

Capital Markets Strategy

Essential insights for the C-Suite



TRUMP

The Trump Trade

A Closer Look at Market Reaction to the US Election

NOV 2024

The Macro Backdrop for Trump 1.0 vs. 2.0

As one considers that path ahead for the so called "Trump trade", it will be important to consider the sharply higher US debt metrics and risk-asset valuations of today's market as compared to eight years ago.

	Two weeks after 2016 election	Two weeks after 2024 election
US GOV'T DEBT METRICS		
US gov debt / GDP	102%	119%
US Treasuries outstanding	\$14 tn	\$26 tn
US RATES		
Fed policy rate	0.50%	4.75%
2 year UST	1.09%	4.25%
10 year UST	2.31%	4.37%
USD CREDIT		
IG OAS	130 bps	77 bps
HY OAS	463 bps	268 bps

	Two weeks after 2016 election	Two weeks after 2024 election
US EQUITY MARKETS		
S&P 500 index	2,203	5,894
S&P 500 prior 12 month returns	+8%	+32%
S&P 500 forward P/E multiple	17.1x	22.2x
ENERGY PRICES		
Oil (WTI)	\$48	\$69
Natural Gas (Henry Hub)	\$2.98	\$2.96
CURRENCY MARKETS		
USD index	101.0	106.2
EUR / USD	1.06	1.06
USD / JPY	111.1	154.0
USD / CNY	6.89	7.24

Source: Bloomberg. Data as of November 12, 2024. 2016 is November 22, 2016 and 2024 is November 19, 2024. S&P 500 P/E multiple is FactSet.

Contents

1

Rates &
Credit
Markets

2

Equity
Markets

3

Currency
Markets

4

Energy
Markets

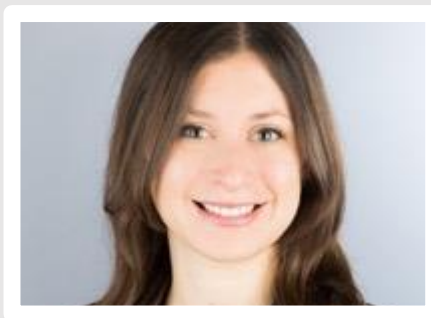
Global Corporate & Investment Bank Capital Markets Strategy Team



Tom Joyce

Managing Director
Capital Markets Strategist
New York, NY

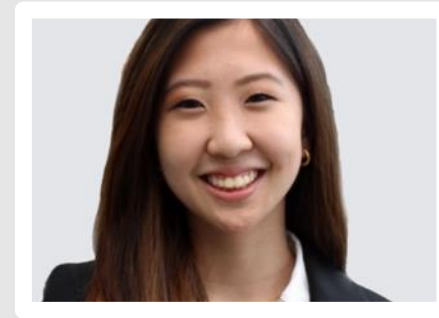
Tom.Joyce@mufgsecurities.com
(212) 405-7472



Stephanie Kendal

Vice President
Capital Markets Strategist
New York, NY

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

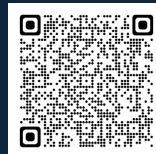


Angela Sun

Analyst
Capital Markets Strategist
New York, NY

Angela.Sun@mufgsecurities.com
(212) 405-6952

AUTHORS



Click or scan to view our
website and access past reports,
policy notes and more.

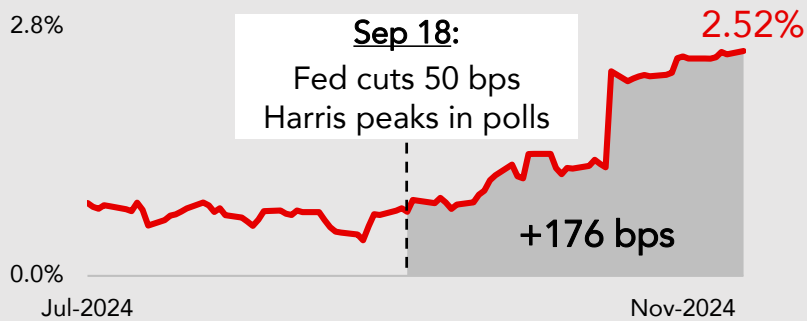
1. Rates & Credit Markets



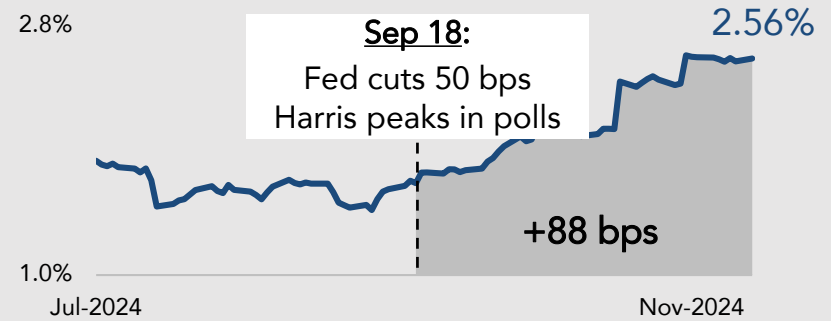
The Trump Trade: Higher Inflation Breakevens

Even as inflation has fallen precipitously over the last two years, rising inflation breakevens suggest investors are on edge about “expected” US inflation. Numerous factors contributing to this uncertainty include: (1) stickiness in core and services inflation; (2) President-elect Trump’s policy positions (fiscal, trade, immigration); (3) the Fed’s pivot to easing; and (4) potential challenges to Fed policy independence.

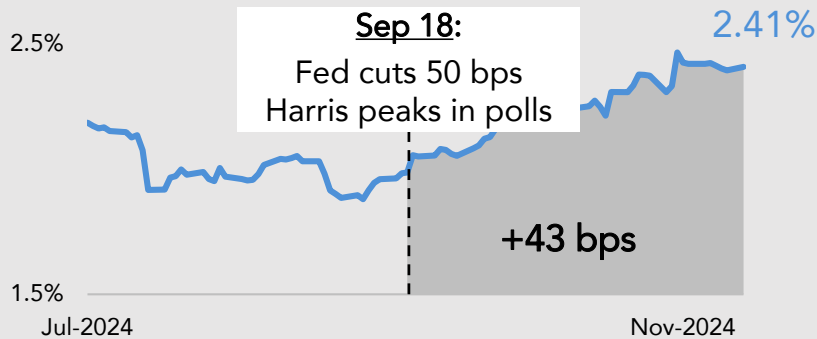
1 year US breakeven inflation



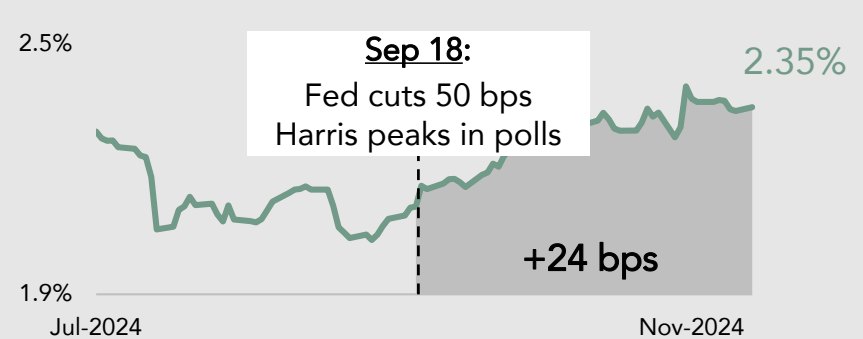
2 year US breakeven inflation



5 year US breakeven inflation



10 year US breakeven inflation



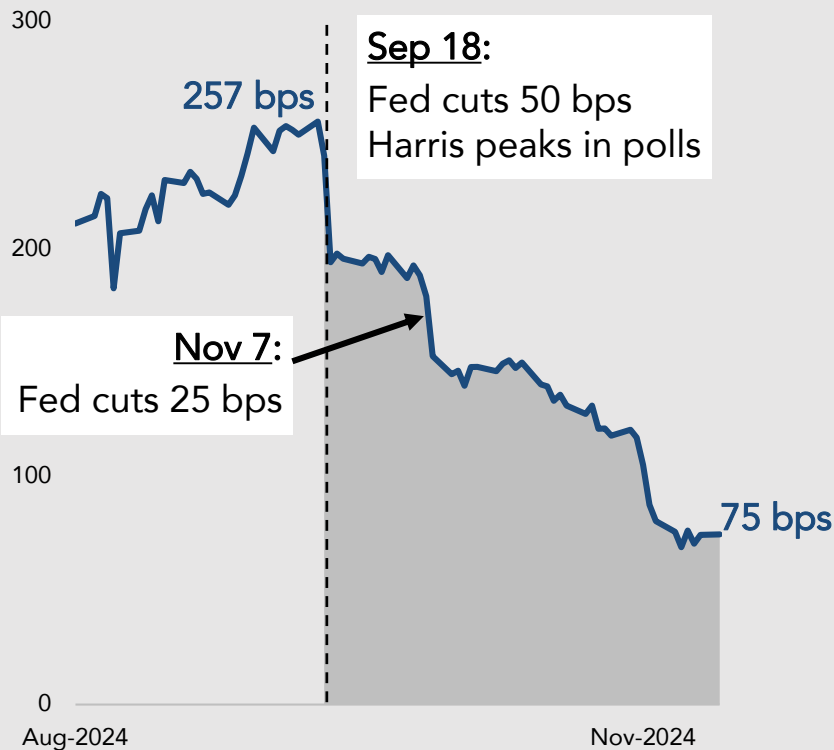
Source: (1-4) Bloomberg. Data as of November 18, 2024.



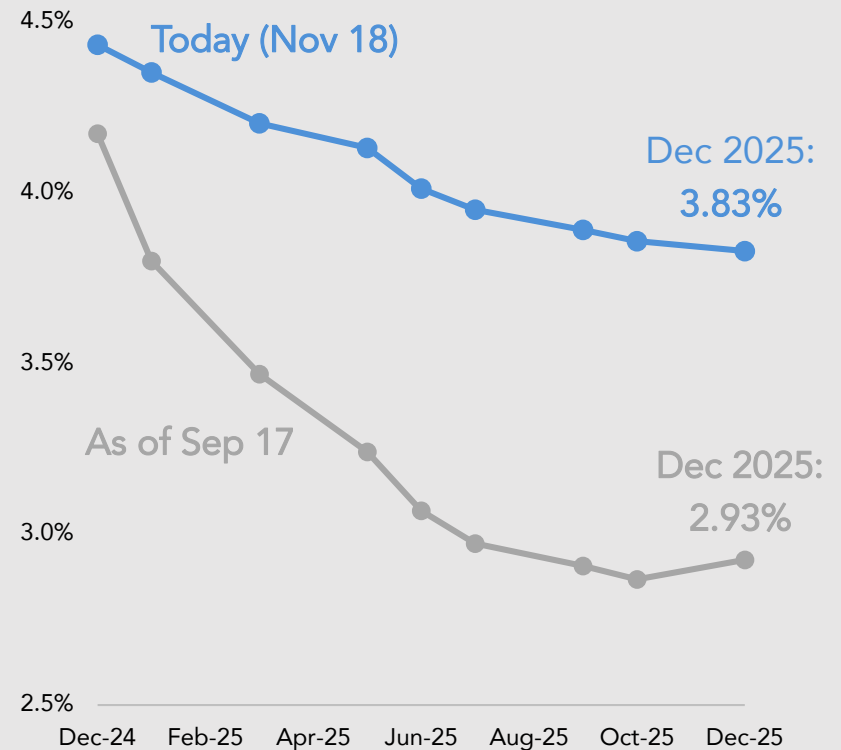
The Trump Trade: More Shallow Fed Easing Path

Over the course of 2024, markets have dramatically repriced expectations for Fed policy in the year ahead. After a 50 bps rate cut at the September FOMC meeting, and a 25 bps rate cut at the November meeting, the market is pricing a 60% probability of one more 25 bps rate cut by year end 2024 and 75 bps of easing over the next 12 months. Notably, the market has very quickly become “more dovish” than Fed forecasts for policy easing.

