PURE CAPITAL
INDEPENDENT ASSET MANAGEMENT

Written on November 9, 2024

MARKET OVERVIEW NOVEMBER 2024

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TRUMP OR THE CHOICE OF GROWTH

Donald Trump's resounding victory is like a thunderclap. While it heralds a macroeconomic policy geared towards more growth, it will probably also mean a widening of the public deficit and inflationary pressures, with the new administration taking full advantage of the "exorbitant privilege" of the dollar, which remains the world's main reserve currency. For the European Union, playtime is over for good. If its political leaders thought they could snub Mario Draghi's report on competitiveness, they will have no choice but to flex their muscles in the face of the new occupant of the White House. For the Brussels institutions, introspection has become necessary, otherwise the European project will be jeopardized. The strong reaction to the rise in American stocks in the hours following the election results sets the tone: Donald Trump is likely to consolidate the economic leadership of the United States, to the great displeasure of the EU and the "Global South".

TRUMP, THE POLITICAL PHENOMENON MISUNDERSTOOD BY EUROPEANS

We have deliberately delayed the publication of our monthly letter in order to obtain the complete results of the American elections. **Indeed, the stakes were not limited to the unbearable duel between Kamala Harris and Donald Trump. The new political color of the majority in the two parliamentary assemblies of Congress, the House of Representatives and the Senate, plays a fundamental role in understanding the future economic policy choices of the United States.** As a reminder, the president essentially only has control over foreign policy and customs tariffs for which he can do without the agreement of Congress. The same is not true for budgetary policy and economic and social orientations. Donald Trump won a decisive, resounding, and obviously unexpected victory when we recall the turpitudes of the Republican candidate. The *Grand Old Party* has reconquered the Senate and will undoubtedly keep its majority in the House of Representatives. It must be admitted that Europeans have the greatest difficulty in understanding the workings of American politics, where the poverty of public debates often competes with the clownish and brutal side of the spectacle offered. During this election campaign with its unparalleled suspense and multiple twists and turns, three phenomena have certainly been underestimated by European political commentators. To begin with, the rejection by a majority of the population of the *woke ideology ,* which has divided society for two decades and whose grotesque manifestations in the major *Ivy League universities* on the East Coast after the Hamas attacks of October 7, 2023 have worried many citizens, who view with suspicion this future elite steeped in identity-based obsessions conquering the levers of power in Washington. Many political analysts have deliberately failed to mention that in 2020, during the Democratic primary to choose the presidential candidate, Kamala Harris had adopted an orientation close to the far left personified by Bernie Sanders (she ultimately had to throw in the towel). Her essential refocusing during the campaign that has just ended (the *woke wing* of the Democratic Party had no say in the matter at the Washington convention) clearly did not convince moderate or undecided voters. Kamala Harris has never really distanced herself from the identity politics of her party - let us recall her support organized according to their gender and ethnicity during the convention, with, bordering on the burlesque, the group called "White Dudes for Harris". The resolutely progressive policies of her running mate Tim Walz , governor of Minnesota, did not help, of course. Donald Trump has managed to dynamite this identity logic by bringing together far more than just "angry white workers," to use a caricatured expression. Then comes the religious phenomenon that we can no longer understand in our secularized and increasingly atheist European societies, but which continues to play a fundamental role in American politics - the newly elected president takes the oath on the Bible, more than just a symbol. This is probably one of the reasons why 45% of the Hispanic population with more conservative values voted for Donald Trump, despite his plans against illegal immigration. Furthermore, despite the Democrats' emphasis on abortion rights, 44% of women voted for the Republican candidate, 2% more than in 2020. **Finally, and not least, the Republican winner more surely embodies the choice of economic growth** (even if the Democrats have nothing to be ashamed of in Joe Biden's record despite the inflationary shock for which he is not responsible). **Contrary to what has often been written about his first term, Donald Trump's record was far from pitiful in this area.** It was the Covid-19 health crisis that prevented him from being re-elected in 2020, and not at all his economic performance. The combination of the three phenomena we have just described explains why Donald Trump won the popular vote, a first for a Republican candidate since George W. Bush Jr. in 2004.

What can we expect in the coming months, as Donald Trump controls the Republican Party more securely than in 2016 and is expected to appoint a loyal guard to key positions in the Administration, much more loyal than during his first term? presidential term? A policy resolutely focused on economic growth based on two pillars: a reduction in tax pressure and a new wave of deregulation (particularly in the energy and financial sectors). Of course, investors may fear a further deterioration in the budgetary situation of the United States, which is already reflected in the recent surge in Treasury bond interest rates (10-year rate close to 4.40%, whereas it had fallen back to 3.60% a few weeks ago). However, we note that the dollar strengthened following the announcement of the election results and that inflation expectations reflected in the 5-year financial swap contract in 5 years have only progressed moderately (2.56% compared to 2.50% before the results, a level close to that observed at the end of spring), which indicates that the markets are not overly worried. A possible trade war between the United States and its main partners fueled by an increase in customs tariffs could obviously revive inflationary tensions and slow the pace of monetary easing by the Federal Reserve. For the moment, the Fed is continuing on its path (new cut in its main interest rate of 0.25% on November 7). However, investors would be wrong to make a judgment on the new Administration's intentions. We will have to judge on the facts: Trump is a pragmatist, not an obtuse ideologue.

