INTUITION
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Our take on Trump 2.0

Like him or hate him, President Trump has managed to do what few before him have managed – secure a second term after four years out of office. Furthermore, contrary to expectations, Trump managed a "Red Sweep" – the Republican Party controls the White House, the Senate and the House of Representatives. Trump was highly critical and frustrated during his first term that he could not be "more effective" because of the split in control between the House and the Senate. That no longer applies. This time around, we should expect US policy to be more aggressive. Whilst the dust still must settle on the US election, these are our initial thoughts on what lies in store over the next 12 – 18 months.

Michael Porter

The dust is still settling on the outcome of the US elections last week, but already markets are starting to think about the consequences of Trump 2.0, coupled with the "Red Sweep" which will give Trump more opportunity to push through his election promises. In addition to already controlling the US Supreme Court, this might be one of the more powerful administrations in recent history. Americans have spoken, but the impact will reverberate to all corners of the globe.

At the outset, Trump's victory is good for US markets. The day after the election result, the S&P 500 surged 2.5% and it ended the week almost 5% higher at a new all-time high. That might seem a strange outcome to us living in SA, but it highlights a key point: Trump is good for markets, at least US markets! And rising US markets are always a tailwind for broader global markets.

From an American point of view, we can understand why Trump is so popular. Under Bill Clinton, and with the help of the Republicans in Congress, the US passed the North American Free Trade Agreement (NAFTA) in 1995. The government favoured a monetary and trade policy that would funnel money into Wall Street and US government bonds, even while factories were shuttered across the country. This was great for corporate insiders and shareholders, but not so good for wage earners and workers. This great hollowing out of the American Middle Class has been underway since the mid 1990s. His re-election also signals a rejection of the "Liberal Left" – and the woke policies associated thereto. Hence Trump's promise to "Make America Great Again" and to "Put America First" resonated so well with voters.

SPEED READ

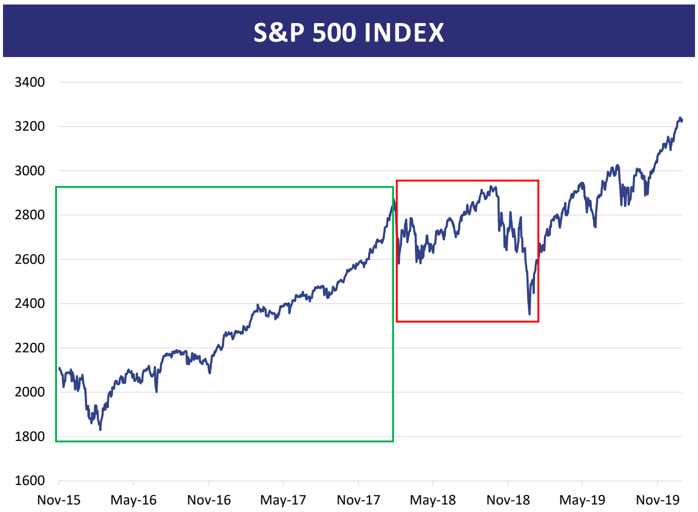
- **Trump's victory is good for US markets and therefore a useful underpin for other global markets.**
- **The two key economic policies we expect are further fiscal stimulus in the US and rising trade tariffs, especially on China.**
- **The impact on markets is varied, but they imply a stronger US economy (in the short term), and a stronger dollar, but also higher inflation and interest rates.**
- **Trump's election does not derail our SA recovery story.**
- **Finally, geopolitical uncertainty will rise as the US turns more introspective. That implies greater uncertainty and should benefit safe-haven assets, such as crypto and gold.**

Consequently, we expect the following economic policies to be implemented:

1. Fiscal support for Americans. Some of the tax breaks passed in previous years are coming to an end in 2025. We would expect these to be renewed (especially give the Red Sweep), as well as further tax cuts for corporates – although these will have to be in line with G20 initiatives.
2. Implementation of tariffs. Tariffs on Chinese imports into the US are expected to be raised to 60%, from the current average rate of 20%. During the first trade war, tariffs on Chinese goods rose from an average of 3% to an average of 20%. Trump has also mooted a blanket tariff of 10% on all imports, regardless of origin.
3. Reduction in "red tape". No specifics have been detailed, but Trump is promising to enhance productivity and

efficiencies.

What is the impact on markets? As a starting point, let us cast our minds back to Trump's first presidential term. Study the chart below. Initial reaction was muted as markets digested his victory. But they soon turned bullish as Trump delivered tax cuts as well as forcing US companies with large cash balances abroad to repatriate them (the green box.) Economic growth accelerated – from 1.8% when he took office to a peak of 3.1% in late 2018. Unsurprisingly, earnings growth for US corporates surged, growing by 40% over the first three years of his presidency, whilst the Dollar also strengthened. However, the red box shows the period of the Trade War with China in 2018. It was accompanied by significant bouts of volatility.