Market implied cumulative bps of Fed easing by Dec 2025



Marked implied Fed Funds rate (Sep 17 vs. today)



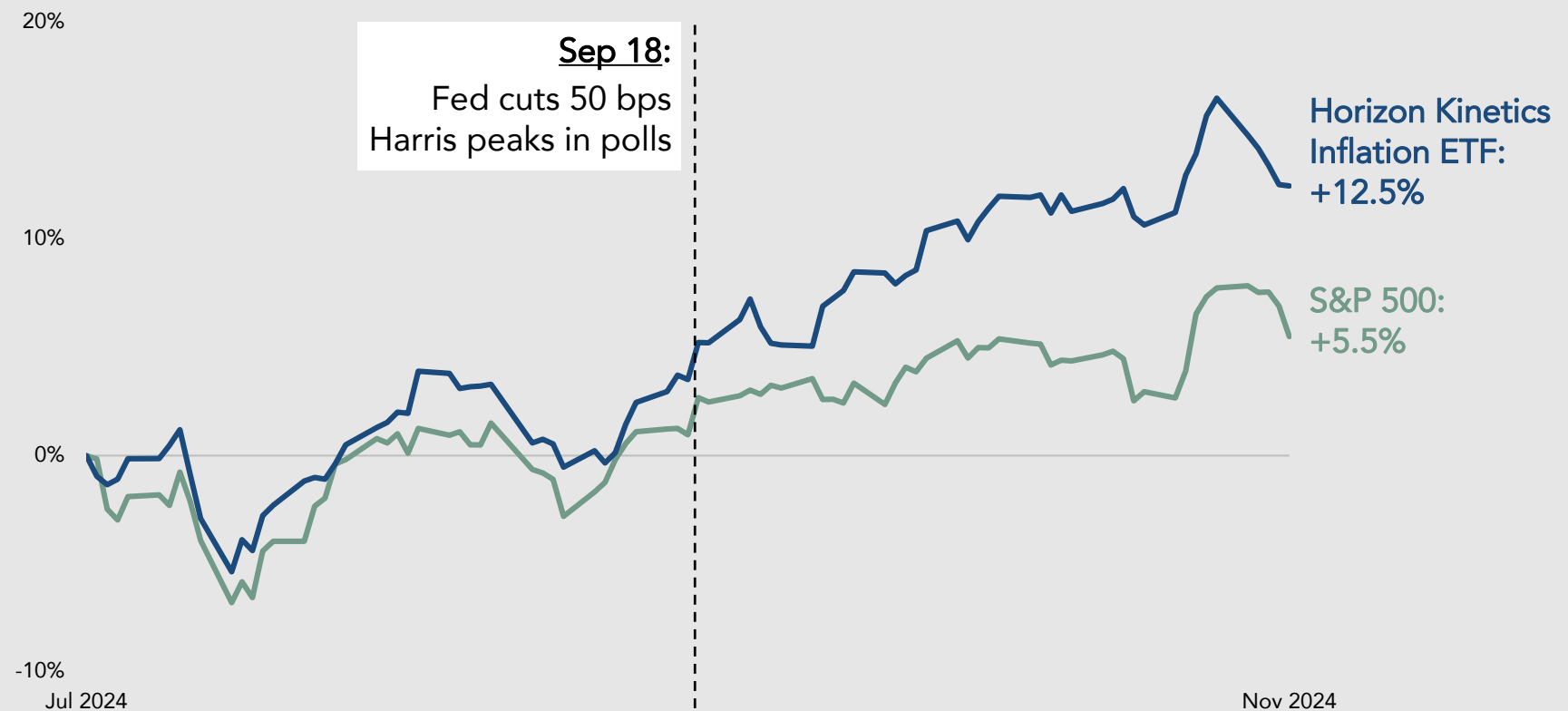
Source: (1) Bloomberg. Data as of November 18, 2024.

The Trump Trade: Companies Benefitting from Inflation Outperforming



The bond market is not the only market priced for higher inflation expectations. In equity markets, companies that benefit from rising prices have also been outperforming the broader S&P 500 index since Trump began to close the gap in US polls in late September.

S&P 500 vs. Horizon Kinetics Inflation ETF performance since July 21



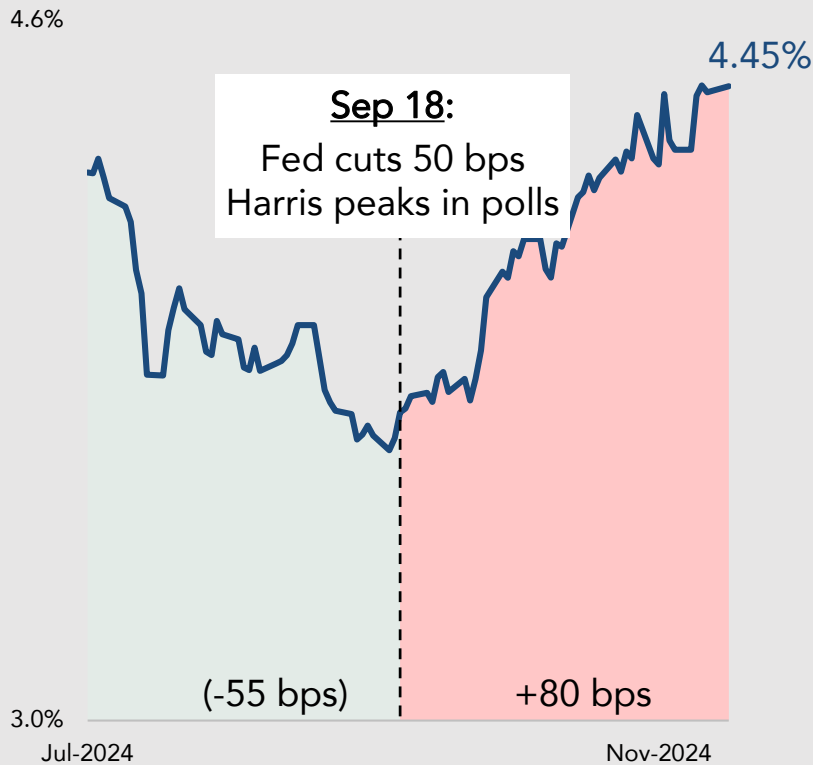
Source: (1) Bloomberg. Data as of November 18, 2024. Horizon Kinetics Inflation ETF fund is actively managed and seeks to achieve its investment objective by investing primarily in companies that are expected to benefit, either directly or indirectly, from inflation.



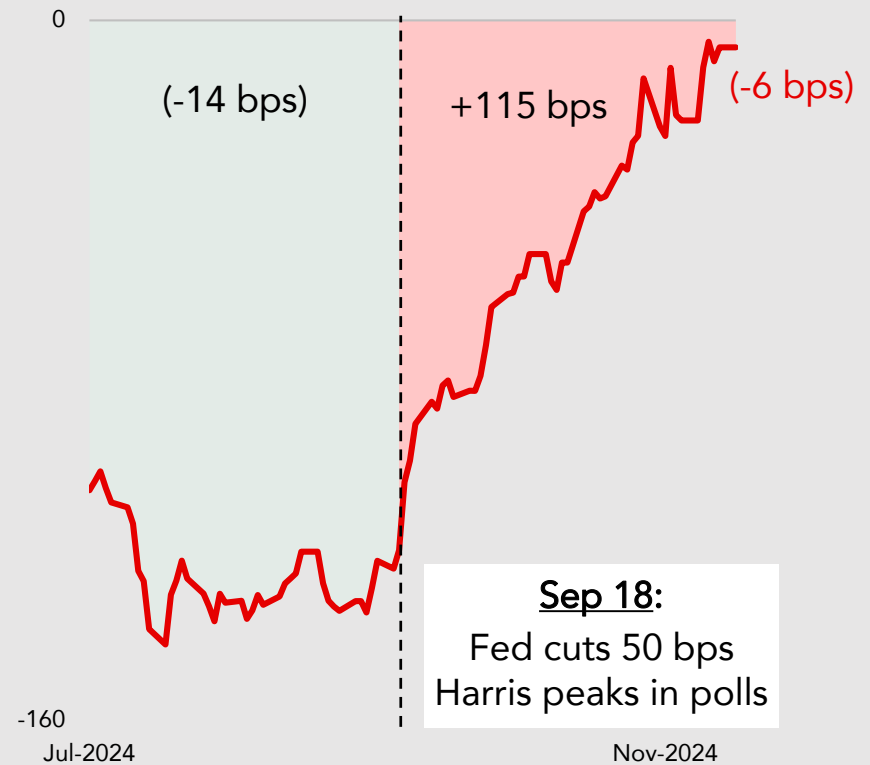
The Trump Trade: Yield Curve Steepening

Since Trump began to tighten the gap in polls in late September, the UST yield curve has steepened in anticipation of more expansionary fiscal policy led by tax cuts and increased spending. Specifically, it is very unusual for 10 years rates to rise 80 bps in the first two months of a Fed easing cycle.

10 year UST



10 year - 3 month UST spread



Source: (1-2) Bloomberg. Data as of November 18, 2024.

