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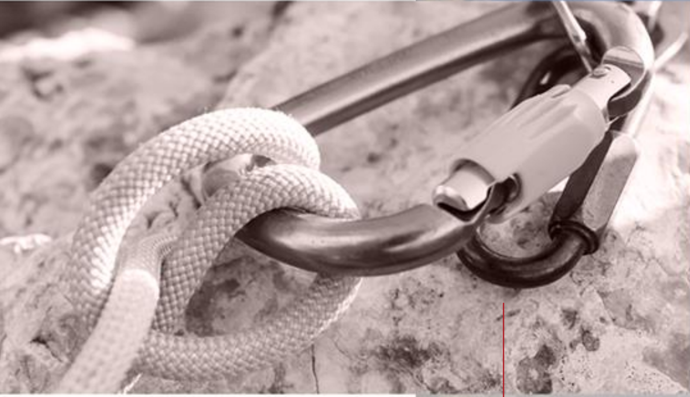
Newsletter: Towards Trump 2.0 / December 2024



1. Macro and Rates
2. Fixed Income
3. Equity
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Key Take-Aways

- The Trump administration faces key challenges, including inflation risks from tariff policies, the "de-dollarization" of global markets, and balancing lower taxes with spending cuts to reduce deficits. Treasury Secretary Scott Bessent is expected to play a pivotal role in moderating policies to stabilize markets and manage federal finances effectively.

- The administration's initial measures could benefit U.S. domestic companies, particularly small- and mid-cap industrials and value stocks, while prioritizing policies to address fiscal pressures and promote sustainable economic growth.

- 2024 has been challenging for fixed-income investments, with U.S. government bond returns underperforming cash and investment-grade bonds returning ~4%. Despite initial inflation concerns under Trump's policies, the appointment of Scott Bessent as Treasury Secretary has stabilized markets, lowering the U.S. 10-year Treasury yield to 4.16%.

- Central banks, including the Fed and BOE, cut interest rates by 25bps, while European spreads tightened modestly. In Germany, political uncertainty arises from the collapse of the coalition, leading to snap elections, highlighting Europe's instability amidst broader economic challenges.

- In November 2024, U.S. equities surged with the S&P 500 and Nasdaq-100 posting strong gains on post-election optimism and pro-business policies, while European and Chinese markets faced challenges from protectionist U.S. policies and weak economic conditions, widening valuation gaps between regions.

- The U.S. dollar strengthened in November, driven by Trump's reelection and inflationary policy expectations, while the euro and gold faced pressures from Eurozone challenges and a strong dollar, and the Swiss franc retained its safe-haven appeal amid geopolitical uncertainty.

Review

November's overview

November is historically the best-performing month of the year for small and mid-caps, with 79% of the time delivering positive returns. Last month, the Russell 2000 delivered an impressive 10.97%. Post-U.S. elections, with a win for Mr. Trump, the U.S. equity rally translated into gains across major US indices. The Nasdaq TR and the S&P 500 Total Return indices rose by 6.30% and 5.87%, respectively. The British market followed the trend, posting a 2.60% return. Meanwhile, the Euro Stoxx 50 declined by 0.32%, the SMI fell by 0.24%, and the Nikkei 225 posted a negative performance of -2.23%. The MSCI Emerging Market index fell 3.58% over the month. The re-election of Trump and the uncertainty surrounding his tariff-policy together with an appreciating greenback weighed on the asset class.

The S&P 500 reached new highs last month, posting a YTD performance of 28.06%. It closed above 6000 for the first time. Consumer Discretionary and Financials soared by 11.58% and 13.24%, respectively, followed by the Industrials sector (7.51%) and the Energy sector (6.93%). The only sector that has lagged slightly since the beginning of the year is Health Care, which is up 9.37% YTD.

The bond market had a solid month. The best-performing index was the BBG EuroAgg Government TR Index, with a MTD return of +2.20%. However, since the beginning of the fourth quarter, general market interest rates have risen, putting pressure on bond prices. This is reflected in the BBG Global Agg Treasuries TR Index, which is down 3.59% QTD. The High Yield sector has been the standout performer of 2024, with a YTD return of +9.80%. Spread compression together with shorter maturities and hence less duration risk supported the asset class over the year.

