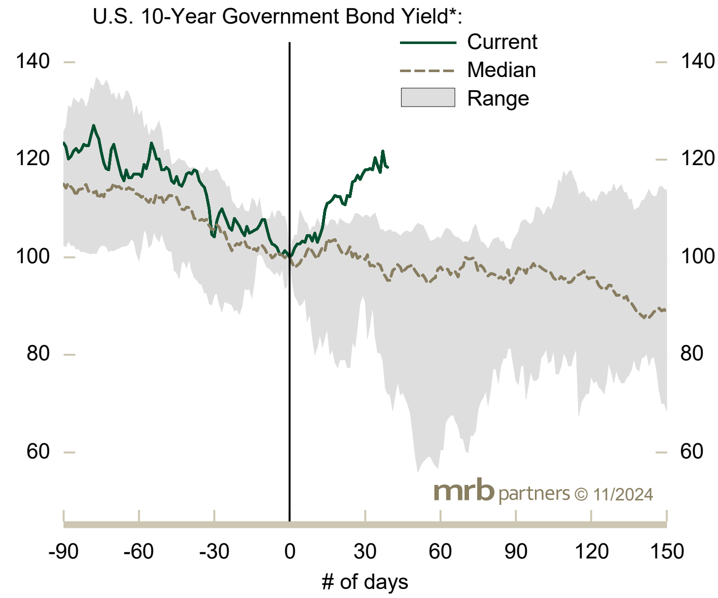
Anti-immigration policies are stagflationary

Fed Policy Reaction Is Crucial

New federal government fiscal policies will not be implemented in isolation. Aside from how other economies react, U.S. monetary policy will also play a crucial role

[6] **MRB** "*U.S. Labor Market: Less Bearish Than It Appears*", August 9, 2024 and **MRB** "*U.S.: Don't Fret About Rising Unemployment*", July 18, 2024

Chart 11 10-Year Treasury Yields Buck The Typical Fed Easing Cycle Trend



* Rebased to first Fed rate cut since 1995=100; source: Bloomberg

for financial asset markets. Our view has been that stronger growth and elevated inflation would prevent the Fed from validating expectations for deep rate cuts in 2025[7]. Considering the election results, the possibility of additional fiscal stimulus and inflationary policies should, at a minimum, increase the risk of an extended pause in the Fed's easing cycle.

The major caveat for the Fed pausing beyond the near term is that Trump's business and political career has been based on excessive leverage, which makes him extremely favorable to lower interest rates. Indeed, President Trump was extremely aggressive with Fed Chair Powell during his first Administration, publicly threatening to replace him if he did not cut interest rates (ironically, the Fed ultimately cut, albeit it had an economic case to do so in response to the damage created by the Trade War).

The Fed will be key…

…it should be less dovish but Trump may again threaten the central bank's independence if it doesn't cut rates

Trump has already floated ideas to replace Powell early with someone even more dovish (although the President does not have that authority). In turn, there is a risk that the Fed gets pressured into an even larger dovish mistake by continuing to cut. However, this could cause a bond market riot (yields have already deviated from the typical outcome from Fed easing in recent months, **chart 11**), especially if investors view Fed bending as boosting economic growth and increasing inflation risks, along with heightened uncertainty about the Fed's independence[8]. Such an outcome would also be bearish for equities and the U.S. dollar.

Aggregate Financial Market Impact & Positioning

The outlook for U.S. Treasurys is bearish

- **Government Bonds:** All four of Trump's major policy pillars are initially bearish for U.S. Treasurys, albeit to varying degrees. Bond yields have recently risen sharply since the Fed began its easing cycle, consistent with MRB's view that the first rate cut would mark a "sell on the news" event for Treasurys[7]. While U.S. Treasurys are due for a consolidation, the policies and risk premium associated with the U.S. election outcome will ultimately provide a further lift to bond yields and likely an eventual retest of the 5% cyclical high for the 10-year Treasury.