The Trump Trade: New Highs for MMF Flows

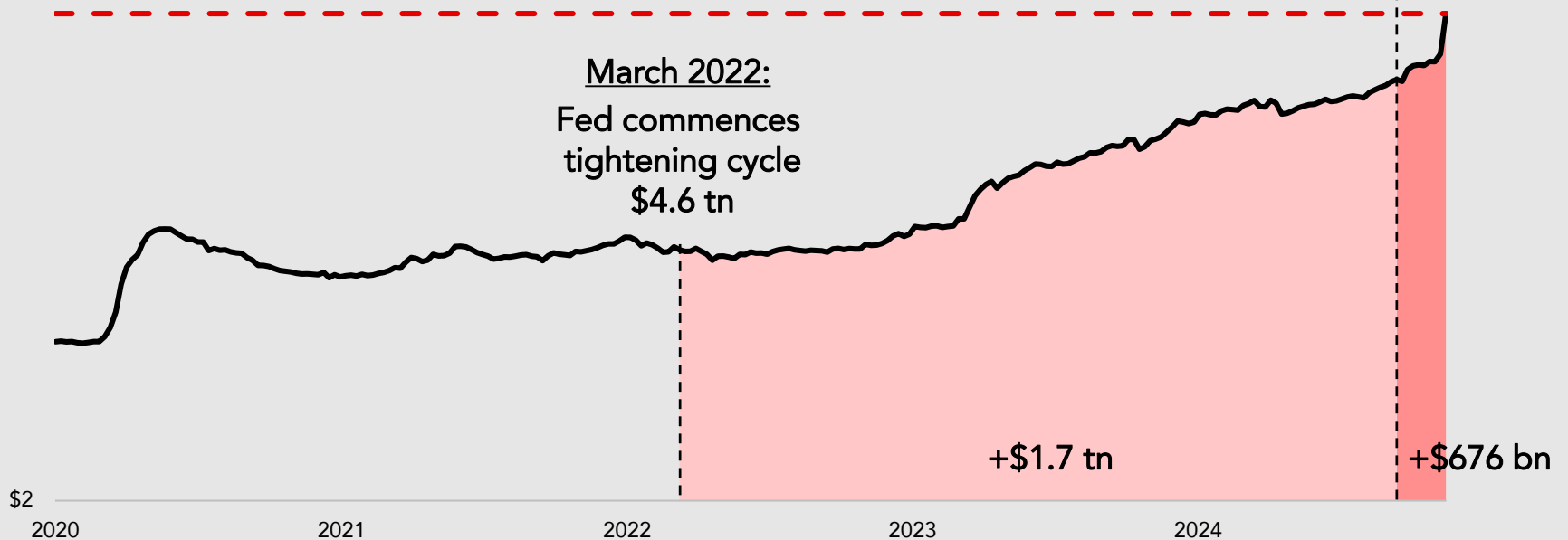


For the first time on record, USD money market fund (MMF) balances have risen above the \$7 trillion threshold. Since Harris peaked in the polls on September 18th, nearly \$700 billion has flowed into USD money market funds (MMFs), even as the Fed has pivoted toward policy easing. As UST yields move higher with rising expectations of US fiscal expansion, demand for MMFs has increased accordingly.

US money market funds total assets, USD tn

\$8

\$ 7.0 tn threshold



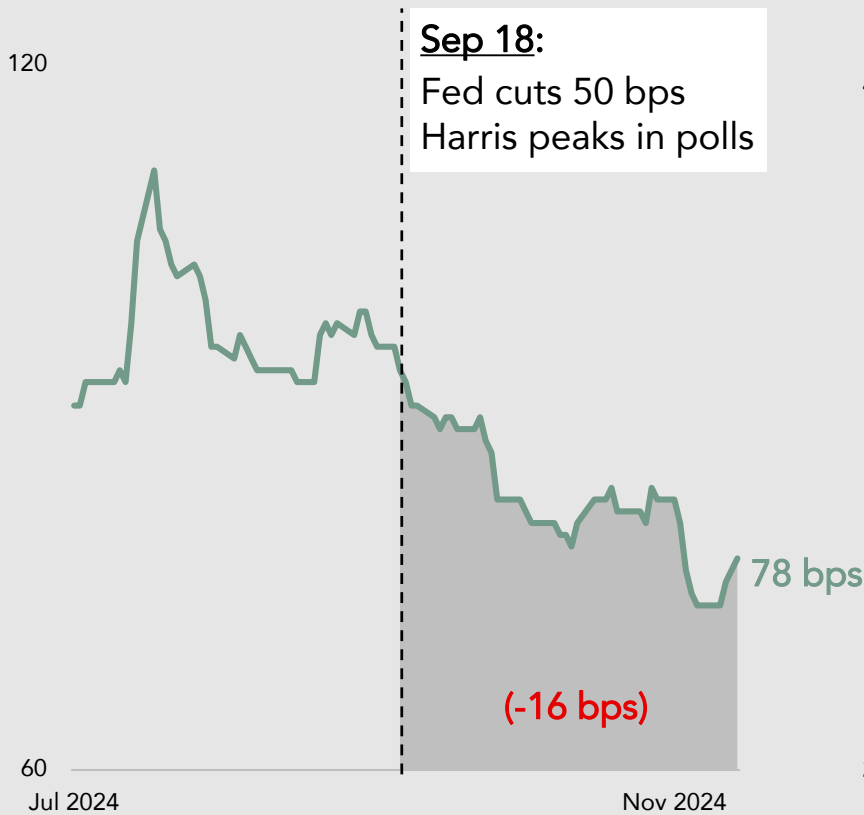
Source: (1) Bloomberg. Data as of November 18, 2024.

The Trump Trade: IG & HY Credit Spreads Tighten

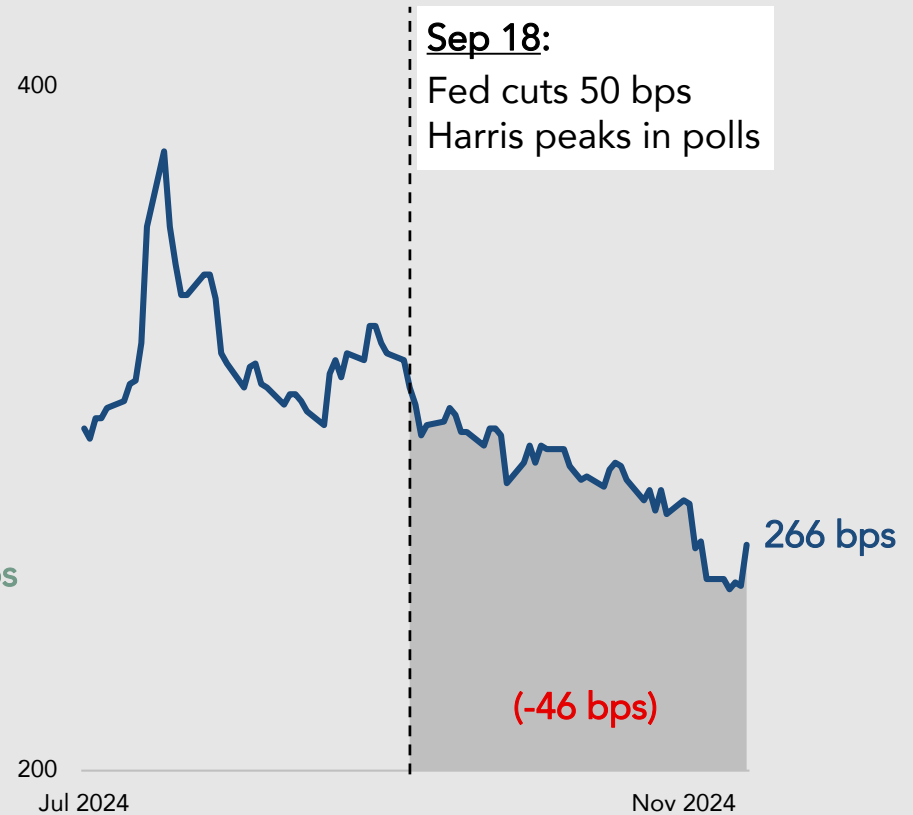


Corporate credit will benefit from higher earnings driven by tax cut extensions and deregulation. USD IG and HY credit are well below long term averages, at their tightest levels since 1998 and 2007, respectively.

USD IG OAS since July 21



USD HY OAS since July 21



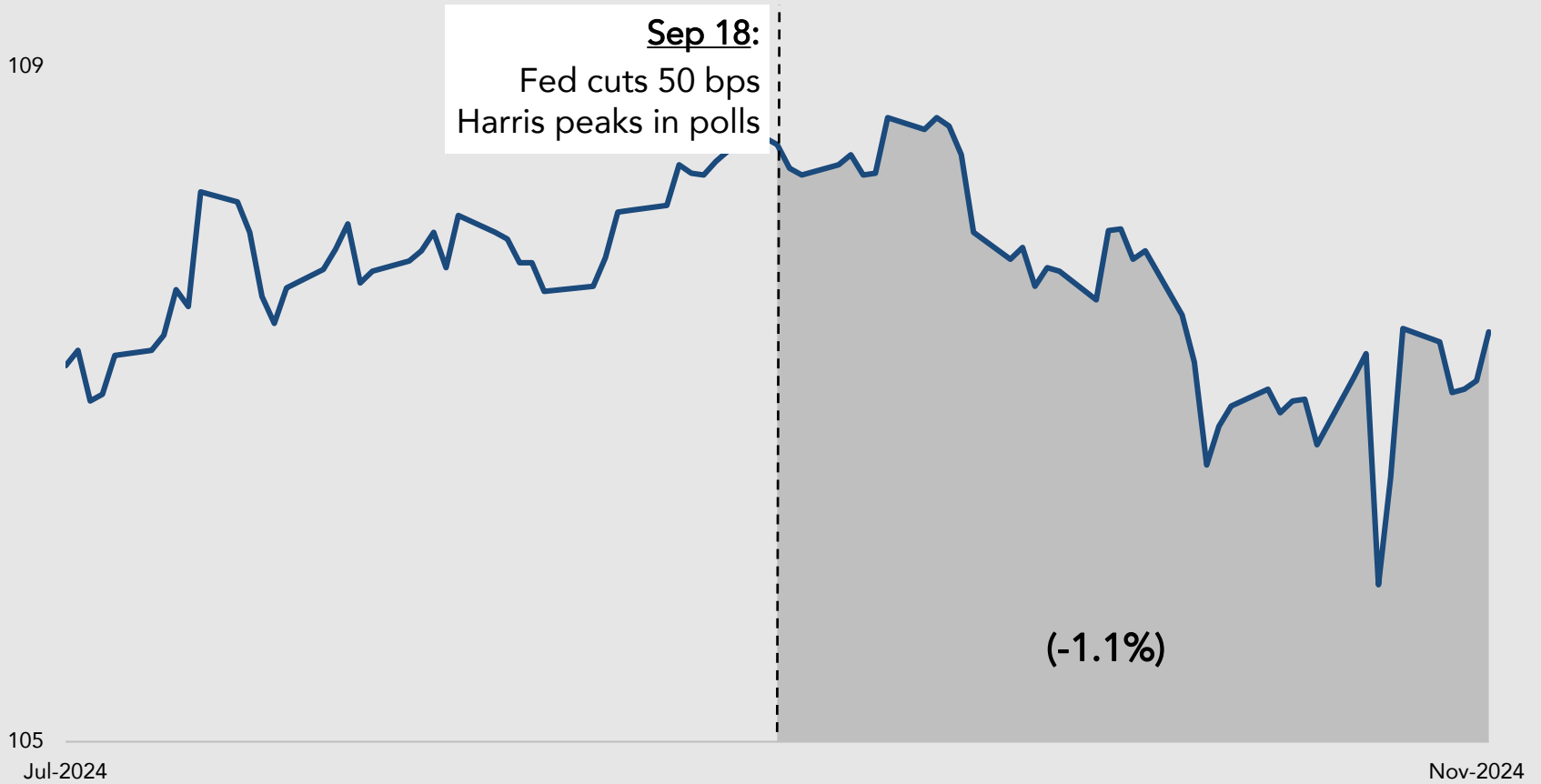
Source: (1-2) Bloomberg. Data as of November 18, 2024.

