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Where Trust And Confidence Are Paramount™

The observations in this newsletter are the views and opinions of Raymond F. Saleeby Jr.

Outlook After U.S. Election



The people have spoken! Trump is our new president. Whether we like it or not, we must unite to support him. I believe the stock market was a far better signal on what was to come compared to the pollsters who did not predict any sort of landslide. Nevertheless, we must adjust and position our portfolios with a clear vision of a Trump/Republican mandate. Almost nobody predicted a complete landslide. Trump even had the popular vote. In my opinion, Trump will go down as one of the greatest marketers and communicators in this century. Voters

were able to overlook his felony conviction and a lot of baggage that has occurred. "Impeached twice. Convicted of 34 felony counts. Ejected from the White House four years ago."¹ "Trump becomes the first president since Grover Cleveland 132 years ago to lose the office and win again four years later."¹

I believe voters were a lot more sensitive to the economy than anybody thought. Particularly how inflation has taken away a great deal of their purchasing power during President Biden's administration (i.e. eggs, beef... "James Carville, Bill Clinton's political advisor famously said that when it came to elections it was the economy, stupid."²) Consumers are remarkably sensitive to grocery prices when they are paying a lot more or getting less. "A whopping 96% of voters said "high prices for gas, groceries and other goods" were a factor in their vote, according to AP VoteCast."³

Another factor that was instrumental in Trump's victory was having the support of Elon Musk, who I believe could be compared to a modern-day Thomas Edison or Benjamin Franklin. They were great Americans that had the ability to develop and implement their visions in a spectacular way. Interestingly enough, Elon Musk was very critical of Trump a couple years ago. "I'm not Trump's fan," Musk told Isaacson. "He's disruptive. He's the world champion of bullshit."⁴ "Trump might be one of the world's best bullshitters," Musk told Walter Isaacson, according to Isaacson's "Elon Musk." "Like my dad. Bullshitting can sometimes baffle the brain. If you just think of Trump as a sort of con-man performance, then his behavior makes sense."⁴ However, he was also critical of Biden. Especially Biden's policy towards unionization and not giving him enough acknowledgment for his EV success. I believe Musk was able to cultivate many votes for President Trump, mainly in the younger demographics who worship everything that Elon Musk does.

Trump was also able to capture the Latino vote which many people thought Vice President Harris would capture. "A Pew Research Center survey of Latinos in September found that 80% were very concerned about the price of food and consumer goods, and 77% about high housing costs—the same number who rate the economy as fair or poor."⁵ This is despite many of the illegal immigrants in our country who are of Hispanic origin. I believe many voters were disenchanted with illegal immigration and were feeling the American dream was out of reach for them. They were looking for a change or new hope.

Outlook After U.S. Election (Continued)

From a business perspective, many people are happy that there is a good chance there will be less regulations going forward, and more pro-growth initiatives coupled with the possibility of less government waste. Keeping corporate and personal taxes low played a significant role as well. Going forward, it looks like President Trump is going to dramatically change things with several issues that might have bad consequences if implemented too strongly. I believe what could compound these problems and initiatives is the excessive government debt and deficits which may limit its flexibility. Debt can work for you or against you. However, it increases the risk involved. Confidence is so important and the ability to repay shouldn't be taken lightly, which I believe our government needs to change these trends. I think some of his first moves might be:

1. Significantly increasing tariffs with China. This could dramatically increase inflation and disrupt supply chains, especially when there is less domestic competition for products produced overseas with significantly lower labor costs.
2. Addressing illegal immigration... deporting illegal immigrants who violate our laws; banning sanctuary cities that are funded by taxpayers with benefits better than some Americans get. But this topic is easier said than done with approximately 10-15 million illegal immigrants. Some of these immigrants have helped lower inflation and fill labor shortages in significant industries such as roofing, landscape, crops, construction. The solution must not disrupt industries, yet somehow transition these jobs to Americans while controlling inflation, especially with wages.
3. Shake up our energy policy... Trump wants to drill, drill, drill. I have long been critical of President Biden's energy policy. We need all forms of energy, including pipelines, which the current administration has fought against. In my opinion, this will help our economy and make sure we have the infrastructure for the additional energy needed with the AI revolution and infrastructure.
4. Internationally, Trump wants to bring back manufacturing, more domestic jobs and commerce to the United States. "For the global economy, American's allies and the post1945 international order, this poses high risks – and, possibly, a calamity."⁶ His main proposal for doing this is tax incentives and tariffs. One won't know if these high tariffs are negotiating tactics or for real. China, which he has proposed up to 60% tariffs certainly fears Trumps intentions. What they may do to combat these tariffs is to use their government support to subsidize industries as to not lose jobs or supply connections with the U.S. In addition, locate manufacturing plants in countries that might now have various low tariffs. However, China is not just a pushover. They control a large part of rare earth metals in the world and the processing for them. In addition, we saw how reliant they were during the Covid crisis on a lot of health care supplies and medical ingredients, along with other low-cost manufacturing items. Then there is the issue of Taiwan which complicates our relationship with them. We must be concerned about their security and their country's technology, especially since we use a large number of high valued semiconductors in vital industries to power the world. It will be interesting to see if the Trump administration will defend Taiwan in the event of China's aggression or potential war. And how will they defend other countries in Asia with China's increasing military and influence.
5. Mexico has been a huge recipient of trade which has taken away from our China trade relationships. They have been a low-cost manufacturer and base for many U.S. industries especially autos. It remains to be seen how tariffs will play a role with their trade surplus in the United States and our new potential illegal immigration policy.