Trump's first presidential term was characterised by soaring markets on the back of tax cuts and higher GDP growth. But the onset of the trade war with China in 2018 caused sharp bouts of volatility.

Simplistically, we believe the impact on markets will include:

1. A stronger US economy and market at the expense of markets and economies elsewhere. Global investors might continue to favour US stocks over those in Europe and Emerging Markets.
2. In turn, this implies relative Dollar strength and relative weakness in other currencies.
3. Yet higher tariffs are inflationary. Prices will increase and higher prices will be passed onto consumers. In the long term, this might lead to reshoring of manufacturing back to the US and away from Mexico and China (notably), with more jobs and higher wages for American workers. But in the short-term higher prices will reduce consumption, GDP growth and government tax revenue.

> *"Unsurprisingly, earnings growth for US corporates surged, growing by 40% over the first three years of his first presidency."*

Climate change policies under the Trump administration may favour fossil fuel companies for the next four years.

4. What is hard to quantify at this stage is the quantum of any retaliatory tariffs on American goods. It is likely that China (specifically) and Europe will impose tariffs of their own.
5. Consequently, inflation is unlikely to fall as far or as quickly as it might otherwise have done.
6. In turn, this implies higher US interest rates. As we have said before, US rates are the foundation stone for global interest rates, so higher US rates will have implications for other central banks as they grapple with their own interest rate cycles. Markets now expect US rates to fall to 3.75% (currently 4.75%) by the end of 2025, versus 3.30% two weeks before the elections.
7. Ceterus paribus (all things being equal), this combination should weaken global GDP growth in 2025. But the situation is fluid. Last Friday, China announced a $1.4 trillion program to resolve is local government debt crisis. This fell short of what markets were expecting, but Chinese authorities were quick to articulate that "more forceful" fiscal policy would be implemented in 2025 when the impact of American policy would be clearer. That suggests that governments are already thinking about how they will react to changing US policy.
8. Finally, US policy towards climate change is likely to soften, rather favouring traditional sources of energy such as oil and coal.

Where does that leave investors in SA? Our clients will know that we have become increasingly optimistic on the local outlook post the formation of the GNU, ongoing reform, and a cyclical upturn in the economy. Does Trump's re-election upset this view?

Not necessarily. We believe the biggest impact to SA will come in the form of a potentially stronger dollar (and therefore weaker Rand) than might otherwise have been the case. That might support inflation, slowing down (but not derailing) the pace of our own rate cutting cycle. The other threat is the removal of trade benefits under AGOA. Indeed, AGOA might be scrapped altogether. Whilst this would undoubtedly cause short term disruption, the longer-term impact would depend on how the rest of the world reacts. Trade would be redirected elsewhere. But sentiment and confidence would surely be tested.

"Witness the surge in Bitcoin to over $80,000 since the election! Gold should be a similar beneficiary."

Apart from that, we believe the SA recovery story remains intact, and is being driven by a set of factors unique to SA – policy reform, absence of loadshedding, a cyclical recovery and higher growth as the country rebuilds after a lost decade. We will delve into this in more detail at our year-end Insight seminar.

What we have not spoken about in the commentary above is the rising geopolitical risk associated with a second Trump presidency. There is no doubt that Trump will alter America's foreign policy stance. That may well have implications for the conflicts in the Middle East and Ukraine. It may also stoke the embers of other, "dormant" conflicts. Russia has wasted no time in pronouncing its support for China's position on Taiwan since the election. Unfortunately, the world may enter a far more unpredictable period. A more selfish US foreign policy, coupled with a looming debt mountain in that country (61% of the US's national debt requires refinancing in the next four years) might also make investors flee US assets and seek safe alternatives. Witness the surge in Bitcoin to over $80,000 since the election! Gold should be a similar beneficiary.*

In conclusion, there is never a dull moment in either markets or global politics. Change is afoot, but this is really just a continuation of some of the bigger trends that have been unfolding for a few years now. As always, there is no need for knee jerk reactions. Diversified portfolios underpinned by strong balance sheets and cashflows will never go out of fashion.

**Please note that our licence conditions prevent us from investing in crypto on behalf of clients.*

Donald Trump has returned to the White House with consequences for the entire world affecting trade, defence, geopolitics and much more .

By the end of November, it will have been six months since our election ushered in the GNU. This presentation will focus on the outlook for 2025, and delve specifically into whether the SA story is still intact.

Topic:	**Outlook for 2025. Is that SA Story Intact?**

Natal Midlands

Date:	05 December 2024
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	04 December 2024
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	2 December 2024
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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