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4th Quarter Commentary

2024

Trump 2.0

With one term what will president-elect Trump actually achieve?
We have two basic scenarios.

First, Trump fulfills some of his campaign promises:

- Invoking tariffs on all non-domestic goods sold in America to negotiate international commerce, namely with China, Europe, Mexico, Canada, and possibly others
- Newly formed Department of Government Efficiency (DOGE) to evaluate and recommend cuts to federal government spending, among other matters
- "Drill baby drill" he increases America's drilling with the desire to become the world's number one distributor of natural gas and other fossil fuels
- Enforcement of immigration coupled with the deportation of illegal immigrants
- End taxation on Social Security
- End taxation on overtime
- End taxation on tips

The potential outcome would lead to economic strain in 2025 and possibly into part of 2026.

The reduction of government spending, permanent tax cuts, reduced taxation on individuals and corporations, selling America's natural resources, minimizing government workers, and placing strain on our international trading partners would add up to deflation.

The U.S. dollar would significantly strengthen, leading to deflationary pressures paving the way for the Fed to cut rates throughout 2025 and even into 2026.

Yes, deflation. President-elect Trump's policies would initially lead to increased unemployment, a potential trade war—particularly with China—heightened social unrest, reduced government spending, and a higher cost of living for the average American.

However, like other administrations, Trump would likely blame the prior administration for failed policies. By the second half of his term, we would most likely see a revitalized economy.

In the second scenario, Trump continues with massive government spending:

- Continuance of U.S. military and financial support for Ukraine, Israel, and the Middle East
- Additional U.S. military involvement and financial support most likely in Asia
- Continued higher inflation caused by both government spending and tariffs
- Unemployment continues to rise coupled with wages declining
- Bank bad assets become more toxic leading to more strain on lending in general causing both commercial and residential real estate to suffer

Potential economic outcomes would be mixed. The Fed would continue to reduce rates, however, with no reduction in government spending, inflation would most likely rear its head and wreak havoc on citizens.

The economy would slow down, the "Magnificent Seven" would struggle to sustain themselves, and value equities would become more prominent.

Defaults and foreclosures would rise to the point of duress on liquidity, access to capital would become critical and debt levels for governments, corporations, and individuals could prove to be overbearing. A global shroud and world markets would be more prone to volatility and corrections.

So, which will it be?

"It depends" really summarizes the next four years. However, what truly matters for investors more than ever is risk management. Retirees currently have the highest percentage of ownership of equities ever. The Magnificent Seven has become the Magnificent One.

Now is the time to ensure you have your investment disciplines in line. Reviewing your financial plan is essential to achieving your family's financial success. Seeking knowledge and understanding from your financial advisor of what risk controls you have in place are the secret ingredients that will help you feel peace and confidence with your hard-earned wealth.

May the spirit of generosity be at hand during these holidays.

Love life,

Todd M. Schwartz, CFP®
Founding Partner

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