Navigating the 'Trump Trade': Insights from TAM

In the aftermath of Donald Trump being elected as the 47th President of the United States, as well as the 45th President, we wanted to take some time to lay out a road map to the 'Trump Trade' past and present. Why is this important? Well, you will have undoubtedly read hundreds of articles on Trump's victory as it remains soup du jour for almost all pundits. TAM will give you its take on how the future looks under the 47th President but also comment on what we did at the time of his victory. Ultimately, the ability of a DFM to react to changing market dynamics is a key skill in trusting a manager to navigate what has become a complicated market to read.

So, what happened? (abridged) Donald Trump Vs Kamala Harris in 2024 was headlined as one of, if not the tightest election races in US history. Alas, the landslide victory only served to remind everyone, again, that the only reliable metric in political polling is how unreliable they can be. Kamala ran on a ticket of a government looking to embrace mainstream politics, fiscal prudence (ish) equality and good diplomatic relations with the US and her allies. Kamala was criticised on lacking a proper response to immigration and a plan to bring down the US deficit.

Trump's policies on the other hand were considered more firebrand in nature and designed to put the US front and centre, which unsurprisingly went down well with the US voters and not so well with the international community. Much of his rhetoric focused on delivering gangbuster growth initiatives via cuts to corporation taxes, de-regulation, government spending and lowering interest rates (ostensibly by exerting pressure on the US central bank). Side goals focused in on immigration control and eventually deportation, international trade tariffs to boost domestic demand, ending global conflicts and making Europe pay 2% of their GDP to defence.

Fundamentally, in the aftermath, Trump's victory was less about political statesmanship, it came down to a few simple truths irking the electorate. One of which was that Americans were simply fed up with high prices, not so much high inflation, but simply paying high prices for everything. The price of a Starbucks coffee, arguably a beverage which fuels America, has risen 49% since 2020. This was all too easy for Trump to pin on the Biden administration and thus promise a step change to a fed-up America. The polls seemed to miss just how motivated the US population was for change. Clear in the aftermath but hard to predict ahead of the event.

On the day of the victory, the TAM investment team were prepared for the election outcome to take days to come through when in fact by 6.30am the battle was all but over. The team immediately made two structural changes to the TAM Active portfolios given the landslide unfolding. We sold down global government bonds with a focus on US bonds and moved this free cash directly back into US stocks and, where appropriate, US small cap stocks which have a domestic facing tilt to benefit from Trump's 'America First' agenda. This top up took clients overweight stocks, compared to their benchmark. Alongside this, we had been slowly moving more overweight corporate bonds as opposed to government bonds, which were also primed to benefit from Trump's win. In some of the more defensive models we knocked out clients' European stocks to better defend against the fear of a trade war with Europe and moved these into the US. Finally, in the run up to the election, the sustainable portfolio team had been selling down funds more exposed to Trump's presidency in an effect to insulate clients.

Simply speaking, Trump's presidency was that of spending over saving and US growth over international growth (generally negative for government bonds and positive for domestic stocks and corporate bonds) so we tweaked the composition in client portfolios to tilt into this simple but powerful momentum. Given the active credentials of TAM's team, we had these trades completed before lunchtime on that same day.

Did this work? Well, at the time of writing, US stocks are up 7.6% since the 5th of November (election day) with US small caps in the Russell 2000 also up over 7%. US government bonds are up but only 0.4% and that's all come from the last 7 trading days. Corporate bonds reacted positively to the news and European stocks are generally down over 2%. Finally, green energy infrastructure stocks, which the team had been selling down about a month before the vote, also sold off over 7% on the victory as the team thought they might.

So, in absolute terms we moved from one flat investment (US bonds) into something more successful (American stocks) and grabbed almost all of that 'Trump trade' which was, all in all, a good morning's work for clients benefiting both offensively and defensively depending on what portfolio and client was involved.

Clearly things don't always go that way, and we have examples of times when things have gone against us. I reconcile myself in these less successful examples so long as the core reason we took action was to either enhance client performance or, more importantly, protect it. Then we still made the right decision, even if the market didn't want to agree with us that time.

So, now the dust has settled and some increased performance (alpha) has been achieved, what now?