Outlook After U.S. Election (Continued)

6. Lastly, Europe may be scared by the new Trump administration, in particularly Germany which has a great trade surplus with their high-end cars being sent to the United States. Many European countries have not spent a great deal of money on defense which upset Trump during the last administration. Is their relationship with the U.S. at risk as well? How will Trump negotiate a cease fire/potential military agreement between Ukraine and the Russian aggression? And how will he use tariffs with Europe's high trade surplus which Trump does not like? I believe none of these countries or regions are happy about the Trump administration and nobody has an idea of what the future will look like.

Since the election “The S&P 500 index gained more than 4% this past week, while the Nasdaq Composite rose nearly 6%. The Dow Jones Industrial Average climbed 4% after experiencing its largest post-Election Day gain since 1896. Even better, the Cboe Volatility Index, or VIX, declined 32%, its largest weekly drop since December 2021—a sign that all the pent-up worry in the market’s fear gauge had evaporated overnight.”⁷ Stocks have rallied and long term bonds yields have moved higher. “No such cheer was evident in fixed income as 10-year Treasury yields spiked toward 4.5% amid anticipation that a swelling deficit under Trump will force the government to pay up for borrowing.”⁸ “The 10-year yield has climbed from a low of 3.58% on Sept. 11 to 4.23% on Oct. 23, a massive move that many have ascribed to an increase in Trump’s odds of winning the election.”⁹ I would not buy long-term bonds largely because of the potential for higher inflation down the line.

In anticipation of a regulatory environment due to a robust economy, I think there will be an increase in mergers and acquisitions. Those previous deals had been stifled under the perception of Biden’s administration scrutiny may have renewed enthusiasm. Many big banks and financial stocks have moved higher on the potential of higher fee volume. Many industrial stocks have moved higher on the potential benefit of domestic manufacturers benefiting from tax incentives and higher foreign tariffs. In addition, as everyone has probably noticed, Tesla stock has moved significantly higher due to the role of Elon Musk in helping to elect President Trump, his hundred million plus dollars in political contributions, and his significant role in his administration.

One must also recognize that the market has broadened with more stocks participating in the rally, especially small caps. I believe the reason for this is because during the last Trump presidency the smaller cap stocks did better due to a stronger economic growth rate. We will see if that develops. One must keep in mind “Back in 2016 stocks were much cheaper, with the S&P 500 at 16 times forecast earnings. The S&P is now at 22 times forecast earnings, so a lot of good news is already in the price. Likewise, the 10-year Treasury yield is at 4.4%, against 1.8% in 2016, and the ICE U.S. dollar index is at 105, against 97. It was easier in 2016 for all three to rise, so any disappointment about the direction or speed of Trump’s policies would hurt.”¹⁰

To sum this up, I believe one needs to be more selective since the stock market is significantly higher than it was under Trumps first administration. We have seen a great run of stocks over the last 4 years during Biden’s administration. One must understand that there are exciting things like AI, GLP-1 drugs... opportunity and potential spending cuts and less regulation and the potential growth increase. However, there are many negatives countering this as well such as government debt, deficits, international hot spot problems and deglobalization.

Conclusion

In conclusion, Trump will be our president for the next four years and we must stand behind him because we are Americans. One may think that since Trump was previously president that we should have a good idea what he will do. But one must remember, this will be his last term. He is coming into an environment where there are many global hot spots. There is a tech revolution (AI) that is taking place much like Bill Clinton had during his presidency which could help the growth as well as efficiencies going forward. In addition, there is substantially more debt and spending, causing deficits which would inhibit one's flexibility and could ultimately cause a crisis if not addressed.

One also must remember that with the current election, Trump has a mandate which gives him a greater ability to get things done, especially in the first hundred days. It is important to see who he will select for his cabinet where his experience will be a benefit to him having the ability to be more selective in qualifying his cabinet members. To sum it up, the only thing predictable about the Trump presidency is that it will be unpredictable.

Thank you for your business and support and I'm looking forward to seeing what our country will do in the next four years. As always, don't bet against America, the greatest country ever founded.

Optimistically Yours,



Raymond F. Saleeby
President



Footnotes

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