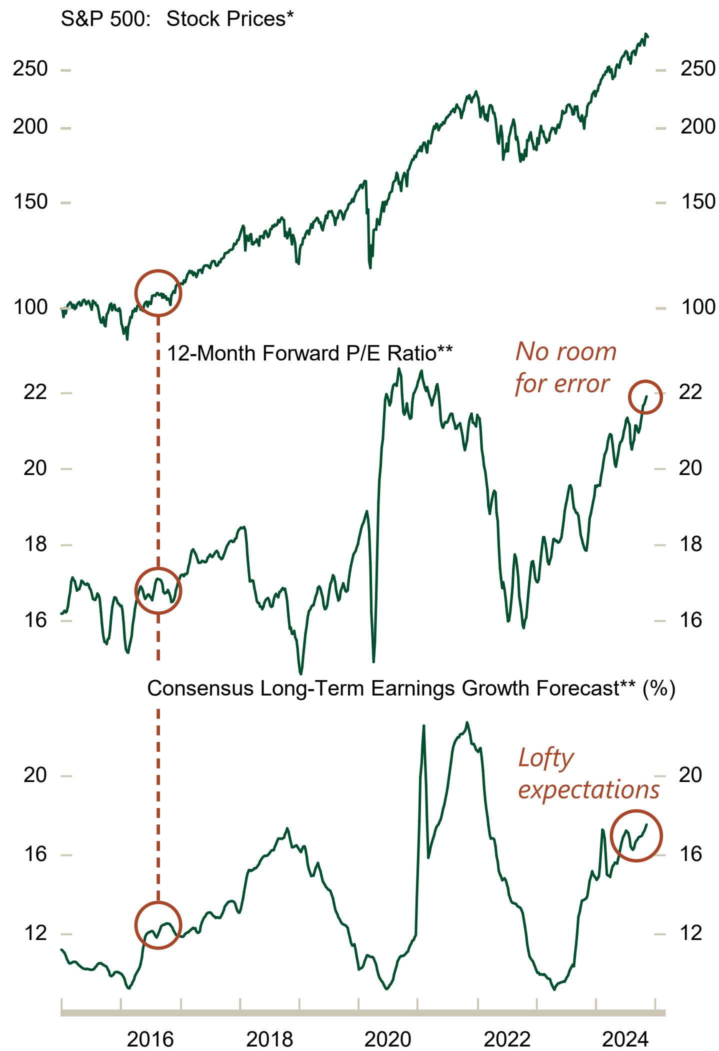
[7] MRB "*Absolute Return Strategy: Sell The News*", August 29, 2024 and MRB "*U.S. Treasurys: Reality Bites Again*", October 9, 2024

[8] MRB "*Trump 2.0: What It Means For The Fixed Income Market*", November 13, 2024 and MRB "*U.S. Post-Election Discussion: Q & A With MRB*", November 6, 2024

The **MRB *TradeBook*** currently has a short position on the benchmark 10-year U.S. Treasury outright (current gain is 4%) and versus German Bunds (up 2%). We also remain underweight U.S. Treasurys (currency hedged) within a global fixed income portfolio and are positioned for a bear steepening of the yield curve.

❍ **U.S. Equities:** U.S. stocks have rallied sharply since the election as investors focus on the pro-growth elements of Trump's agenda. However, only two of the four policies analyzed above are supportive for U.S. equities, while the other two are negative. Thus, it will be crucial for equity investors to monitor which policies Trump leads with and their relative intensity. Even if the Republicans lead with tax cuts and deregulation, sector selection will be paramount to outperform, given that heavy-weight growth stocks are not obvious beneficiaries. Moreover, we find investors are too sanguine about tariffs, despite equities suffering for a time during the first Trump Administration in response to the trade war (**chart 8**). The latter proved modest in scale and Trump soon stopped escalating. At minimum, we expect much more equity volatility.