Once again, the United States is choosing growth. In the past, this choice has often proven to be wise. In reality, there is more continuity than rupture to be expected between the two Democratic and Republican Administrations, which share the same desire to promote American industry – by ensuring it abundant and cheap energy – and to support potential growth through investment and innovation. Both parties benefit greatly from the "exorbitant privilege" of the dollar and do not hesitate to launch vast programs to support the economy financed by public debt. The only major difference concerns the manner: the Democratic Party chooses public spending (with a more social vocation) while the Republican Party favors tax cuts, but both camps are aware of the need to pursue a supply-side policy to preserve the country's global leadership, and accept a dose of protectionism if necessary - Joe Biden's Administration has worked in the continuity of that of Trump since 2021 against China. The only aspect that seems most problematic to us is the management of immigration, an essential factor in the dynamism of the job market and wage moderation in recent years. Here too, we will have to judge on the facts.

There remains the question of foreign policy. Donald Trump rather defends an isolationist policy, but this does not mean that he will accept anything from authoritarian regimes. His policy in Iraq towards Iran and Russia demonstrated this during his first term: he can act with determination if necessary. Of course, the markets would welcome a freeze in the conflict between Russia and Ukraine as part of a *deal* orchestrated directly between Washington and Moscow. It is also not impossible that the negotiations will include the subjects of tension in the Middle East between Iran and Israel. We are rather inclined to place our trust in the new Administration, whose party has gotten rid of its hawks from the Reagan-Bush era (senior and junior).

THE EUROPEAN UNION AT THE FOOT OF THE WALL

Our previous monthly letter gave us the opportunity to talk about the report by Mario Draghi, former President of the ECB and of the Council of Ministers of Italy, on the EU's competitiveness. This report, received coldly or even snubbed by European political leaders, threw a spanner in the works, calling into question the programs and policies of recent years, a mixture of regulatory and normative rage and ideological directives without much coherence, nor especially much effect on the reindustrialization, innovation, productivity and potential growth of the Union. The directive on extra-financial reports CSRD (*Corporate Sustainability Reporting Directive*) offers a new striking illustration of this. While the euphoric American stock markets soared by several percent in the hours following the announcement of Donald Trump's victory, European stocks ended the session in the red, a symbol that investors would be wrong to underestimate. The EU institutions, whose candidates for the next Commission are preparing to give their big oral presentation to MEPs, must imperatively pull themselves together, by favoring pragmatism over ideological whims incapable of ensuring the prosperity of the Old Continent. We recalled in our October letter that the process of relocating industries in key sectors is currently being slowed down by energy prices, production costs, and two decades of environmental lobbying against the industry known to be polluting (Where are the mining projects essential to the energy transition and the digital revolution?). Project postponements and factory closure announcements are increasing, particularly in Germany (see the crisis affecting Volkswagen). The EU is now at risk of missing out on the great revolution of the 2020s, namely that of artificial intelligence, by favouring standards rather than innovation and investment, after having already failed in that of the cloud and *big data* (*hyperscalers* are overwhelmingly American). Today, a European entrepreneur in technology would probably not hesitate to choose the United States to benefit from its ecosystem conducive to innovation and business.

Pending the EU's awakening, and in the context of a Republican administration in Washington, investors will have to favour European companies that have a significant production base outside the EU, and in particular in the United States, which will offer them good coverage against the risks of a trade war with major tariff increases. Such companies exist; they have the advantage of being less expensively valued than their competitors listed on Wall Street.

CONCLUSION

Donald Trump's victory definitively rules out the scenario of a recession in the United States , a scenario we never believed in. Nevertheless, it raises fears of the return of inflationary pressures (customs tariffs, trade tensions, reduction in migration flows), and a more restrictive monetary policy than expected on the part of the Federal Reserve. We will not make any judgments and will judge the new Administration in charge in Washington on its merits. The high cost of American stocks and the overconcentration of indices nevertheless

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argue for greater diversification in the sectors that will benefit from economic dynamism. **Donald Trump's return is like a thunderclap for the EU, which must imperatively pull itself together, otherwise it threatens the European project.** The discount on Old Continent stocks compared to Wall Street can only be absorbed if Europe chooses growth and prosperity.

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