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Premia Global Advisors Market Commentary to Trump's Election Win and Republican-Controlled Congress

Following Donald Trump's election win and a projected Republican majority in Congress, financial markets experienced significant fluctuations. Key shifts included a steepened yield curve, a rally in U.S. equities, and higher Treasury yields. Investors appear optimistic, expecting pro-business policies like tax cuts (individual and corporate), deregulation, and robust earnings growth; however, risks of inflation, higher government debt, and tariffs remain concerns.

Market Reactions and Explanations:

1. **Yield Curve and Treasuries:** Long-term Treasury yields surged as the yield curve steepened, reflecting concerns about Trump's proposed policies on tariffs, immigration, and government spending, which may escalate debt levels and inflation over the next decade. The Federal Reserve's recent rate cuts add to this dynamic, making long-term bonds increasingly attractive.
2. **U.S. Equities:** Stock markets rose, driven by expectations of a pro-business agenda. Investors anticipate reduced regulation and potential tax benefits, particularly in sectors like financials and small caps. However, conflicting signals exist, as policies that may stimulate growth could also generate inflationary pressures, impacting profits.
3. **Debt and Deficit Concerns:** Trump's tax and spending proposals are estimated to increase the U.S. deficit by trillions over the next decade, pushing debt-to-GDP levels significantly higher. A Republican-controlled Congress may support many of these policies but could face constraints due to narrow majorities and market reactions to fiscal expansion.
4. **Trade and Dollar:** Trump remains focused on reducing the US trade deficit. He has touted the imposition of a 10-20% tariff on all imports and 60% on Chinese imports. Although it could strengthen the U.S. dollar in the short term, it could potentially introduce volatility in global markets. This policy shift could benefit domestic sectors like energy and steel but may negatively impact international equities. Cross-border M&A into the US could also pick up as international firms seek to "get inside" of Trump's proposed tariff wall. As it concerns monetary policy, it is no secret that Trump favors lower rates and a weaker dollar, but any moves to have an input into rate setting would add volatility into the market and are relatively unlikely.
5. **Diverse Sectoral Impacts:** The policy outlook could provide mixed results across sectors. While Big Tech may benefit from less antitrust scrutiny, regional banks and traditional energy companies stand to gain

from deregulation. Conversely, higher rates and debt pressures may challenge growth sectors reliant on low borrowing costs.

6. **Inflation:** Broadly speaking, Trump’s proposed policies will exacerbate inflationary pressure. Industrial firms and consumer and retail firms – particularly those heavily reliant on foreign imports – are likely to be hit hard by Trump’s tariff regime unless they have already on shored production and sourcing of key inputs. Despite increased Treasury yields, inflation expectations (as measured by the 10-Year Breakeven Inflation Rate, which implies what market participants expect inflation to be in the next 10 years, on average) haven’t changed much.
7. **International Markets:** The strengthened dollar and tariff uncertainty pose risks for non-U.S. markets. Chinese equities have remained stable, bolstered by potential domestic stimulus, while European and Mexican stocks could be affected by changing trade relations.

Investment Implications:

We believe these results warrant a close monitor as Trump’s policies evolve, balancing opportunities in U.S. equities with caution about rising rates, tariffs, and deficits. Emphasizing diversification, including **private markets** assets like private equity, private credit, private real estate, and infrastructure, can help mitigate market volatility amid policy uncertainty.

Initial Market Reactions (as of Friday, November 8th, 2024)

Security	Reaction Last 60 hours	Explanation
Equities	S&P 500: +3.55%	Markets are likely pricing in Trump’s deregulatory agenda alongside tax cuts and tailwinds for M&A activity. But they may be underpricing disruptive tariffs and immigration shifts.
US Treasury Bonds	US 10 Year: up 4bps to 4.31%, then back to 4.27%	Bond markets initially reacted to higher levels of inflation, with rates up 11 bps, but by Friday they had fallen 4.27%.
Commodities	WTI Oil: -2.7% from Wednesday’s highs to \$70.39/b	Oil markets reflect tensions between a stronger dollar, increased US oil production, and Trump policies disrupting global oil supply, with a marginal shift down.
Currencies	USD: +1.26%	The dollar rose at least in part because of the view that Trump trade policies will contribute to a stronger dollar in 2025.

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