REYL
OVERSEAS

STRATEGY OUTLOOK

November 2024

Key takeaways-

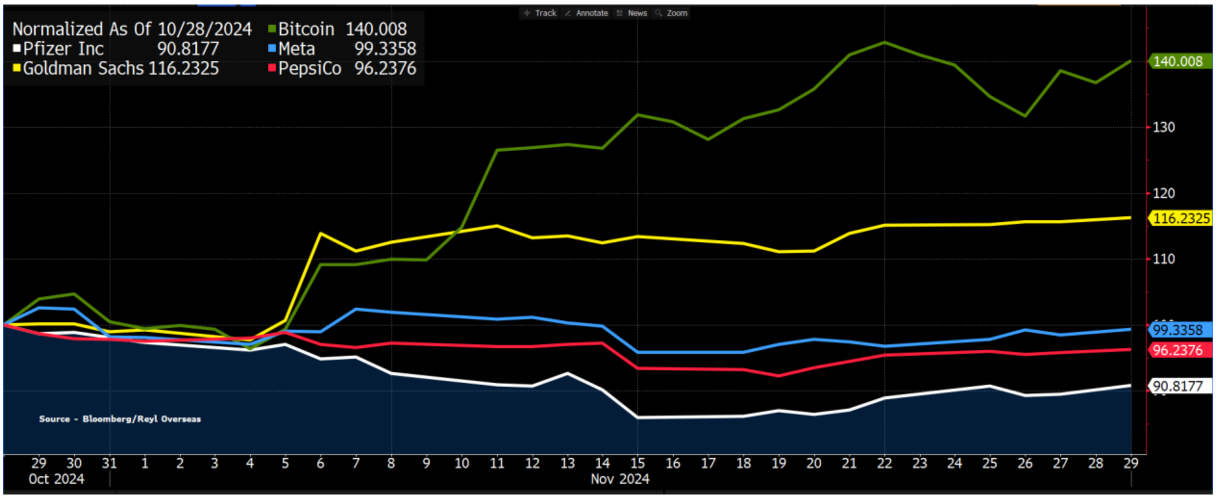
- Trump 2.0 = another Brexit type event.
- But it's a team game now.

The Republican landslide was another Brexit. The voters screamed change, yet the media narrative was utterly blind. Democratic political strategy ran only on being anti-Trump rather than offer anything new to an electorate squeezed by costs, taxes, and inflation. A great sway of commentators still do not understand, a lot like Brexit.

There is no shortage of known unknowns as we try to unravel what Trump 2.0 means. It's like we've just had the honeymoon. Love is in the air; plans are being cast and everything in life is great. Markets fully reflect this but having been married 10 years you become slightly cynical or realistic! A lot can happen between now and inauguration (look at the increased war mongering) let alone in the next 4 years. Our takeaway is however very positive, the team is strong.

The key variable this time around is the strength of Trump's team. He has brought together some very credible people – Musk, RKJ, Gabbard, Vance, Ramaswamy, Bhattacharya and Bessent as Treasury secretary. **<u>IF</u> he can keep the team together and they aren't stifled by Government bureaucracy, then they are the winners**. Think 2028 and beyond. When looking at markets there is a lot to be positive, but we know political promises are like buses and the heady days of romance aren't in perpetuity.

The chart highlights the performance of several assets since the election. Bitcoin and Goldman Sachs (proxies for "Wall Street") have outperformed while PepsiCo (Big Food) and Pfizer (Pharma) have sunk. The market isn't cheap, as highlighted by a later graph which highlights the S&Ps Price/Earnings, Price/Sales and Price/Book Value ratios.