Well, we could argue that a lot of the positivity around Trump's pro-growth policies is now in the stock market so it's up to Trump's first 100 days to back up all this positivity. If that's true, then we expect to see the 'Trump trade' pause ahead of his inauguration on the 20th of January 2025. We are however in December, a month where positivity usually reigns supreme. So we also see stability in the market and perhaps some gains in the likes of the UK and Europe as investors re-position their portfolios into the end of the year.

As we look into 2025, it's going to be another year where Trump's volatile rhetoric will move markets. But we should remember one principal which we learned from his last Presidential term – Trump sees the performance of the S&P 500 as a referendum on his ability as a President. Given this, we think a lot of his decisions will be framed against how the stock market is going to react. Let's not forget, when Trump became the 45th President, inflation was 1.5% (now 2.4%), the US deficit in 2024 is double what it was in 2016 and the S&P 500 now trades on x22 times earnings vs x17 back in 2016 (the higher the earnings multiple the more expensive the market is). Summing all this up, if you are a president gauging your performance by what the stock market does then the S&P 500 this time around is a much more fragile entity and prone to cracks more than 2016. Therefore, Trump needs to tread carefully if he wants the market to keep going higher.

So, what's in the first 100 days? For starts, closing the Mexican border will be easier than deporting hundreds of thousands of people, so we expect difficulties fulfilling full deportation. Worth mentioning that deporting massive chunks of the labour force will drive down labour supply, forcing up wages and employment numbers and thus inflation which will create volatility in the market.

Drilling – Increased supply will mean a more suppressed oil price which is good in keeping headline inflation lower. On the IRA (Inflation Reduction Act), which he coined the "green scam", this would intuitively affect sustainable stocks but then again, Trump's first term saw massive outperformance from the sustainable market so don't write it off. Also, let's remember the IRA has been creating thousands of jobs in Republican leaning states so we don't see how these massive states are going to want to roll something like that back without driving up unemployment.

Trade Tariffs – Yes, it's a problem and ultimately any sort of tariff stifles global demand, which will affect the US and its exports. As Christine Lagarde (President of the European Central Bank) put it, "A trade war is not in anyone's interests". Trump slapping tariffs on thousands of imported components for US products will drive up the price for US consumers contradicting his promise of bringing prices and inflation under control and likely stoking volatility he wants to avoid. We think the threat of Tariffs is real but it has ramifications which Trump wants to avoid, so they might be tempered down if Trump can

secure deals to get more US products sent overseas. If this turns out to the be the case, then an international relief rally in stocks should ensue, which will be good for portfolios.

China – Like Europe, the threat of tariffs is real and to be taken seriously but also potentially a bargaining chip to get China to import more US goods, which we see as a good thing. Again, a watered-down tariff agreement with China will avert the most severe scenario and likely cause a relief rally which, given China stocks remain very cheap, could be a top performer in 2025.

Conflict – Trump might actually be able to secure a peace deal in Ukraine. This remains an outside chance but one which we think would bring back animal spirits to the European stock market for a bout of relative outperformance.

2025 under Trump will be bifurcated and it will at times be volatile, so it's worth steeling yourself and your portfolio expectations against that fact. That being said, the US and predominantly the globe is still growing not contracting and this should help underpin stock markets, so we see a continuation of positive performance prevailing for clients which is reassuring. Under the surface we see more positivity coming back to stocks outside of mega cap tech, so overweight in other sectors like industrials, utilities, consumer staples and healthcare are becoming more interesting.

We see rates continuing to come down across main markets and that will feed into further positivity for bonds and equities so again, another driver of good performance. Government bonds remain under pressure from the threat of rising inflation and spending but likewise, this market is primed as a great safe haven should the global economy hit a recession in 2025, so we are keeping one eye on that dynamic as we invest for a positive year overall.

Active managers will have to be nimble, to not only avoid traps but also jump on sharp relief rallies as Trump's erratic rhetoric changes the picture, sometimes overnight. We hope, like others, that demonstrating our actions around Trump's early win not only showcases TAM's credentials in navigating the type of market we think might be in store for 2025, but also reaffirms trust in our process, which is critical to clients over the longer term.