The US Dollar Index is up 1.69% mainly on the back of the re-election of M. Trump. This translated into significant moves in major forex pairs, with the USD strengthening against the EUR, CHF, and GBP. The EUR/CHF pair returned to its lowest level, with an exchange rate of 0.93, the same level as in December 2023.

The BBG Commodity Index fell by 2.19% last month. Gold prices decreased by 3.67%, pushing the YTD performance down to 28.12%. Crude Oil WTI faced challenges in the last week of the month, losing 4.17 points.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	6'032	0.57	1.08	5.87	4.90	28.06	22
Nasdaq	19'218	0.83	1.14	6.30	5.77	28.88	29
Russell 2000	2'435	0.37	1.19	10.97	9.36	21.57	26
Euro Stoxx 50	4'804	0.96	0.33	-0.32	-3.61	9.77	14
Stoxx 600 EUR	510	0.58	0.37	1.15	-2.10	10.10	14
FTSE 100	8'287	0.07	0.36	2.60	1.12	11.02	12
SMI	11'764	0.46	0.41	-0.24	-3.33	9.06	17
NIKKEI 225	38'208	-0.37	-0.20	-2.23	0.76	16.03	20
CSI 300 China	3'917	1.14	1.35	0.75	-2.29	17.55	13
MSCI EM Index	1'079	-0.10	-0.77	-3.58	-7.74	8.10	12

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	6'032	0.57	1.08	5.87	4.90	28.06	22
UTILITIES	419	-0.01	1.75	3.69	2.63	34.07	18
ENERGY	724	0.34	-2.00	6.93	7.77	16.79	14
TELECOM	330	0.34	1.92	3.10	5.10	35.38	19
CONS STAPLES	901	0.50	1.58	4.74	1.81	20.89	22
REAL ESTATE	282	-0.51	1.97	4.12	0.71	15.12	20
CONS DISCRET	1'789	1.11	2.36	13.34	11.58	27.10	29
MATERIALS	595	0.55	0.76	1.63	-1.91	11.96	20
HEALTH CARE	1'714	0.26	2.15	0.28	-4.35	9.37	18
INFO TECH	4'559	1.00	0.25	4.65	3.64	35.05	29
FINANCIALS	852	0.02	1.11	10.28	13.24	38.04	18
INDUSTRIALS	1'214	0.44	0.90	7.51	6.06	27.48	23

Fixed Income - % Change	Price	5 days	MTD	QTD	YTD
BBG Global Agg Treasuries TR Index UNH $	200	2.06	0.30	-3.59	-1.11
BBG Global Aggregate TR Index Value $	474	1.80	0.34	-3.02	0.47
BBG Global Aggregate Corporate TR $	298	1.26	1.34	-0.30	5.01
BBG Global High Yield $	1'671	0.73	0.82	0.19	9.80
BBG US Treasury TR Unhedged $	2'326	1.38	0.78	-1.62	2.15
BBG US Corporate TR Unhedged $	3'354	1.59	1.34	-1.12	4.14
BBG EuroAgg Government TR Index UNH €	246	1.18	2.20	1.25	3.31
BBG EuroAgg Corporate TR Index UNH €	259	0.66	1.56	1.25	5.13

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	105.737	-0.29	-1.69	1.69	4.92	4.35
EUR-USD	1.0577	0.24	1.53	-2.82	-5.01	-4.19
USD-JPY	149.77	-1.17	-3.24	-1.49	4.27	6.19
USD-CHF	0.8810	-0.23	-1.44	1.96	4.19	4.71
EUR-CHF	0.9320	0.00	0.10	-0.88	-1.01	0.34
GBP-USD	1.2735	0.38	1.64	-1.27	-4.79	0.03
EUR-GBP	0.8306	-0.15	-0.09	-1.56	-0.23	-4.19
JP EM FX Index	43.73	0.29	-0.18	-2.41	-5.44	-9.16

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	98.1	0.40	-0.84	0.05	-2.19	-0.51
Gold Spot $/OZ	2'643.2	0.20	-2.69	-3.67	0.33	28.12
Crude Oil WTI	68.7	0.00	-4.17	-0.78	0.81	-4.09

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	13.5	-0.39	-1.73	-9.65	-19.25	1.06

Source: Bloomberg 29.11.2024

Macro & Rates

New Trump Era.