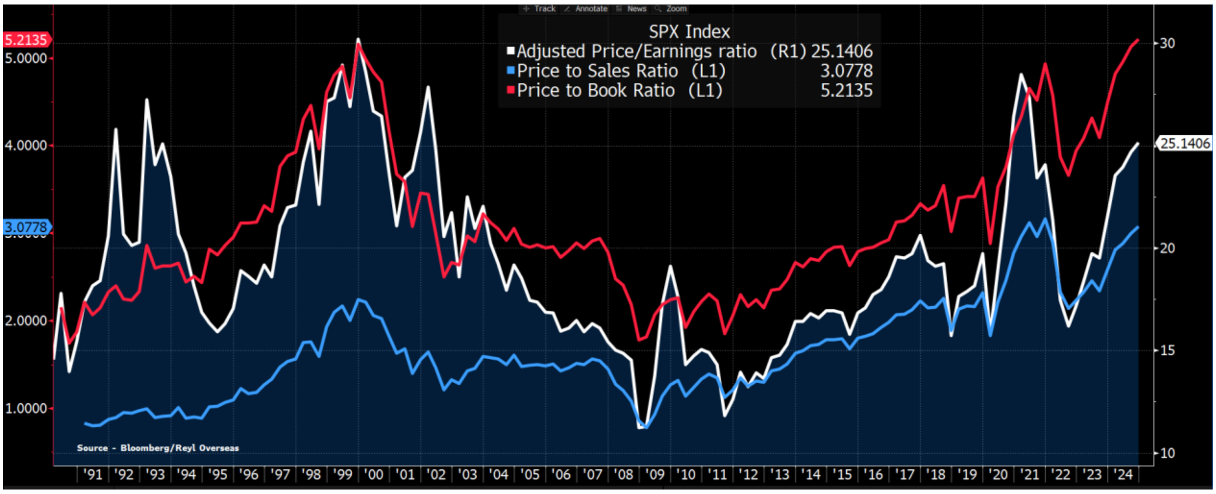
At these levels and at this point in the year it's tough to move out of cash yet there still remains $7trn sitting in money market funds. **Staying invested therefore remains the base case.** We know the first two years of a new Presidential term tend to be positive but it's going to be tough for 2024 performance to be repeated next year. Q3 earnings were good producing a 9% annual growth rate and there doesn't seem to be anything that is going to knock earnings. Indeed, tax cuts, deregulation and possibly tariffs should be supportive. This is on top of an economy that should print +2.4% GDP for Q4.

Its challenging to think about the performance of assets next year with so many variables. With the election out of the way the road is likely to be bumpier and more volatile. **This year saw the US outperform European stocks by the largest margin since 1976.** There will reach a point perhaps from Q2 onwards next year when international stocks become, on a relative basis, too cheap. Add in a desire to get the USD weaker and that could set up a good opportunity. **The path of the USD really is key, and everything is colluding to push it higher and that's not inflationary.**

The arguments for Gold remain robust especially as we see inflation being sticky but again the path of the USD is key. Bonds probably perform ok but it's a struggle to see decent price appreciation from here. So, the trend is probably upwards yet at a far, far more relaxed angle of trajectory. The risk of short, sharp pullbacks is higher and argues for having cash on the sidelines and a more active stance. **The constant is that the value of money is falling by around 8% a year and that's the ultimate benchmark for investors.**

Currently government spending remains very stimulative and procyclical. Does Trump 2.0 keep this stimulus or does it turn restrictive. Under Trump 2.0 however there will be additional drivers. Deregulation should lower costs, Tariffs should bolster revenues, how does he shrink the Government workforce? what does deportation mean for wages and his energy policies? Trump has already created the Department of Government Efficiency (DOGE) headed by Musk and Ramaswamy. Their issue is that 85% of the budget is mandatory spending. The number of known unknowns just multiplies.

Scott Bessent as US Treasury Secretary brings huge practical markets experience. It's very early but the signs are he supports deregulation and more inclusive organic growth. He wants to cut the deficit to 3% by 2028 with lower oil and the USD. That's quite a wish list for Santa!



So, we move to a New Year with what seems like a significant change of guard in Washington. We have more questions than answers, but radical change is afoot. Trump is a deal maker, his favoured benchmark is Wall Street yet he now has a team of credible businesspeople behind him. Trump 1.0 of debt spending and erratic decision making, and communication is probably over. Geopolitics should benefit and we should see a fixed-asset investment boom in the US.

The real aim of Tariffs is to change the behaviour of US companies and onshoring is likely to be huge. If change does occur expect it soon before the mid-terms loom. **However, there is a huge amount of work to be done.** The deficit remains the elephant in the room and hence the bond market must do two things. Allow for the refinancing of maturing debt and provide limited volatility and therefore spill over into other asset classes and hence reduced risk appetite.

Next year 30% of US public debt must be re-financed at higher interest rates that will push up the government interest bill by perhaps 20%. The Fed will be fully aware of the issues discussed regarding the refinancing of debt and will seek to keep liquidity ample and markets functioning.

Elsewhere it seems Dutch Government are proposing a new exit tax for citizens who leave the country which would come into effect next year. This trend is slow and steady.

Further rate cuts look unjustified in the US. China continues to suffer from a debt deleveraging process and Europe struggles much like the cartoon portrays. Liquidity remains key given the longer-term challenges/opportunities of sticky inflation, ageing populations, large public deficits, deglobalization, political polarization and massive technological and societal change.

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