Chart 12 The Set-Up For U.S. Equities Is More Demanding Than At The Start Of Trump 1.0



* Rebased; shown in log scale; source: Bloomberg
** Smoothed; source: Refinitiv I/B/E/S Global Aggregates
Note: Vertical line denotes 2016 election
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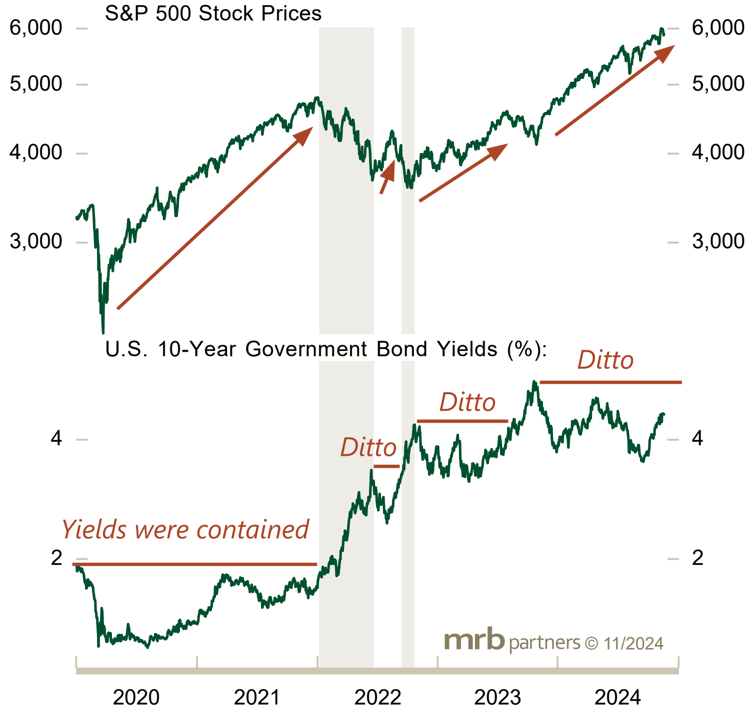
Note that the current set-up for the equity market is far less attractive than following the 2016 election[3]. Indeed, today's elevated valuations and earnings expectations leave considerably less room for stock prices to rise and more downside if a negative jolt where to occur (**chart 12**). The S&P 500 is trading at nearly 22x 12-month forward earnings compared with 16.5x when Trump was first elected to the White House. Consensus earnings growth forecast for the next 5 years are approaching an eye-popping 18% per annum versus 12.5% in late-2016, and forward S&P 500 profit margin expectations are already at their historic highs.

Half of Trump's policies are bullish for equities and half are bearish

For now, we are maintaining a mild pro-growth allocation with a long position in the global equity benchmark (up 3%) and U.S. high-yield corporate debt (up 23% and we will tighten the stop to 20%), given strong earnings trends. However, we are

Chart 13 Equities Rally Until Bond Yields Break To New Highs



Note: Shaded for the equity sell-off

using stops as a risk control measure, and are monitoring for evidence that another trade war will be early on the administrative agenda, or if U.S. Treasury yields breakout to new highs which would trigger another derating in equity valuation multiples (**chart 13**).

Within U.S. equities, we have a long position in financials versus the broad market (up 7%), and in the equally-weighted index versus its market cap-weighted counterpart (down 2%). We also have a stop-buy on the U.S. energy equipment & services versus the broad market. This is consistent with the ***MRB Asset Allocation Strategy***[9]. Finally, we have a stop-short on U.S. growth stocks and a stop-buy on the VIX futures index in preparation for an inevitable shakeout down the road.