The U.S. elections are behind us, and while we avoided the worst-case scenario, we should expect major changes under the Trump administration.

There is little doubt that the new administration will be much more "professional" than the first one. However, like many other candidates, Trump promised a lot, which could appear unrealistic at some point: lower taxes, lower government spending, lower deficits, imposing tariffs to meet the revenue shortfall, and simultaneously cutting spending and imposing a negative fiscal impulse—all of this with a target of 3% GDP growth.

The major risk and implication of Trump's program, if applied, is inflation. Indeed, Trump's tariff policy will eventually raise the general price level and perhaps increase inflation. This risk has been anticipated over the last few weeks, and the Treasury market suffered a severe adjustment, especially after the inception of an easing cycle. In a sense, the potential hawkish tilt of Trump's program may already be priced in. The market now expects a 50% chance of a 25 bps rate cut in December and no more than two rate cuts in 2025.

Key concerns for the Trump administration lie in the "de-dollarization" of the global economy and the finances of the federal government. In this context, the nomination of Scott Bessent as Treasury Secretary could be seen as good news.

The office of Treasury Secretary is one of the most important cabinet-level positions in the executive branch, particularly for financial markets. Bessent is a high-profile financial-market veteran with a long track record of success, and he is seen as the person who will moderate the president's influence, helping to ensure that Donald Trump's policies do not disrupt markets.

Reducing spending and the deficit will be a difficult task for Bessent and something entirely new for Trump's administration. Considered pragmatic, Bessent knows that the major rise in expenditure comes from interest expenses (an 8% increase over total revenues between October 2024 and December 2025). He also knows that the average interest rate on the stock of marketable Treasury debt is roughly 3.36%, well below the current market's lowest yield. So, Bessent's first choice will be to put pressure on the Fed to ensure that short-term interest rates go substantially lower to avoid aggravating the fiscal situation.

Assuming Fed's independency, we will have to expect US data to soften at some points to expect Bessent to be able to put pressure on the Fed to lower rates.

On the tariff side, we can expect Bessent to have a moderating influence on Trump. He may use tariffs as a weapon to swap bills, gold, and FX reserves to restructure U.S. federal debt, rather than strictly applying Trump's promises.

Scott Bessent could represent a powerful arm for Trump's "Make America Great Again" agenda. While the current environment does not favor elevated risk-taking in portfolios, we believe the first measures taken by the new U.S. administration could benefit domestic companies. Small- and mid-cap industrials and value stocks could benefit from their domestic exposure.

Fixed Income

First Trump and then Bessent

So far, 2024 is another difficult year for fixed income: the total return for US govies is barely two percentage points since the beginning of the year which is less than the return on cash in USD YTD. USD investment grade bonds' return is approx. 4%. Corporates and high-yield have performed better on the back of continued spread tightening and a robust US economy.

November was marked by the re-election of Donald Trump for president of the United States. Initially, the US 10-year Treasury yield rose from 4.25% to 4.5% as investors began to price-in the inflationary impact of some of Trump's policies. On Friday 22nd, however, the nomination of Scott Bessent as Treasury Secretary, reversed this movement and the yield of the 10-year benchmark returned to 4.16% at the end of November. Bessent, a hedge fund manager and Wall Street veteran, is widely seen as a moderating element in Trump's administration and specifically regarding some of Trump's most inflationary policies.

