Hello Helm Clients,

We have heard from several of you thus far this morning and wanted to put out a quick summary of what we're thinking and possible outcomes from the election last night.

While the results are surprising to many, it's interesting that the betting markets had a "red sweep" as the most likely outcome. The betting markets completely nailed the election, although most polls had this effectively as a toss-up.

Today, markets are booming. Part of that is relief that this isn't a contested or violent outcome. Beyond that, we're seeing companies with regulatory oversight (banks in particular) and ties to cryptocurrencies (cryptocurrency companies and backers heavily backed Republican candidates in swing states) surge this morning. And, all of this is occurring against the backdrop of a benign Federal Reserve, which is expected to continue to lower interest rates.

Assuming a full "red sweep" – the House is still not decided, but expected to be held by the Republican party – we expect the following:

1) Lower regulatory pressures: The current administration capped what it called "junk fees." This specifically included late fees on credit cards and hotel and airline fees not disclosed upon booking. It is expected that the new administration will immediately lift the cap on such fees, so we'd expect these companies to earn greater profits than otherwise. Bank and credit card company stocks are up sharply today.
2) Higher tariffs, especially on imports from China. President-elect Trump has vowed to impose an immediate 60% tariff on goods imported from China. Should this come into play, many hard goods will see immediate price increases. This will range from appliances and electronic devices to Nike shoes and tchotchkes sold at dollar stores. Retailers are among the bigger decliners today on the expectation that higher prices will lead to lower sales volumes.
3) Higher long-term interest rates due to worries about higher inflation. Higher tariffs typically result in higher costs to consumers and higher inflation rates. The bond market today saw yields on 10-year bonds (which tie to mortgage rates) surge higher.
4) Oil and the energy complex. Trump has promised increased domestic drilling. The U.S. is already a net-exporter, i.e. we produce more than we use, so domestic crude and natural gas companies are selling off today on the prospect that increased supply will lead to lower prices. This would be exacerbated by a global trade war, which would be expected to curtail global demand for oil. On the other hand, drilling companies and midstream oil and gas pipeline companies are having a good day. Nuclear energy companies also are rallying.
5) Cryptocurrency-related equities are doing well today in the hope for greater adoption of cryptocurrencies. The Republican candidates went all-in on cryptos, and the Vice President-elect worked for one of the biggest crypto backers, Peter Thiel. As a reminder, we are prohibited from rendering advice on cryptocurrencies per our professional liability policy and are unable to give a prediction on the future of cryptocurrencies and related equities.

6) Real estate. This remains to be seen. Trump was friendly to real-estate developers during his first term as President. We would expect that he will hold the same view in his upcoming term. But the increase in longer-dated interest rates stemming from worries about inflation may dampen real-estate development activity and price appreciation. Homebuilder shares were largely lower today.
7) Health care. The outlook for companies in this sector is guarded with campaign promises to end the Affordable Care Act, aka Obamacare. We are seeing the health insurance companies rally on this prospect today, with notable weakness amongst the payees – publicly traded hospitals, pharmacy benefit managers and pharmaceutical companies. The pharmaceutical companies could see added pressure should RFK, Jr. be appointed to the administration.
8) Taxes. The tax code that was set to expire in 2025 should be renewed and possibly improved. We'd expect the SALT cap to be removed (i.e., currently, you cannot deduct more than $10,000 of your state and local taxes against your income). Some want to further lower the corporate tax rate but the outlook for that is unclear. This should be broadly positive for markets assuming that it doesn't lead to an increase in the Federal budget deficit and government debt. If a tax code is enacted that adds to the deficit, we'd expect further pressure on government bonds.

Taken all together, many of the companies and market sectors that we have been betting on in conjunction with a dovish Federal Reserve should do very well under an administration with lower regulatory pressures. This includes the banking sector and extends to small-and-mid-capitalization stocks, which should see increasing valuations and more fervent merger and acquisition activity now that a major catalyst is out of the way. Longer-dated U.S. Treasury bonds will likely be under pressure on the concerns mentioned above. Emerging market equities will suffer from tariffs and a trade war. Finally, the administration-elect has discussed ending the independence of the Federal Reserve. That remains a long shot but if the U.S. central bank loses its independence, the most likely outcome would be a significant drop in the value of the U.S. dollar, as happened in Turkey a few years ago.

These are our best expectations currently. If you recall, markets surged the day after Trump was first elected on enthusiasm for many of the same things noted above. In the end, there was variable political willpower and some of the agenda never came to fruition. We will be patient but ready to reposition assets as policies develop. Please reach out to either of us with any questions on the above.

All the best,

Peter and Jay