The Trump Trade: Muni Bonds Less Attractive



The combination of lower taxes, higher deficits and potentially higher inflation make muni bonds less attractive in the eyes of investors.

iShares national muni bond ETF since July 21



Source: (1) Bloomberg. Data as of November 18, 2024.

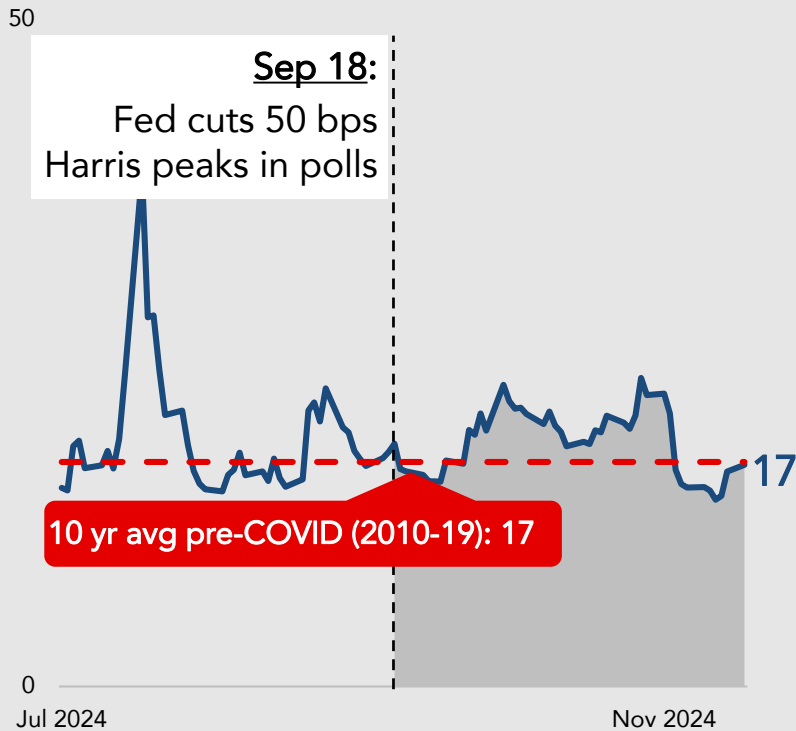
2. Equity Markets

The Trump Trade: Volatility Divergence

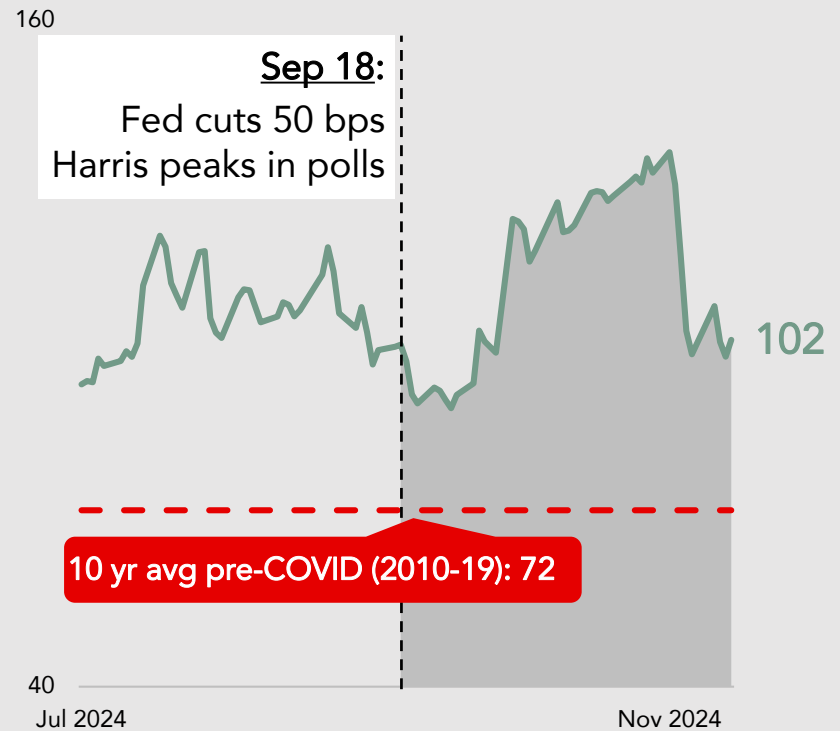


Add volatility divergence to the growing list of “Trump trades” which include a stronger Dollar, higher rates, bank stocks, US equities and crypto-currencies. With the 2017-18 playbook in mind (tax cuts, higher S&P 500 earnings and stock buybacks), rising US stocks have driven equity volatility (VIX) lower. At the same time, rate volatility has remained elevated as a “Republican sweep” increases the scale of multi-trillion US fiscal expansion, and related inflation / rate-path uncertainty.

Equity volatility (VIX) since July 21



Rate volatility (MOVE) since July 21



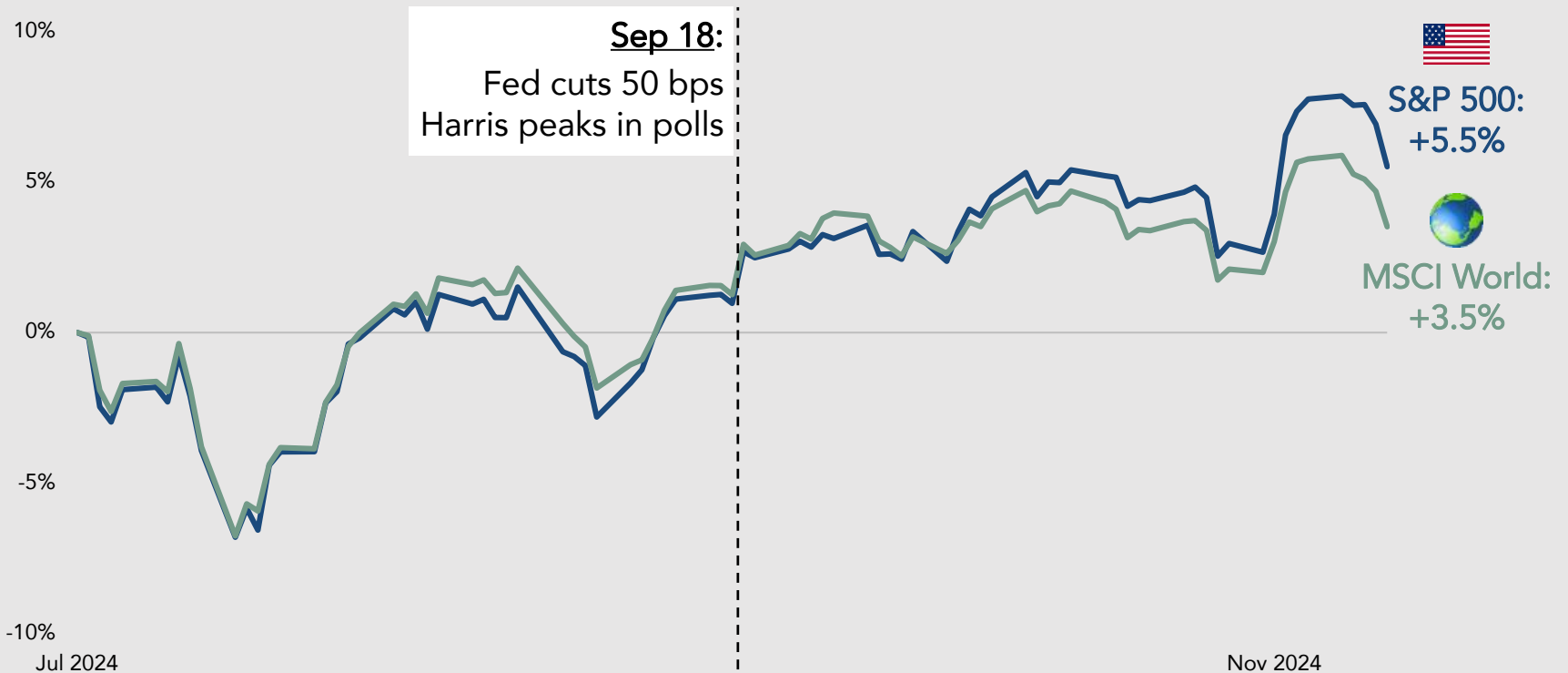
Source: (1-2) Bloomberg. Data as of November 18, 2024.

The Trump Trade: US Stocks Outperform Global Stocks



Following the US election, the S&P 500 crossed the 6,000 threshold for the first time, has set more than 50 new records YTD and is on track for its strongest YTD performance in 30 years (since 1995). One of the primary tenets of the so called "Trump trade" is that US stocks outperform global stocks as a result of: (1) the short term positive impact for equities of larger tax cuts passing through to earnings; and (2) the greater relative resilience of the US economy to "trade wars".