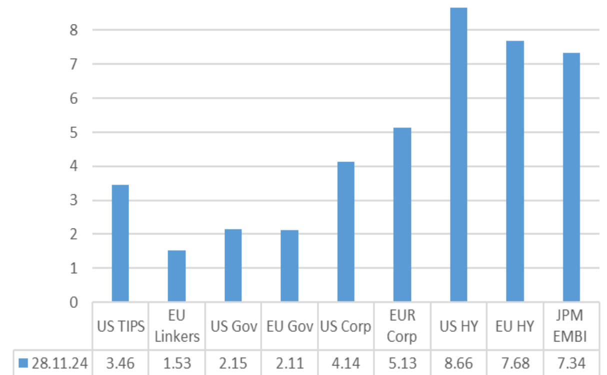
The Fed cut interest rates as expected by 25bps to 4.75% just two days after the presidential election. On the same day, the BOE also lowered its benchmark rate by 25bps to 4.75%. December will bring more monetary policy decisions: on 12 December the ECB and the SNB are expected to cut rates. The market prices currently roughly a 75% chance that the Fed will cut by another 25bps on 18 December, and on 19 December the BOJ will probably keep rates unchanged.

In November, investment grade corporate spreads continued to tighten on both sides of the Atlantic. High-yield spreads have also tightened in the US and are now as low as 288bps. In Europe, high-yield spreads did not move lower over the month as the economic outlook of the continent is gradually deteriorating.

In Germany, the «traffic light» coalition has collapsed and chancellor Scholz had to anounce snap elections scheduled for 23 February 2025. This is just another sign of Europe's malaise and comes at a moment when Europe needs stability and leadership, not uncertainty. The safe-haven German 10-year Bund yield has fallen from 2.4% to 2%.

With the year-end approaching, a new era of normalization in fixed income is beginning. The US yield curve, which was inverted since 2022, is finally bull steepening. We recommend to hold quality short to medium term bonds. Investing in the longer end of the curve has, however, considerable risks: some Trump policies as well as the deteriorating US fiscal situation may lead to a bear steepening – which is the main, although not very probable, risk for fixed income going forward. A moderating Bessent could well be the trigger for a year-end rally in bonds, similar to the price-action at the end of 2023.

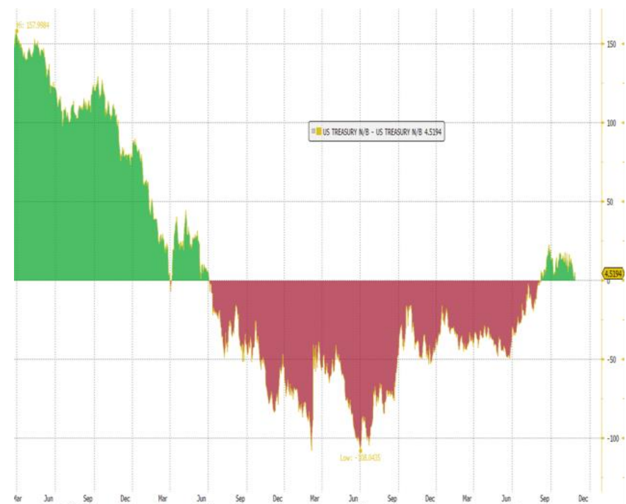
Bond YTD Total Returns as of 28.11.24 and



