COMMENTARY

In the fourth quarter of 2024, Donald J. Trump was elected the 47th President of the United States with the legislative branches of government skewed to the Republican side and the judicial branch of government, the Supreme Court, conservative and moving further in that direction. Mr. Trump has two years before mid-term elections, which generally means 6-9 months to implement policies to take advantage of Republican political majorities. His stated policy goals include altering the role and size of government as well as sources and uses of funding for the government, hardening illegal immigration policies coupled with encouraging legal immigration, and managing two wars and other geopolitical tensions. We have often stated that Presidential elections are much less consequential for the financial markets than unanticipated externalities (e.g., Covid-19, 9/11) or extreme economic circumstances (e.g., 1999 asset bubble, 2008 catastrophe).

The U.S. economy, which did not move into recession despite sustaining a negatively sloped yield curve for two years, remains in the growth and job-creating mode. Nevertheless, economic and political fundamentals are slipping in the rest of the world. Germany, for example, is heading into recession, as the European Central Bank cut interest rates four times in 2024 and at twice the rate of the U.S., ending the year at 3.15% - the Euro is approaching parity with the strong dollar. The risks of renewed inflation coupled with a growing national debt remain high. In fact, looking at gross issuance, over $500 billion of U.S. government debt needs to be refinanced weekly. This crowds out corporate borrowing, so it is likely that interest rates from 2-30 years in maturity may remain elevated on supply/demand factors. U.S. debt now stands at $36 trillion at the end of 2024 and is expected to continue to grow as government spending outstrips revenue collection by $1.8 trillion dollars.

The greatest financial market risks include: 1) our unsustainable national debt, 2) elevated stock market valuations and irrational exuberance with potential asset bubble formation, and 3) geopolitical risks which may include supply chain disruptions. There are many positives including the strength of the U.S. economy in job creation, inflation reduction, and especially innovation. AI, quantum computing, block chain technology, and others have applications across so many industries – autonomous cars, space, medical miracles, virtual reality – we may be at the beginning of a new Industrial/information revolution. There remains cautious optimism going into 2025 and although stock as well as bond market corrections are inevitable, corporate earnings may again surprise on the upside, deregulation may breed behavioral optimism for “wall street types” and, as in the 1990s, exuberance may be modulated by a bullish wall of worry which generally maintains a level of skepticism.