S&P 500 vs. MSCI World since July 21



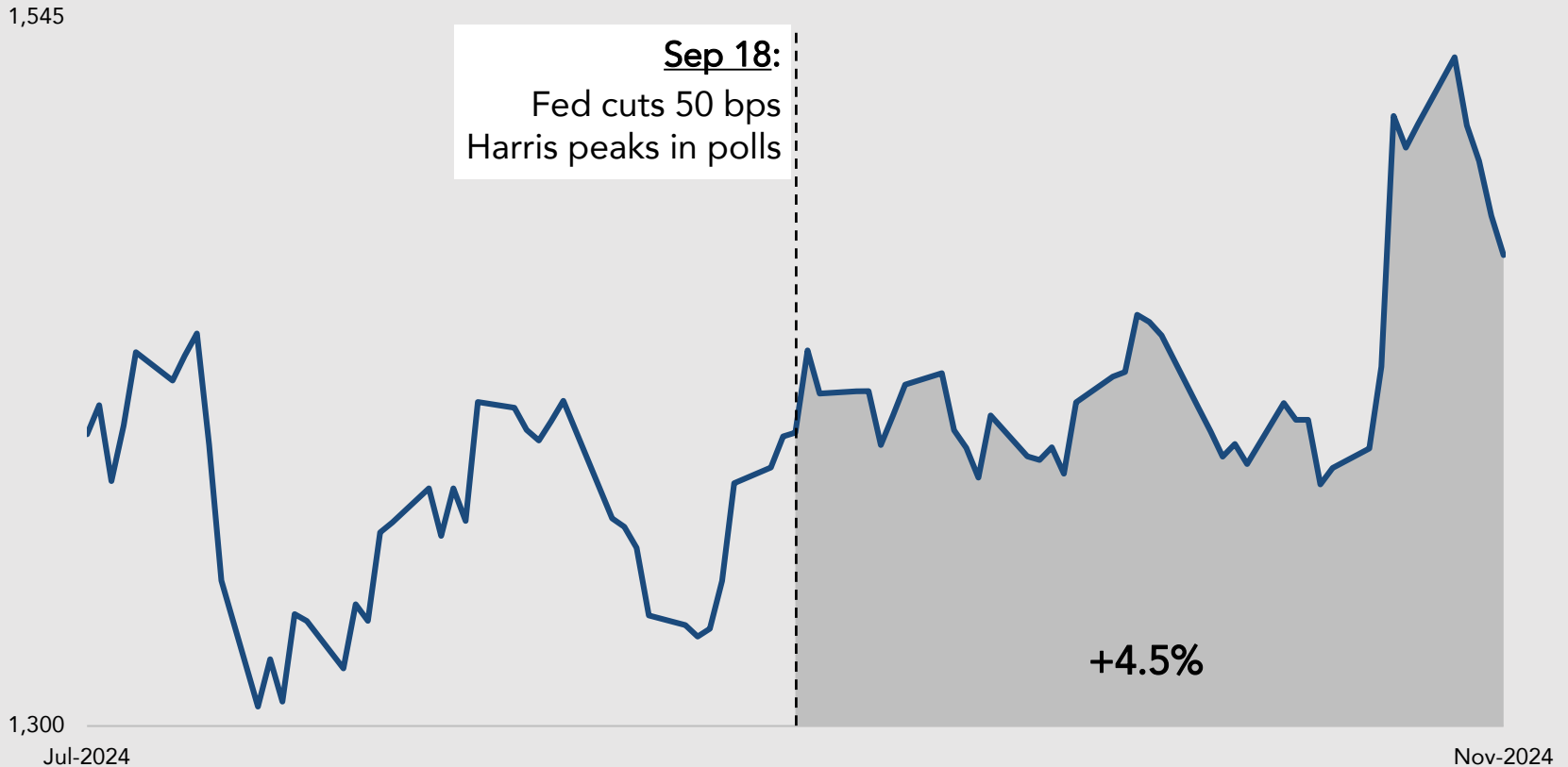
Source: (1) Bloomberg. Data as of November 18, 2024.

The Trump Trade: Small Cap Stocks Rally



President Trump's "America First" domestic policy bias, and the prospect of more expansive tax cut extensions, have precipitated a strong rally in more US dominated small cap indices.

S&P small cap 600 index since July 21



Source: (1) Bloomberg. Data as of November 18, 2024.

The Trump Trade: Bank Sector Deregulation

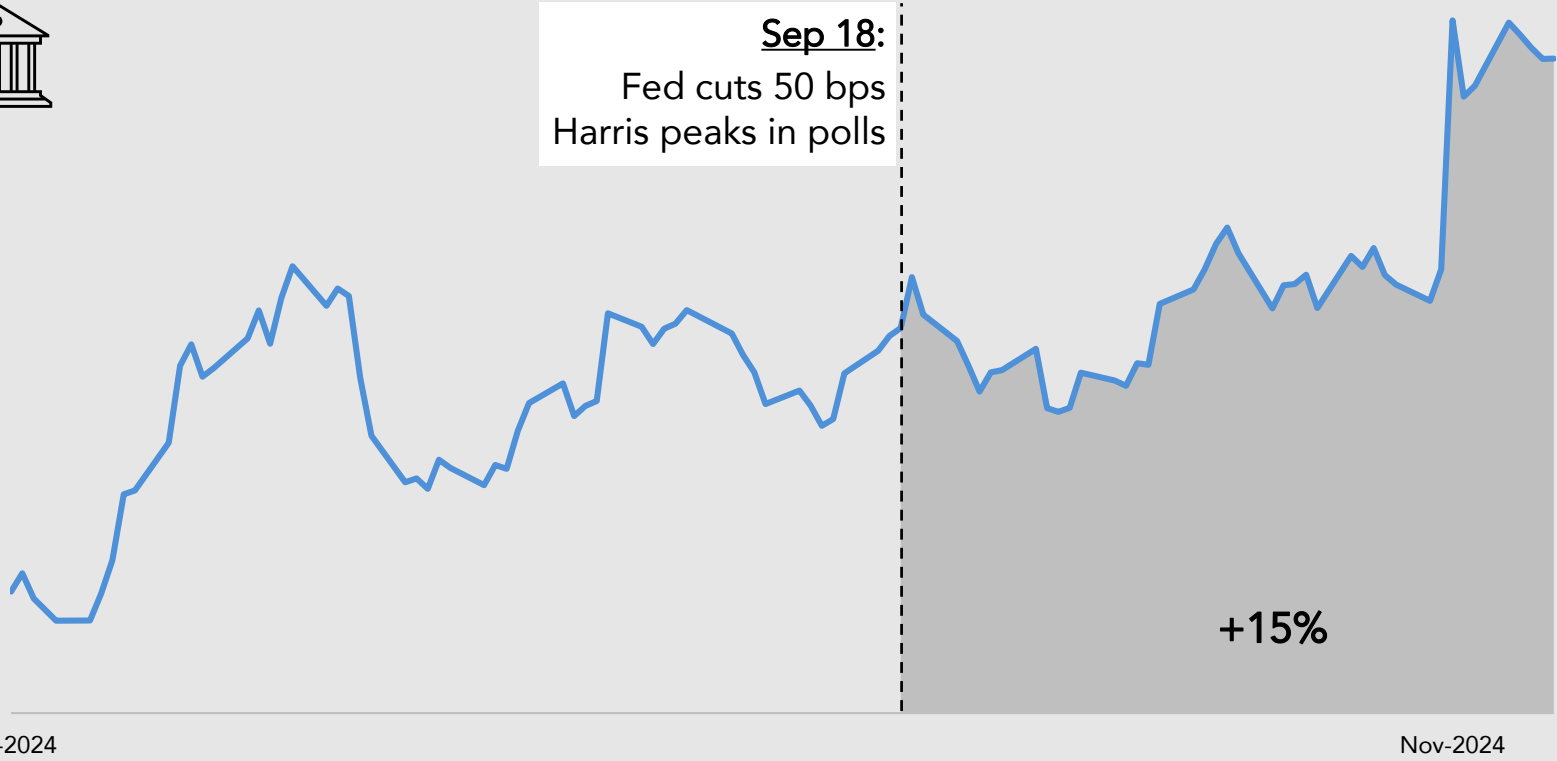


The S&P Regional Bank KRE ETF gained 13.4% the day after the US election (Nov 6th), its 5th best daily performance since inception on June 6th, 2006 (4,627 days). Regional banks, in particular, are expected to benefit from the combination of lower taxes and regulatory policy easing (executive orders, political appointments) in Trump's second term.

S&P Regional Bank KRE ETF since July 21



Sep 18:
Fed cuts 50 bps
Harris peaks in polls



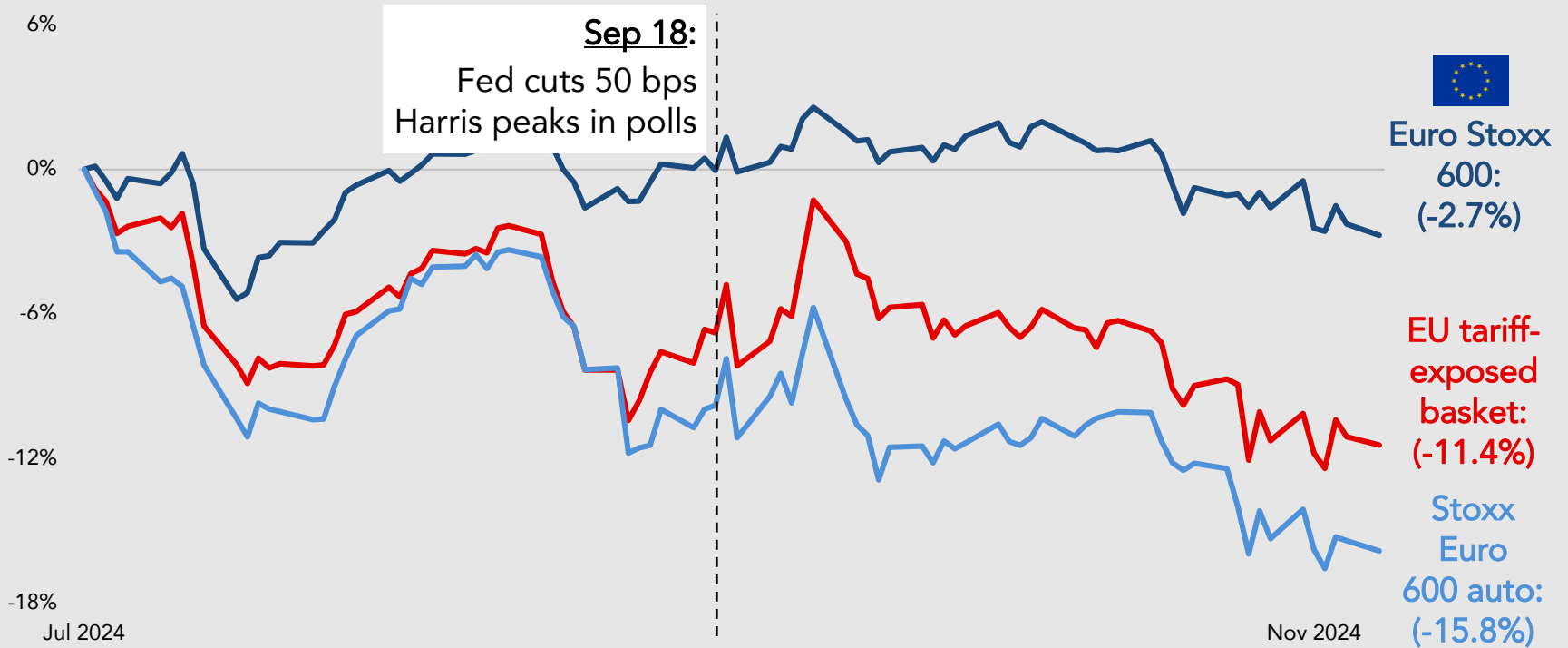
Source: (1) Bloomberg. Data as of November 18, 2024.



The Trump Trade: Tariff Exposed Stocks Vulnerable

European export sensitive stocks, led by auto and luxury goods companies, have sharply underperformed broader indices as the probability of a “Trump trade war” has ebbed and flowed in recent months. Notably, we would expect a potential Trump trade war to impact allies and adversaries alike, as it did in 2018-19. Europe would be particularly vulnerable given the exposure of its economy to global trade, global growth and China.

Euro Stoxx 600 vs. European tariff-exposed basket vs. Stoxx Euro 600 auto since July 21



Source: (1) Bloomberg. Data as of November 18, 2024. EU tariff-exposed basket is GS EU Tariffs Exposed. Includes European companies expected to be negatively impacted by the implementation of tariffs on US imports.