Expect greater equity volatility

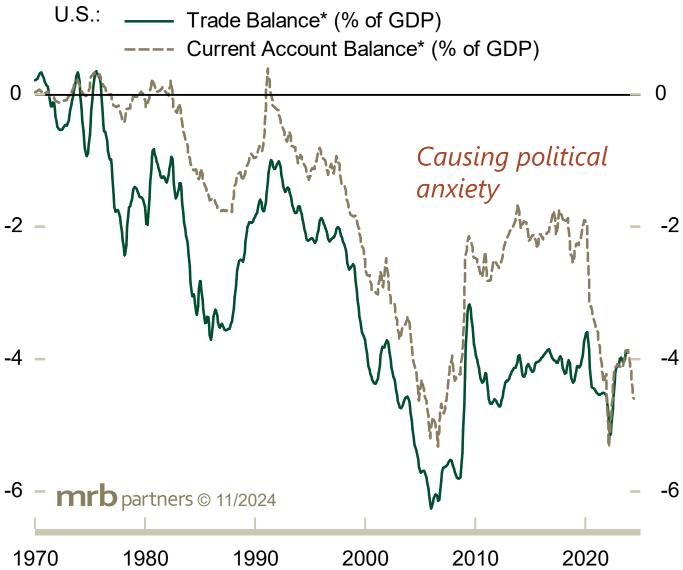
- **U.S. Dollar:** The dollar has appreciated sharply in response to the election outcome. The consensus view tends to be that the Republican sweep will lead to relatively easy fiscal and tight monetary policy which is a supportive mix for the currency. Also, most conclude that trade wars will be relatively beneficial for the U.S. dollar. We find this debatable, and much will depend on the Fed's response.

The bullish consensus on the U.S. dollar is likely misguided

Some of Trump's policy pillars would be ***relatively*** negative for U.S. growth, and all lead to comparatively higher U.S. inflation and budget deficits which are ultimately bearish for the currency. While U.S. Treasury yields should rise, it is not beneficial for the currency if driven by higher inflation and a wider term premium. Also, if the goal of another trade war is to shrink the massive trade and current account deficits

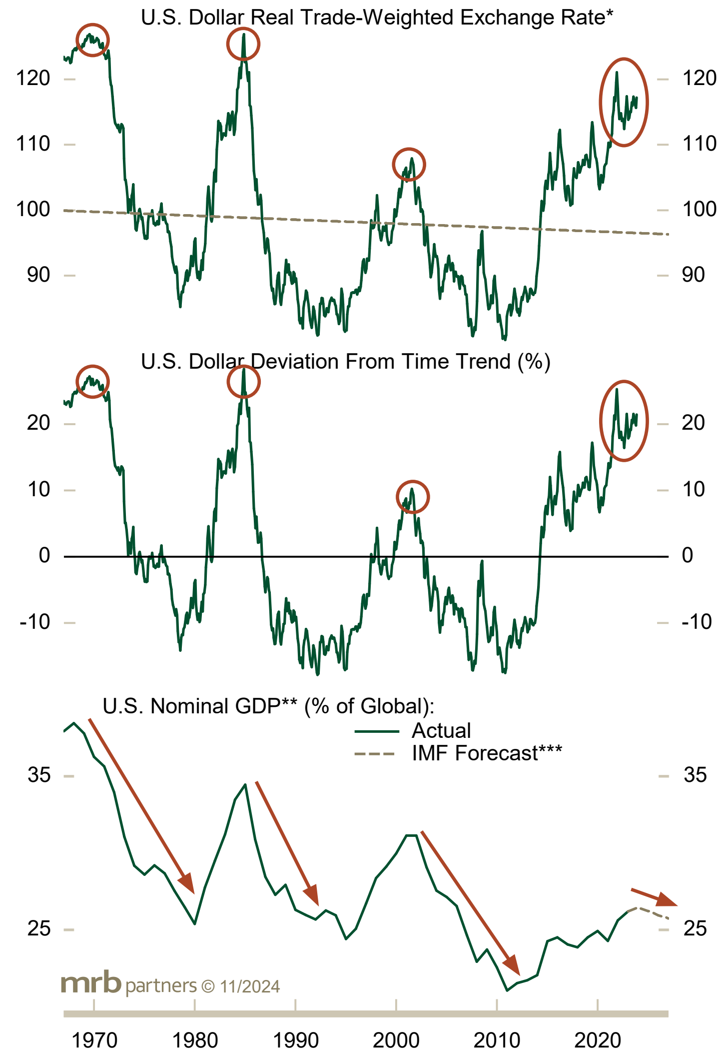
[9] MRB "***Asset Allocation Strategy: Temptation Is One Thing Investors Can't Resist***", November 1, 2024