Source: Bloomberg

USD IG (lhs) and HY (rhs) spreads

10-year Treasury yield minus 2-year yield



Source: Bloomberg

Equity

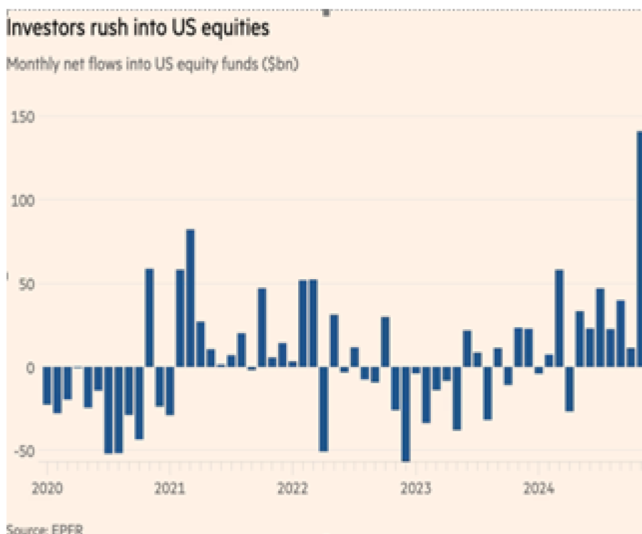
US Equities : Sky is the limit

In November 2024, global equity markets showed divergent trends. U.S. indices, led by the S&P 500 and Nasdaq-100, posted robust gains, fueled by post-election optimism and Federal Reserve rate cuts, while European and Chinese markets faced political challenges. Vix Volatility index is back below 14.

During November 2024, the S&P 500 experienced its strongest monthly performance of the year, increasing by 5.7% and closing at an all-time high. This rally was driven by several factors in line with political activity and following presidential election in the United States. The Republican sweep, boosted investor confidence and markets reacted positively to expectations of pro-business policies, such as corporate tax cuts and deregulation. The Nasdaq 100 also advanced strongly and post a nice 7.5% during the month. Sentiment indicators are very bullish, and the market has shifted more into risk-taking mode.

In Europe, it's another story with Euro Stoxx 50 index showing mixed performance after next president Trump signaled a protectionist approach, particularly targeting European industries with substantial tariffs on EUR automobile exports.

Over the past few weeks, investors have largely favoured US equities to the detriment of international equities. The rush to the United States has been impressive, with record inflows of over 140 billion usd, while at the same time outflows have been seen in Europe and Emerging market



Should we be already contrarian and focus on Europe or China while valuations are reaching extreme levels in the United States ?

It's a question obsessing investors at a time when the valuation gap between US and European markets is reaching record levels, with an average P/E of 14.20x for the MSCI Europe index vs. almost 26x for the MSCI US. This is the biggest discount in over 30 years. Peace in Ukraine could be the catalyst that could bring investors back to Europe, but it may be probably to early at this stage.

In Asia, Chinese equity enjoyed a mixed performance in November 2024. Major indices such as the CSI 300 and Hang Seng Index posted limited movements due to a cautious economic outlook and weak domestic demand.

Foreign investors remained attentive to political signals, and some sectors such as technology and infrastructure showed signs of stabilization thanks to political support from the Chinese Communist Party.

The technical levels of the indices will be closely watched, but regions that are undervalued in relation to the US markets could offer interesting opportunities in the near future.

Forex And Commodities

Politics And Fed Drive The Dollar On Higher Regime

Throughout November, the U.S. dollar has continued to dominate the Forex market, buoyed by speculation surrounding Donald Trump's reelection. Following the election, the dollar index surged to a one-year high, reaching the 2023 resistance level of 107.3 and posting its strongest weekly gain in over a month. This upward momentum accelerated further before stabilizing, driving the index to a new range around 106. This new regime was primarily fueled by market anticipation of policy measures under Trump's administration, such as tariffs and tax cuts, which are perceived as inflationary. Consequently, expectations of a more cautious Federal Reserve (Fed) in the coming year have strengthened the dollar's position.

