

By the Way

Monthly commentary from Jack Way

"Executive Action"

Donald Trump will once again be President of the United States after an election that wasn't a runaway but was certainly more definitive than most people expected (myself included). He just missed winning a majority of the popular vote and handily captured the electoral college 312 – 226. The voter turnout was a strong 63.8% which was the second highest in the past 100 years. Significant victories in the popular vote have become atypical in recent years. One has to go back to the Nixon and Reagan elections to find anything close to 60%. Given that Republicans also won majorities in the House and Senate, it appears President-elect Trump and his party have been handed a mandate to enact their policies. However, given the margins in Congress are very narrow, passing legislation will not necessarily be easy. Unlike in the Canadian Parliament where almost all votes go along party lines (history shows over 99% of the time), members of the U.S. Congress are free to vote for their constituents or conscience. (Although forceful pressure is often brought to bear if votes need changing.) To this point, Mr. Trump's force of personality and strong following within the party suggest much of his agenda will at least make it to the floor of Congress. Those things that he can change through "Executive Action" will likely happen quickly without the need for Congressional approval, many regulations fall into this category

We know that his agenda includes lower corporate taxes, lower regulation (especially in the financial and energy industries) and voters gave him a strong mandate to fix immigration. I believe the elephant in the room, though, is the newly formed "Department of Government Efficiency" run by two unpaid billionaire volunteers, Elon Musk and Vivek Ramaswamy. By the way, despite the name, it is not a department of the government, nor are the two men employed by the government. Nevertheless, their intimate relationship with the soon-to-be President makes their ability to recommend huge changes in the government, and even society at large,

extremely powerful and should not be ignored. The mission to cut spending, head count and unnecessary regulations is an honorable one, but how far is too far? Mr. Ramaswamy has alluded to mass layoffs in the civil service and even shuttering the Department of Education, the F.B.I. and the I.R.S. He may even be right, but the upheaval caused by such policies could well prove painful. We shouldn't just assume such measures are too big to pursue, Mr. Musk laid off approximately 80% of the workforce when he took over Twitter.

I don't think I'm going out on a limb to express the opinion that Mr. Trump can be unpredictable in how he reacts to problems and pressure, which isn't necessarily something to be desired in the leader of the free world. Nonetheless, he has been very successful so far in his negotiations with foreign countries. Prime Minister Trudeau was quick to offer better immigration protections at the U.S. border after Trump threatened broad based tariffs on Canadian goods. Christine Lagarde, head of the European Central Bank, suggested E.U. leaders buy more U.S. manufactured weapons to avoid a trade war. You have to admit Trump's approach is working. At home he has proposed unpleasant people like Matt Gaetz to cabinet positions, which tends to make anyone else look more acceptable. I see Mr. Trump as the reverse of a "bait and switch" salesman; start with your worst offer and something only slightly better will look attractive.

Many people were upset by the election of Donald Trump, Mr. Market (stocks) was not one of them. It seems as if investors were waiting for the results and keeping their powder dry in anticipation. The Republican sweep then unleashed risk buying across all markets. The S&P 500 is up over 5% since election day, with 70% of the index participants above their 200-day moving average. That's good. The concern is that it may be too good and a period of consolidation is appropriate. Targets are being raised all around Wall Street and sentiment measures are

overheated but not to the point of indicating a significant decline is in order, especially since December and January are traditionally strong months. Stay the course remains the proper positioning. History tells us that following the first rate cut by the FED the S&P 500 is up in the next 12 months if there is no recession and down if there is a recession. (Not earthshattering news.) We see no sign of an imminent economic downturn and certainly the new administration will do all in its power to make sure that it remains true. The so-called Magnificent 7 is still very powerful but is no longer the only story as the market broadens out. A year-to-date review of the total return for each stock in the Russell 1000 shows, of the Mag 7, only NVIDIA is in the top 50. Interestingly, since March of 2023 when the earnings growth of NVIDIA first burst on to the scene the stock is up 380% but its PE ratio is down from 45x to 35x. I have long held the belief that excess liquidity in the economy will find its way into financial markets. The first quarter of 2025, for a variety of technical reasons, will see a significant increase in U.S. liquidity and as such provide support for higher markets.

Attempting to estimate GDP and inflation in 2025 is something of a fool's errand given the diversity of potential outcomes as taxes, tariffs, etc. get sorted out under a Republican administration. At this point consensus sees both U.S. GDP and PCE around 2½% next year. That's in line with bullish expectations for a soft landing. Speaking of the risk of depending too much on consensus estimates; in January Wall Street was looking for 7 rate cuts this year, by April it fell to only 1, and now it's 3 or 4.

Globally geopolitics remains of great concern. Even formerly stable countries like France and South Korea are experiencing upheavals. Jared Cohen of Goldman Sachs best sums up the world order that the new administration will confront: "in Ukraine, we have an ongoing war waged by Russia... who is now joined by soldiers from North Korea... and is utilizing arms that are supplied by Iran... that are paid for by oil that is sold to China." Good luck with all that.

Happy holidays and health and happiness in 2025!

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