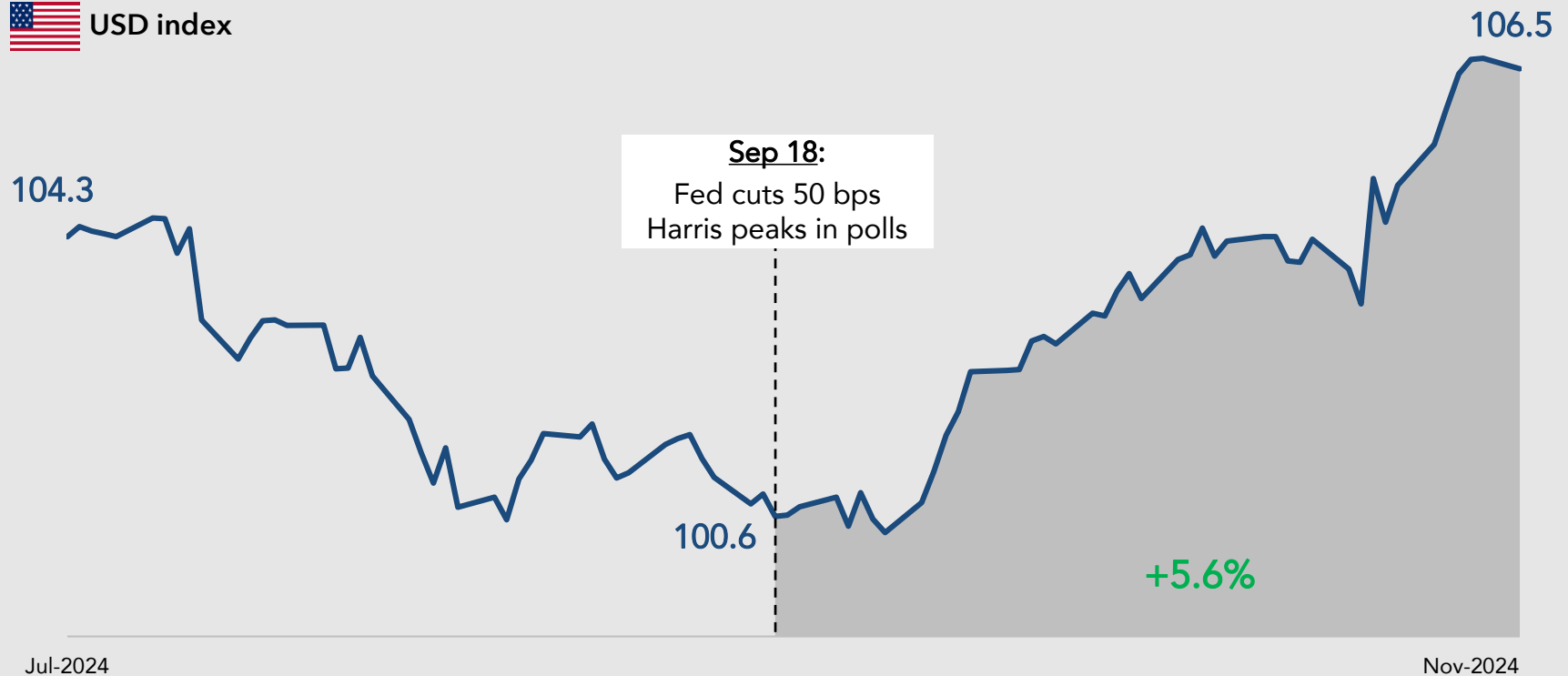
3. Currency Markets

The Trump Trade: USD Strengthening



Since Trump's gap in the polls began to tighten in late September, the Dollar has strengthened on the prospect of pro-growth fiscal expansion, upward inflation pressure and the prospect of a "Trump Trade War 2.0." As evident in 2018-19, the Trump trade was precipitate USD strengthening by virtue of: (1) safe-haven flows; (2) upward pressure on US inflation; (3) higher resilience of less export dependent US economy; and (4) global central bank policy pivots in response to the US tariffs (rate cuts, currency depreciation).

 USD index



Source: (1) Bloomberg. Data as of November 18, 2024.

The Trump Trade: USD Strengthening



 Mexican Peso vs. USD

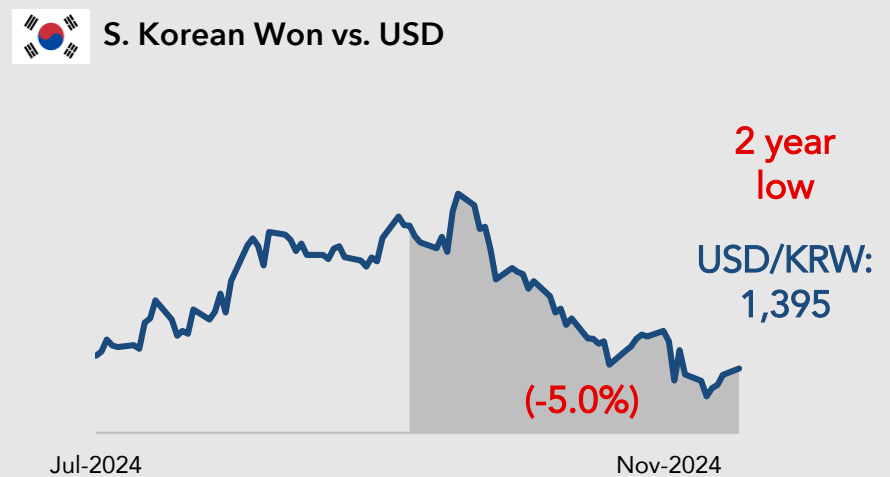
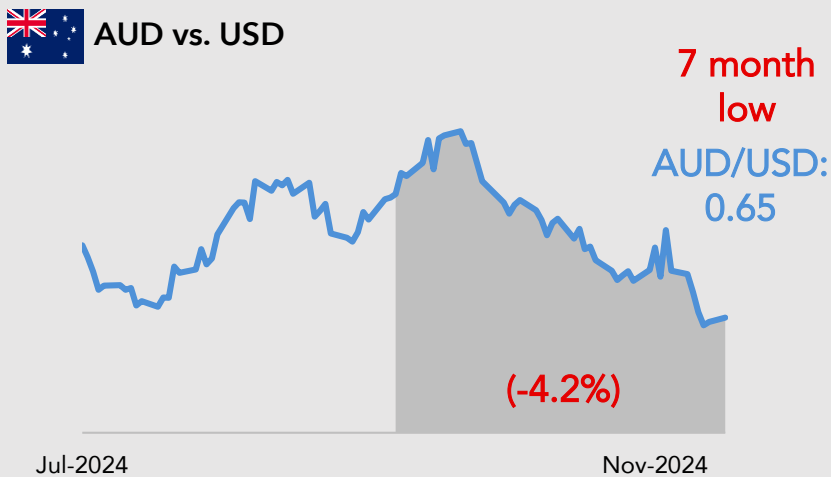
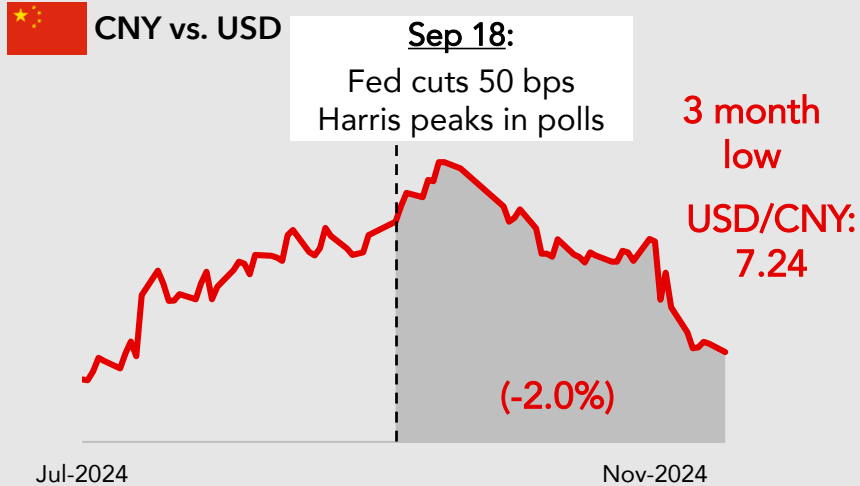


 CAD vs. USD



Source: (1-2) Bloomberg. Data as of November 18, 2024. All currencies graphed vs. USD to show depreciation.

The Trump Trade: USD Strengthening



Source: (1-4) Bloomberg. Data as of November 18, 2024. All currencies graphed vs. USD to show depreciation.

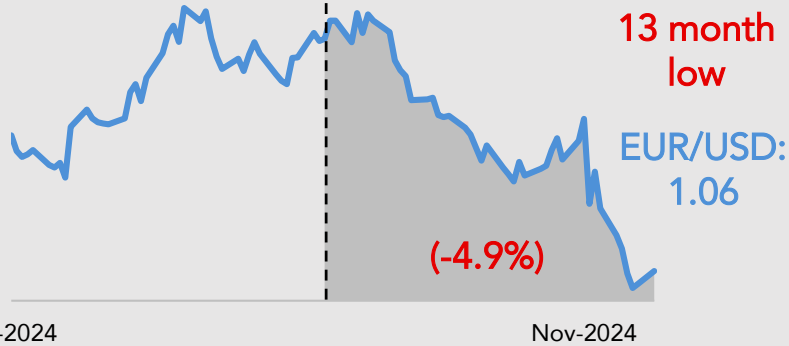
The Trump Trade: USD Strengthening



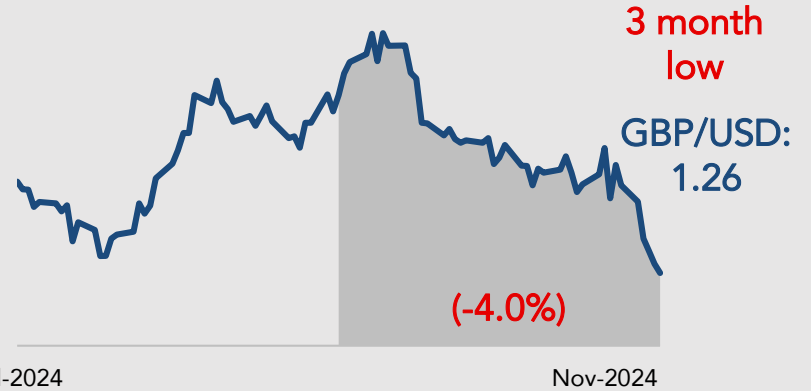
Euro vs. USD

Sep 18:

