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Preparing for Trump 2.0: Financial Implications of a Possible Return

Dear Investors,

In today's note, we explore the potential implications of another Trump presidency. We do not present our political views in this analysis. As investors, our focus is on understanding the current reality and evaluating its impact on the value of financial assets, rather than on how we think the world should be.

In the 2020 presidential race, around 74 million Americans voted for Donald Trump, representing approximately 47% of voters. This raises questions about why a significant portion of the electorate supports a candidate who has faced legal issues, including providing hush money to an adult film actress and being found liable in civil trials for serious allegations.

In our view, it's because the democratic-capitalist system in the US appears to be fraying. As central banks kept interest rates low and printed money for a decade, the price of financial assets (including housing) relative to incomes rose. These policies exacerbated the wealth divide in America to levels not seen since just before the Great Depression. As wealth distribution around the mean real income has significantly widened, the social deal or American dream has become harder to achieve for a large segment of society.

The impact of technology on society also appears to be changing. Previously, the inventions of electricity, household appliances, planes, computers, cars and developments in healthcare lifted the living standards of the middle class. Because of technology, the average wage-earning American had a better quality of life than John D Rockefeller. While there will always be winners and losers in a democratic-capitalist system, the average wage-earner experienced constant improvements in their standard of living. But the technologies of the future, namely AI, appear as if they will cause a greater dispersion of wealth and leave those without the appropriate skills behind.

The Industrial Revolution also caused a period of great dispersion in incomes and wealth. The inventions of that era allowed industrialists to reap substantial profits, while workers endured poor living conditions with limited social mobility. In the end, the wealth inequality led to the chopping of heads and popular sovereignty. This growing wealth inequality eventually led to widespread unrest and demands for change, culminating in revolutionary actions. The people sought and forcibly achieved greater popular sovereignty.

While we are far from the extreme inequality of the past and political power is more devolved than during the era of steam engines, we believe the fraying system is driving those left behind to seek change. The disparities, though less severe, are still significant enough to fuel demands for reform.

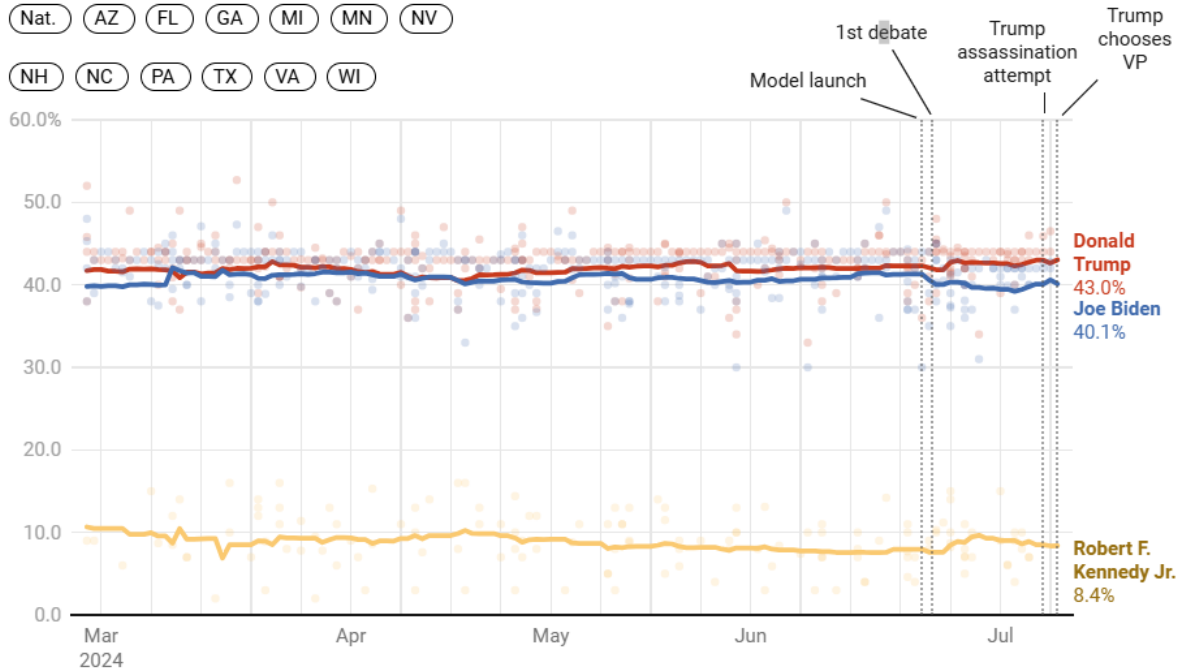
Current Status of the Election

After a disastrous showing at the first presidential debate, Biden is in trouble. It's becoming clear that Biden is too old for the job. Nate Silver, famed election forecaster, produces a tailored model that removes for biases in the data to improve accuracy. Below, as of 6 July, Silver's model shows that Biden is now well behind Trump:



Who's ahead in the polls?