Chart 14 **U.S. Is Running Massive Trade And Current Account Deficits**



* Sources: U.S. Bureau of Economic Analysis & OECD

Chart 15 **The U.S. Dollar Is Expensive**



* Source: Federal Reserve and Bank for International Settlement
** U.S. dollars; source: IMF and World Bank
*** Assumes annual U.S. GDP growth of 3.9% and global ex-U.S. GDP growth of 5.5%

(**chart 14**), this can only be achieved by weakening U.S. economic growth and import demand (which is not politically appealing), or by boosting to U.S. economic competitiveness, which realistically would require a cheaper currency[10] Moreover, the U.S. dollar is currently even more expensive than following the 2016 election (**chart 15**).

The U.S. dollar currently has momentum and could appreciate further in the near run, as expectations for Fed rate cuts are pared back further. However, we recommend fading rather than chasing this trend. The **MRB *TradeBook*** has had longstanding positions in the euro and EM currencies which are on the verge of being stopped out. If this occurs, we will add trailing stop-buys (particularly on the euro) to catch the eventual turn. In contrast, the Chinese yuan is likely to depreciate to blunt the impact of a trade war, and we remain negative on the weak-link developed market currencies versus the U.S. dollar, including the Canadian dollar.

We would fade rather than chase the U.S. dollar

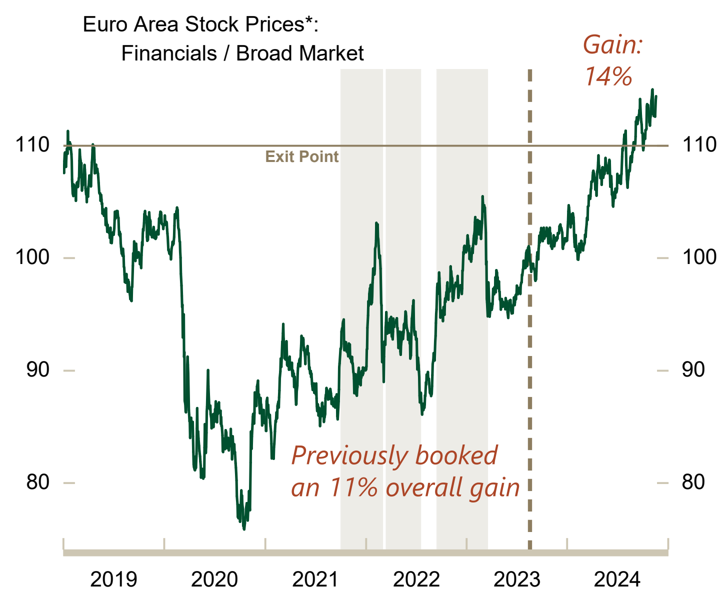
[10] Some investors believe that A.I. innovation and adoption will disproportionately benefit the U.S. economy. This is debatable and regardless will take years for the competitive advantage in the aggregate economy to be realized.

MRB *TradeBook* Housekeeping

❍ **Long Euro Area Financial Stocks Vs The Benchmark:** This equity neutral pair trade of long euro area financials versus their broad market has continued to gain strength (up 14%, note that we previously booked an 11% overall gain on this position, **chart 16**).

This recommendation is in line with last month's euro area report[11] which reiterated our non-consensus view that the downshift in the euro area economy has been driven by weak German manufacturing and does not reflect the totality of the euro area economy. Indeed, parts of the euro area economy are performing well, and we find the financial sector appealing versus their equity benchmark. For now, we will tighten the exit point to protect 10% of the current gain.

Chart 16 MRB *TradeBook*: Tighten Stops On Euro Area Financials



* Rebased; source: MSCI
Note: Vertical line denotes when MRB initiated trade
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[11] MRB "*Euro Area: Member Divergences Provide Opportunities*", October 23, 2024

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