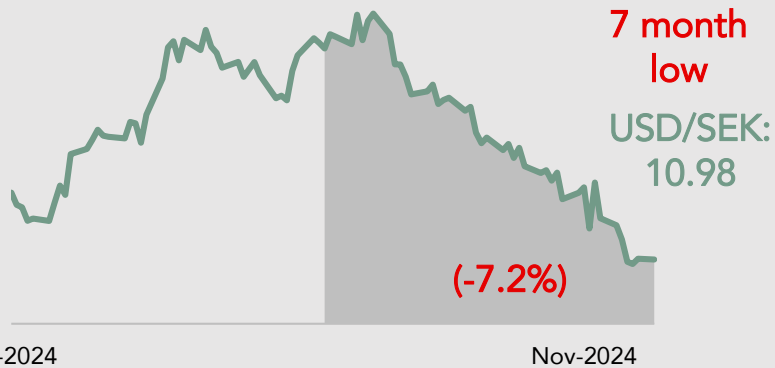
Fed cuts 50 bps
Harris peaks in polls



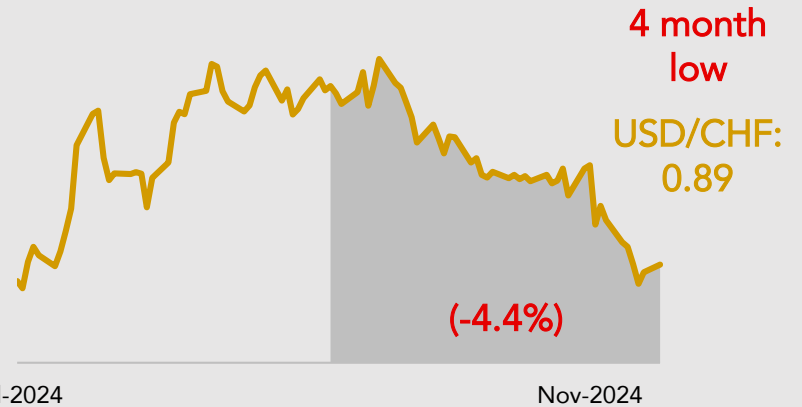
GBP vs. USD



SEK vs. USD



CHF vs. USD



Source: (1-4) Bloomberg. Data as of November 18, 2024. All currencies graphed vs. USD to show depreciation.

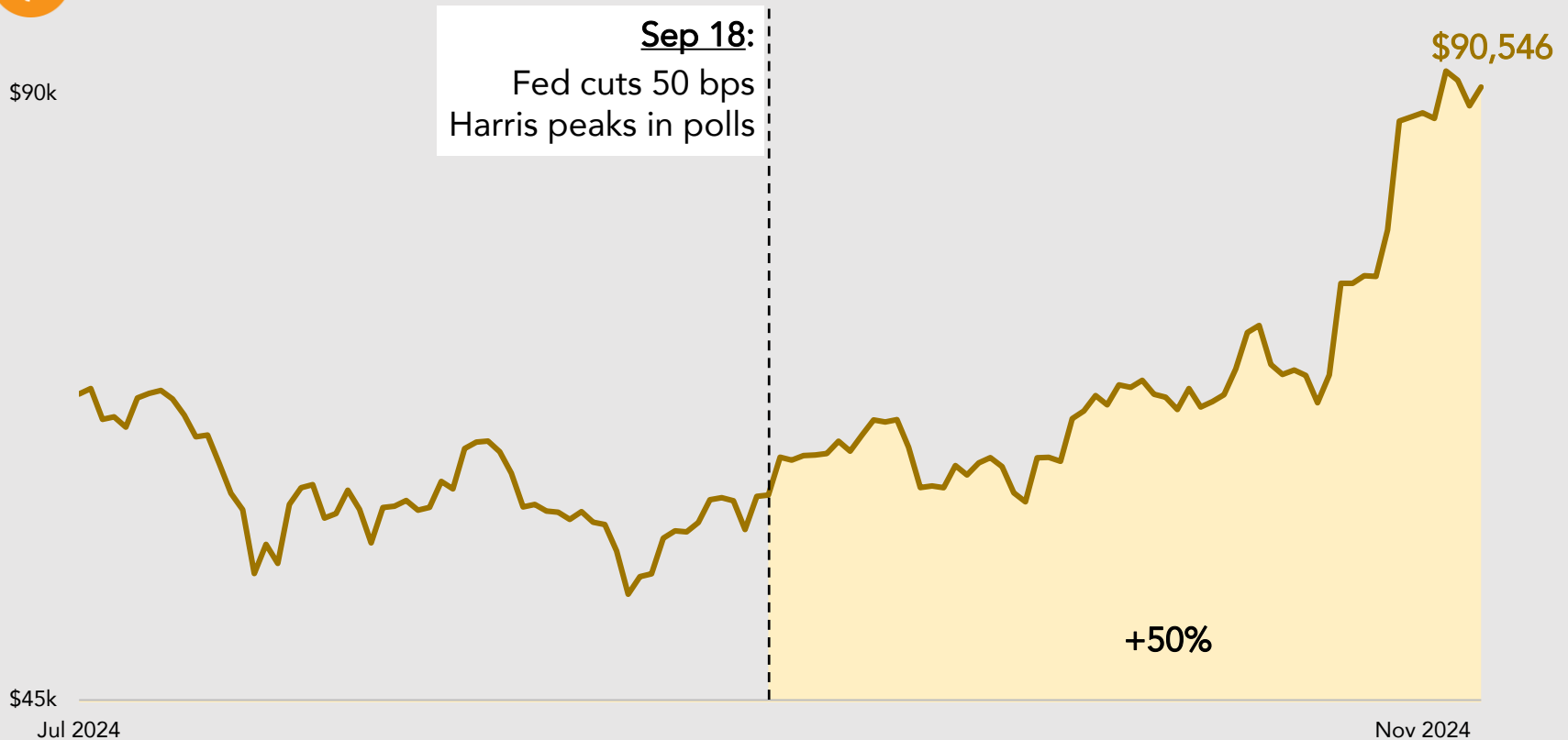
The Trump Trade: Digital Currency Leadership



Bitcoin rose nearly 10% in one day following President Trump's election victory, setting a new price threshold above \$90,000. President Trump has said that he wants to make the US the new "crypto capital of the planet" as well as establish a new strategic Bitcoin reserve.



Bitcoin since July 21



Source: (1) Bloomberg. Data as of November 18, 2024.

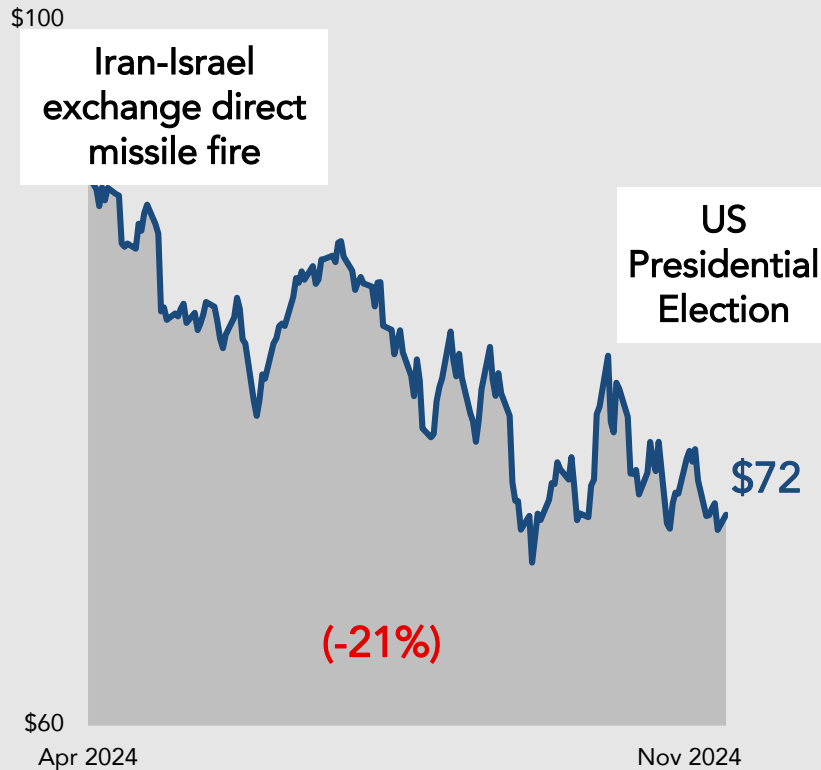
4. Energy Markets

The Trump Trade: Bearish Crude Oil

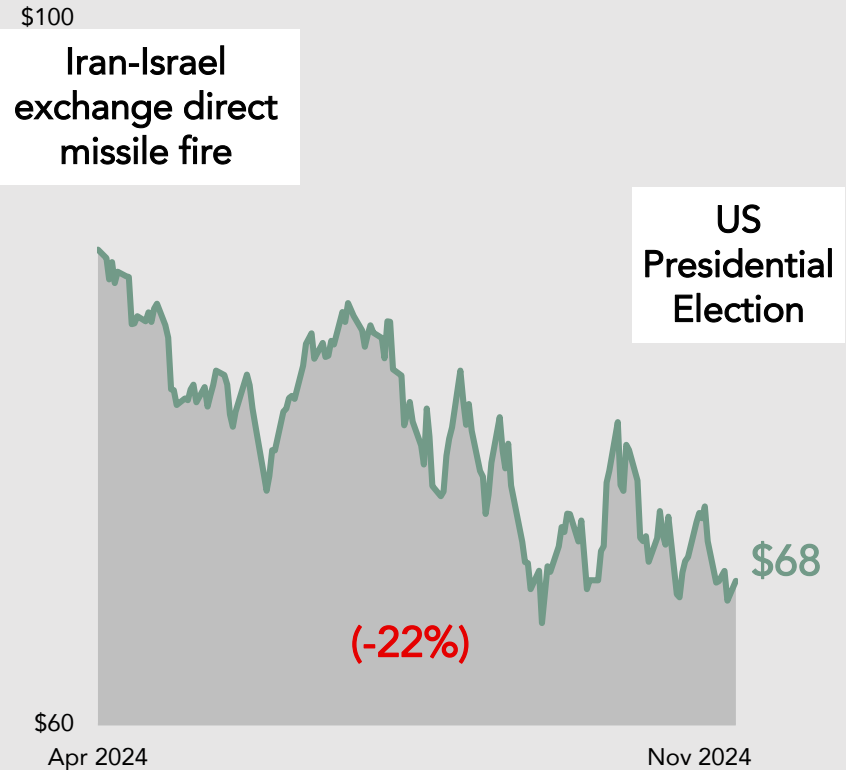


US energy production is ultimately determined by private company decision-making based on an assessment of supply and demand price impact. Nonetheless, President-elect Trump's policy positions are directionally bearish for oil and gas by virtue of facilitating increased production, and potentially exerting downward pressure on demand through trade and China policy.