An updating average of 2024 presidential general election polls, accounting for each poll's quality, sample size and recency. Click the buttons to see the polling average in different contests



Source: [Nate Silver](#)

Even more concerning for Biden is that he trails Trump in nearly all battleground states. This is crucial because, due to the American electoral college system, winning key swing states is more important than the overall popular vote. The electoral college allocates votes based on state victories, meaning a candidate can win the presidency by securing enough battleground states, even if they lose the national popular vote. Thus, Biden's lag in these pivotal states poses a significant challenge for his campaign.

Contest	Biden	Trump	Kennedy	Week change	Month change
National	40.1%	43.0%	8.4%	D+ 0.2	R+ 1.9
Pennsylvania	41.1%	44.3%	5.7%	R+ 0.3	R+ 1.8
Wisconsin	40.4%	42.9%	7.1%	R+ 1.6	R+ 2.3
Michigan	41.0%	42.4%	6.1%	R+ 0.7	R+ 0.7
Georgia	39.5%	45.2%	6.6%	R+ 0.6	R+ 0.5
North Carolina	39.1%	45.3%	6.5%	R+ 0.3	D+ 0.3
Arizona	37.7%	45.7%	7.3%	R+ 1	R+ 3.9
Nevada	39.1%	45.2%	6.8%	R+ 0.4	R+ 1.3
Florida	37.0%	46.5%	6.3%	R+ 0.2	R+ 1.6
Texas	38.5%	47.7%	6.4%	D+ 0.5	R+ 0.1

Source: [Nate Silver](#)

It's worth noting that the aggregation of polls from [Real Clear Politics](#) shows a similar result.



The Democratic Party cannot easily replace Biden. Under the Party's implicit by-laws, the state-based electoral votes that have already been cast and nominate Biden are final. The only way to change candidate is if President Biden withdraws. The only modern-day precedent for this happening was in 1952 when Adlai Stevenson was elected after three rounds of voting at a brokered convention. If Biden were to withdraw, then the Democratic Convention (to be held between the 19th and 22nd of August) would become the voting ground for states to recast electoral votes for new candidates (who meet the nomination threshold).

If Biden were to withdraw, Vice President Kamala Harris would very likely be the next candidate. While Michelle Obama is the only Democratic candidate that polls better than Trump, there are some practical reasons for why Harris would likely become the next candidate. To fight a national campaign, it takes thousands of volunteers and hundreds of millions of dollars. Both the ground and financing infrastructure could be passed to Harris relatively easily since she is already on the Biden-Harris ticket. The campaign financing rules also mean that Biden's war-chest of around \$100 million could be passed straight to Harris. The early polling numbers for Harris, though, aren't significantly better than for Biden. The problem with Harris as a candidate isn't so much her national popularity, but her lack of appeal to voters in the swing states that matter.

There has been increasing political pressure from some House and Senate Democrats urging Biden to withdraw. Ultimately, the decision rests entirely with him. Predicting his choice is challenging, but his autobiography and various biographies suggest he tends to double down and fight back when confronted with political pressure. Given his history, it seems likely he will continue to resist calls for his withdrawal and persist in his political endeavours.

If Biden leads the top of the ticket for the Democrats, then we believe the chances of a Republican sweep of all levels of government are very high. The Republicans are already favoured to win the Senate, and moderate House Democrats would have a tough fight on their hands. Some Democratic candidates in close races have already called for Biden to step aside.

Potential consequences of a Republican Sweep

The early years of the previous Trump presidency, along with his announced policies to-date, provide a decent blueprint for forecasting. We list out some likely, major consequences from a Republican sweep:

- An extension of and further income tax cuts and corporate tax cuts;
- An expansionary fiscal policy overall;
- Far stricter immigration policies;
- The wind-back of Biden's green energy policies in favour of coal, gas and oil ("drill baby drill");
- Without needing the legislature's approval, across-the-board tariffs on global and Chinese imports;

And what are some likely market consequences of such a change:

- Interest rates will likely rise further (higher bond yields);
- Overall American stock indices will very likely rise further but with winners and losers. Potential winners include Powell Industries (leveraged to AI and the energy transition) and GEO Group (leveraged to stricter immigration policies) - more detailed rationale to be provided in a future article;
- Fossil-fuel energy stocks will likely benefit, as will service providers to the oil, gas and coal industry. Potential winners include Profrac Holdings, Patterson-UTI Energy, Liberty Energy, Cactus, Archrock and Peabody Energy; and
- The US dollar is likely to remain strong.

While these listed changes are not exhaustive, a Republican sweep would bring another round of major change to many macro markets and stocks.



While it's still possible that Biden may win the election, both the data and our intuition suggests to us that the prospects of a Republican sweep have increased significantly. The longer Biden remains in the race, the more likely a Republican victory becomes. Should this occur, there are several ways to significantly benefit from the changes expected on November 5th.

Kind Regards,
Fawkes Capital Management

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