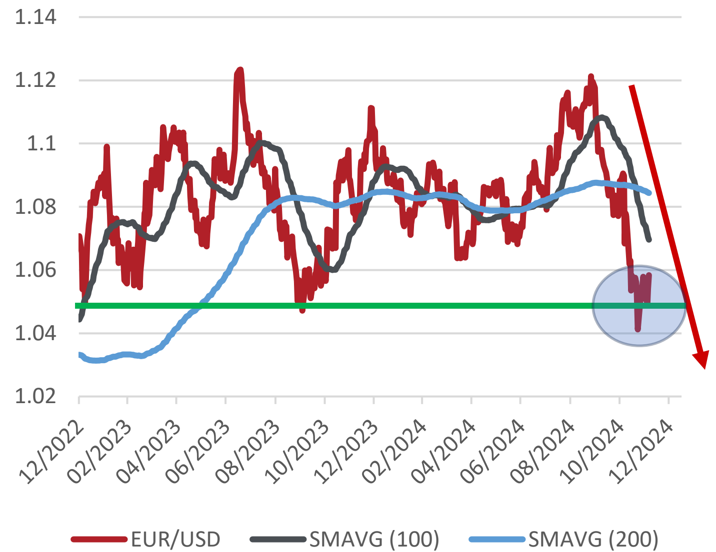
The prospect of increased tariffs under the new administration is also weighing heavily on the euro (EUR). The euro's decline is not solely a result of dollar strength but also reflects internal challenges within the Eurozone. Germany is grappling with an economic slowdown, and France is facing political instability. Should U.S. tariff measures materialize, they could exacerbate the Eurozone's economic struggles, prompting the European Central Bank (ECB) to adopt more accommodative monetary policies. This, in turn, would likely intensify the euro's depreciation.

Throughout 2024, the EUR/USD pair has been heavily influenced by interest rate differentials, a trend that is expected to persist into 2025. If the U.S. economy continues to show resilience, the Fed is unlikely to lower interest rates hastily. Following Trump's victory, the probability of a December rate cut has diminished significantly, pushing the EUR/USD pair to a two-year low of 1.045, which now serves as a new support level. If the current downward trend persists at its current pace, the pair could drop below 1.03 by year-end and potentially return to parity in early 2025.

Meanwhile, the Swiss franc (CHF) remains a top performer due to its safe-haven appeal during geopolitical uncertainty. The economic and monetary policy divergence within the Eurozone further supports the CHF's demand. While the ECB is expected to accelerate rate cuts in 2025, the Swiss National Bank (SNB) is likely to maintain its terminal rate around 0.5%. Technically, the EUR/CHF pair has repeatedly tested support near 0.93, with a potential downside to 0.90 if this level is breached. The 50-day moving average now serves as a key resistance. The SNB might intervene to weaken the CHF if its strength starts to negatively impact Switzerland's trade surplus or pushes inflation further below target. As for the USD/CHF pair, strong U.S. dollar momentum post-election suggests a year-end range between 0.90 and 0.87, with resistance at 0.92.

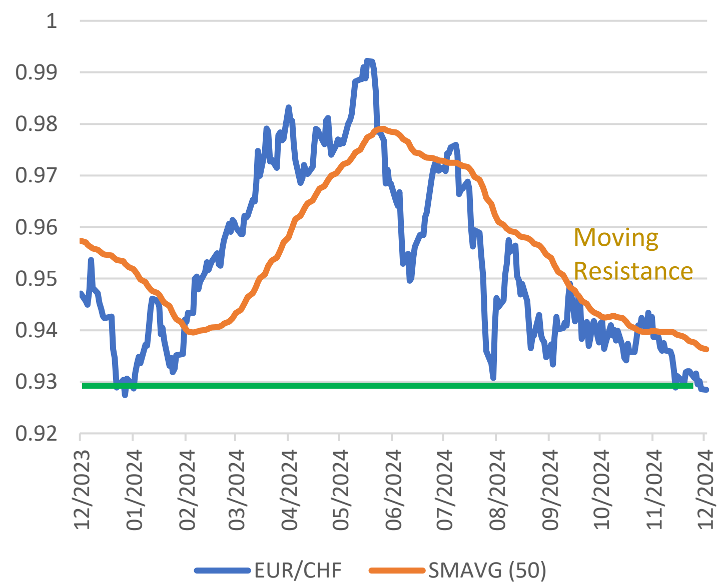
Finally, gold prices have stabilized as investors await clearer signals about future U.S. interest rate policies. The precious metal remains robust amid global geopolitical tensions, which continue to drive safe-haven demand. However, the dollar's ongoing strength could weigh on gold prices, limiting any significant upward momentum.

The Downward Trend For EUR/USD Could Continue



Source : Bloomberg

Will The EUR/CHF Broke the 2023 Support ?



Source : Bloomberg

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