 Brent since April 5, 2024



 WTI since April 5, 2024



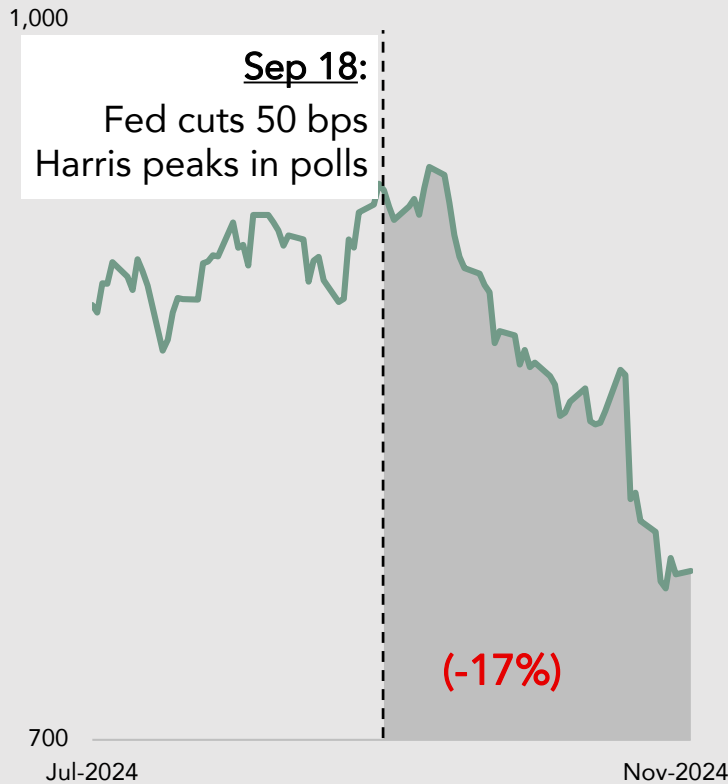
Source: (1-2) Bloomberg. Data as of November 18, 2024.



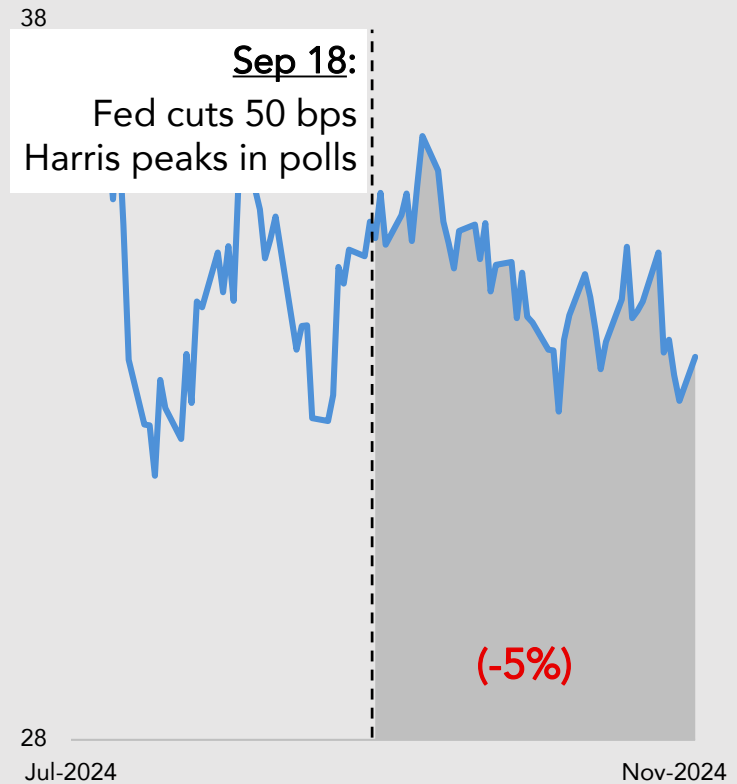
The Trump Trade: Higher Friction Path to Energy Transition

The Trump Administration will use executive orders, regulatory policy and tax policy to create a “higher friction” path for renewable energy. Nonetheless, given the role of Elon Musk in the Administration, as well as private and tech sector advancements, we expect a second Trump term to slow, not stop, the path to energy transition.

S&P global clean energy index since July 21



Nasdaq clean green energy index since July 21

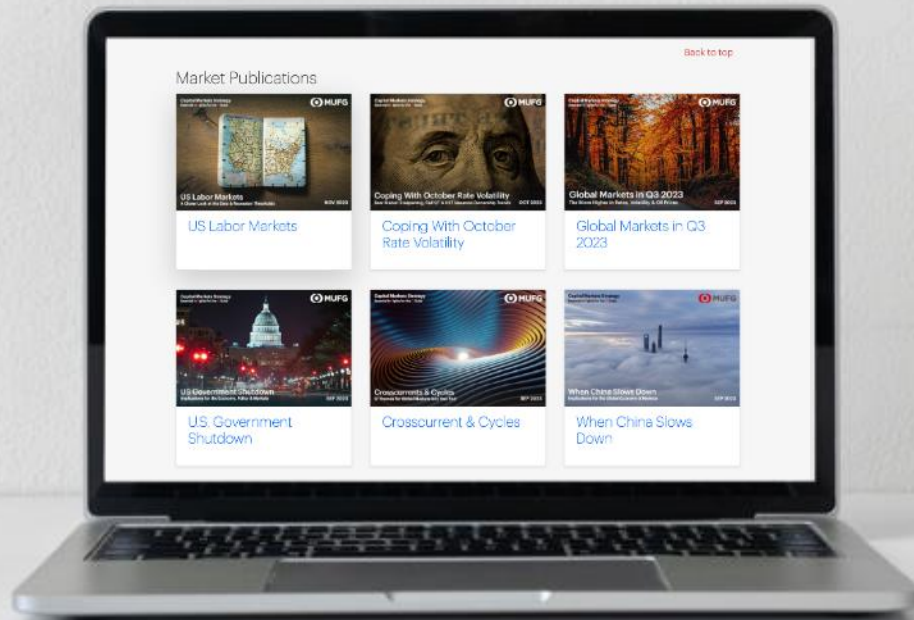


Source: (1-2) Bloomberg. Data as of November 19, 2024.



LEARN MORE

Click or scan the QR code to view past reports, policy notes and more.



About the Authors



Tom Joyce

Managing Director
Capital Markets Strategist
New York, NY

Tom.Joyce@mufgsecurities.com
(212) 405-7472

Role

Tom Joyce is a Managing Director and Capital Markets Strategist within MUFG's global capital markets and investment banking business. Based in New York, Tom heads a team that creates customized analytical content for multi-national S&P 500 companies. His team provides in depth analysis on the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Tom has over 30 years of Investment Banking experience in New York, London, Hong Kong, and San Francisco. Tom created and built the Capital Markets Strategy role, advising corporate C-Suite executives (Boards, CEOs, CFOs, and Treasurers) on the pervasive macro forces driving markets. Tom also presents at dozens of corporate events each year including Board meetings, CEO ExCo sessions, CFO and Treasury off-sites, corporate leadership events and conferences.

Education

Tom's educational background includes a year of study at Oxford University from 1991 - 1992, a Bachelor of Arts in Political Science from Holy Cross College in 1993, and a MBA from Kellogg Business School, Northwestern University in 2000.

Personal

Tom resides in New Canaan, CT with his wife and four sons, where he previously served on the Board of Trustees of the New Canaan Library. Tom also serves on the President's Council of Holy Cross College.

About the Authors



Stephanie Kendal

Vice President
Capital Markets Strategist
New York, NY

Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

Role

Stephanie Kendal is a Vice President in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Stephanie has spent nearly seven years as a Capital Markets Strategist. She is an active member of the University of Michigan recruiting team and is focused on the diversity recruiting effort at MUFG. Stephanie is also a part of MUFG's DEI, Culture & Philanthropy (DCP) Council.

Education

Stephanie graduated with honors from the University of Michigan's Ross School of Business with a BBA .

Personal

Stephanie is actively involved in NYC's iMentor program, mentoring high school students with their journey to college graduation. She also volunteers at Experience Camps, a free summer camp program for grieving children.



Angela Sun

Analyst
Capital Markets Strategist
New York, NY

Angela.Sun@mufgsecurities.com
(212) 405-6952

Role

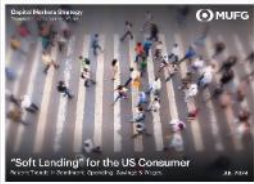
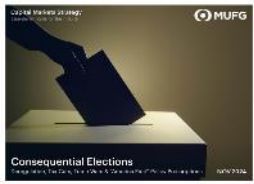
Angela Sun is an Analyst in MUFG's Capital Markets Strategy group within the global capital markets and investment banking business. The team provides market based content for corporate clients to assist in strategic decision making. Focus areas include the impact of economic, political, public policy and regulatory dynamics on the US credit, foreign exchange, rates and commodities markets.

Experience

Angela previously interned at MUFG working in Capital Markets within the Equity Capital Markets and Leveraged Finance divisions. She is also an active member of the Carnegie Mellon University recruiting team.

Education

Angela graduated with honors from Carnegie Mellon University's Tepper School of Business with a BS in Business Administration with an additional major in Statistics and a minor in Media Design. She was a member of Alpha Kappa Psi business fraternity and the Undergraduate Entrepreneurship Association.



Click or scan the QR code to view past reports, policy notes and more.



Disclaimer

The information herein provided is for information purposes only, and is not to be used or considered as investment research, a proposal or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by MUFG Bank, Ltd. ("MUFG Bank"), MUFG Securities Americas Inc. ("MUFG Securities"), or other MUFG Group Company (collectively, "MUFG") is or should be construed as investment advice, a recommendation or proposal to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFG. MUFG hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. MUFG is not acting and does not purport to act in any way as an advisor or in a fiduciary capacity.

Certain information contained in this presentation has been obtained or derived from third party sources and such information is believed to be correct and reliable but has not been independently verified. While MUFG believes that factual statements herein and any assumptions on which information herein are based, are in each case accurate, MUFG makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that MUFG may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and MUFG is under no obligation to ensure that such other reports are brought to your attention. Furthermore, the information may not be current due to, among other things, changes in the financial markets or economic environment and MUFG has no obligation to update any such information contained in this presentation. This presentation is not intended to forecast or predict future events. Past performance is not a guarantee or indication of future results. Any prices provided herein (other than those identified as being historical) are indicative only and do not represent firm quotes as to either price or size. This presentation has been prepared by members of our capital markets strategy team and does not necessarily represent the MUFG "house" view.

This presentation is proprietary to MUFG Securities and may not be quoted, circulated or otherwise referred to without our prior written consent. Notwithstanding this, MUFG Securities shall not be liable in any manner whatsoever for any consequences or loss (including but not limited to any direct, indirect or consequential loss, loss of profits and damages) arising from any reliance on or usage of this presentation and accepts no legal responsibility to any investor who directly or indirectly receives this material.

IRS Circular 230 Disclosure: MUFG Securities does not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with MUFG Securities of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

The MUFG logo and name is a service mark of Mitsubishi UFJ Financial Group, Inc., and may be used by it or other Group companies for branding or marketing purposes. Group companies include MUFG Bank, MUFG Americas Capital Leasing & Finance, LLC, Mitsubishi UFJ Trust and Banking Corporation, and MUFG Securities Americas Inc. Corporate or commercial lending or deposit activities are performed by banking affiliates of MUFG, including, in the United States, MUFG Bank.

FLOES™ is a service mark of MUFG Securities Americas Inc.

© 2024 Mitsubishi UFJ Financial Group Inc. All rights reserved.