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The Companies and Sectors Poised to Benefit under Trump

On November 6, the US electorate delivered a decisive outcome, granting Republicans control of the Presidency, Senate, and House of Representatives. With unified government, President Trump now has the political leverage to pursue his policy agenda with minimal resistance. This alignment significantly increases the likelihood that the administration will implement many of the changes Trump promised during his campaign.

This political shift marks the beginning of significant and potentially long-lasting trends. Many of these trends are in their infancy, presenting compelling opportunities where the risk-reward dynamic is highly attractive for investors willing to act early.

We categorise the major trends into the following: (i) major changes to immigration policy, (ii) companies that will benefit from increased tariffs, (iii) changes to energy policy and (iv) companies that provide infrastructure for data centres.

Our analysis focuses on the core policies Trump campaigned on, assessing their potential to reshape industries and markets. We begin by examining these four key sectors in detail before exploring the broader macroeconomic impacts of the Trump presidency.

(i) Immigration Policy

We've previously outlined the significant changes that President Trump and the Republicans aim to implement regarding immigration policy. During the election, the southern border emerged as a pivotal issue. Even with a slim House majority in the past, Republicans passed the HR1 bill, which provided insight into their strategy for overhauling the immigration system. Key proposed changes include increased funding for private detention facilities, stricter asylum requirements, automatic border closures during periods of heightened crossings, expedited deportations of illegal aliens, and electronic monitoring of immigrants within the US. These policies are poised to benefit GEO Group, a Fund holding, as they will likely drive increased demand for its facilities and services.

Since the election, Trump's rhetoric on immigration has grown even more assertive. He has publicly pledged to deploy the National Guard to locate and deport illegal immigrants currently residing in the US. Such policies further reinforce our confidence in the investment thesis for GEO Group.

(ii) Increased Tariffs

With Republican control of both the House and Senate, President Trump is now well-positioned to advance his tariff agenda. Throughout his campaign, Trump consistently emphasized that sweeping tariffs would bolster American prosperity. He frequently referenced President McKinley's tariff policies, which he credited with driving historic economic growth. Trump's long-standing views on trade, dating back to op-eds from the 1980s, highlight his belief that unfair competition has eroded the US manufacturing base and that tariffs are a necessary remedy.

Trump's proposed tariff plan involves two key actions:

1. A **60% tariff on all Chinese imports**.
2. A **10% blanket tariff on imports from all other countries**.

This represents a substantial shift from the current tariff environment of approximately 25% on most Chinese imports and no across-the-board tariffs on non-Chinese imports.

Domestic manufacturers stand to benefit significantly from these policies, especially those competing with Chinese imports. While some supply chains may shift to countries like Vietnam, Thailand, or Mexico, this transition will take time. Trump has also indicated an intent to impose higher tariffs on these secondary countries if they become conduits for circumventing Chinese tariffs.

Past examples, such as the improved profitability of Australian steelmakers after tariffs on Chinese imports, illustrate the transformative impact tariffs can have on industry economics. In response, we've strategically invested in domestic companies across multiple sectors, including furniture, household goods, industrial goods, pharmaceuticals, and activated carbon. Some of these holdings include home appliance company, Whirlpool, and ARQ, an environmental technology company implementing solutions to remove harmful chemicals and pollutants from water. Using advanced tools, we continue to identify underappreciated businesses poised for significant upside from the forthcoming tariff policies.

(iii) Drill baby drill

President Trump's campaign promised to make the US "the dominant energy producer in the world by far." To achieve this goal, the administration is likely to pursue the following measures:

1. **Auction more onshore and offshore federal land** for oil and gas exploration.
2. **Reverse Biden-era restrictions** on LNG export facility construction.
3. **Provide tax incentives** for drilling new wells.
4. **Promote increased fossil fuel usage** to meet growing energy demands.
5. **Roll back EPA regulations** limiting interstate pollution from power plants.

Our investment focus is particularly cantered on natural gas, which we believe will remain the favoured energy source for meeting fast-growing electricity demand, as it did during Trump's previous term.

We believe that positioning in companies likely to benefit from this resurgence in exploration activity is a highly attractive space. These include providers of compression equipment, sand for fracking, drilling technology, and engineering firms specialising in the construction of natural gas power plants. Archrock Inc and SmartSand are two companies we believed are extremely well-positioned within this theme.

(iv) Suppliers to data centres

The rise of artificial intelligence (AI) is already driving exponential growth in the demand for data centres, which has been reflected in the revenue growth of utility companies nationwide. Trump's promotion of cryptocurrency is set to further accelerate this trend, as the mining of cryptocurrencies relies on intensive computational processes that require significant data centre and energy resources.

Trump's policies on cryptocurrency represent a stark departure from the previous administration. His proposals include:

1. **Establishing a department** to oversee the creation of a government-issued digital currency.
2. **Rolling back Biden-era regulations** on the cryptocurrency industry.
3. **Creating a US strategic Bitcoin reserve**.
4. **Granting cryptocurrency companies access** to conventional banking services.

Notably, Trump has personal ties to the cryptocurrency space, having issued his own digital coins. These policies, combined with his connections to the industry, are likely to fuel rapid expansion in the data centre sector.

We believe companies that supply data centres with critical equipment and energy will continue to see strong growth. As these changes take effect, the pace of expansion for these businesses is likely to accelerate even further, presenting substantial investment opportunities. We believe Celestica and Argan in particular are well positioned within this theme and will publish a more detailed research report on Argan in due course.

Macroeconomic Impacts

When it comes to macroeconomic impacts and opportunities, we begin by addressing the more apparent implications of a Republican sweep before exploring the less certain outcomes. It seems clear to us that Republican control is positive for stocks. Several factors contribute to this view, the primary being the likelihood of extended and increased tax cuts for individuals and corporations. While President Trump has proposed creating a government efficiency department, our analysis of his spending priorities suggests that federal deficits are likely to grow further under his administration. A strong economy, bolstered by fiscal stimulus, is expected to support stock growth. Additionally, the Trump administration may encourage speculative behaviour, fostering the "animal spirits" that can create a feedback loop between economic activity and investment speculation. Given the parallels to the late 1990s, we are open to the possibility that we are witnessing the early stages of another asset bubble.

The outlook for interest rates is less certain. The Trump administration has pledged to combat inflation, but the trajectory of interest rates will likely depend heavily on energy prices. If Trump enacts policies that incentivize exploration and development, reduced prices for petrol, gas, and electricity could allow the Federal Reserve to maintain lower interest rates. However, the Saudis have signalled concerns, reportedly considering a strategy of prioritizing market share to counter increased American production. If energy prices remain stable, fiscal stimulus coupled with significant labour force reductions could lead to inflation reminiscent of 2018 levels.

Lastly, we expect the US dollar to appreciate for several reasons. First, if Trump imposes broad tariffs, the dynamics of a freely floating exchange rate regime would likely result in dollar appreciation. Second, the combination of fiscal expansion in the US and relatively stagnant or contractionary policies in other developed economies should lead to US economic outperformance. Finally, a trade war with China could prompt capital flight from Asia, further strengthening the dollar.

Overall Assessment

We are optimistic about the financial changes a Trump presidency is poised to bring. These emerging trends are in their early stages and have the potential to shape markets for years to come. The economic fundamentals of many businesses are likely to undergo transformative shifts, creating significant opportunities for investors who embrace change. In our view, change is a key driver of value creation. We remain committed to monitoring developments, conducting in-depth research, and staying invested in the trends we have identified as having strong potential for long-term growth.

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