Prediction report after Trump takes office

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NEW EIC

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1. Introduction

This report aims to analyze the impacts of the recent economic and political shifts in the United States, particularly focusing on the stock market trends and the influence of tariff policies under President Trump's administration. The report is divided into two main sections: the first examines the trends in the US stock market, with a specific focus on the S&P 500 index and Trump's concept stocks, while the second analyzes the effects of tariff policies on the US economy and global trade.

In recent months, the US stock market has shown strong resilience, driven by various factors, including the results of the presidential election and expectations surrounding fiscal and monetary policies. The S&P 500 index has seen substantial growth, reflecting investor optimism. Additionally, specific sectors have been significantly impacted by the political climate, including traditional energy, defense, and financial industries, with Trump concept stocks seeing notable price movements due to policy expectations.

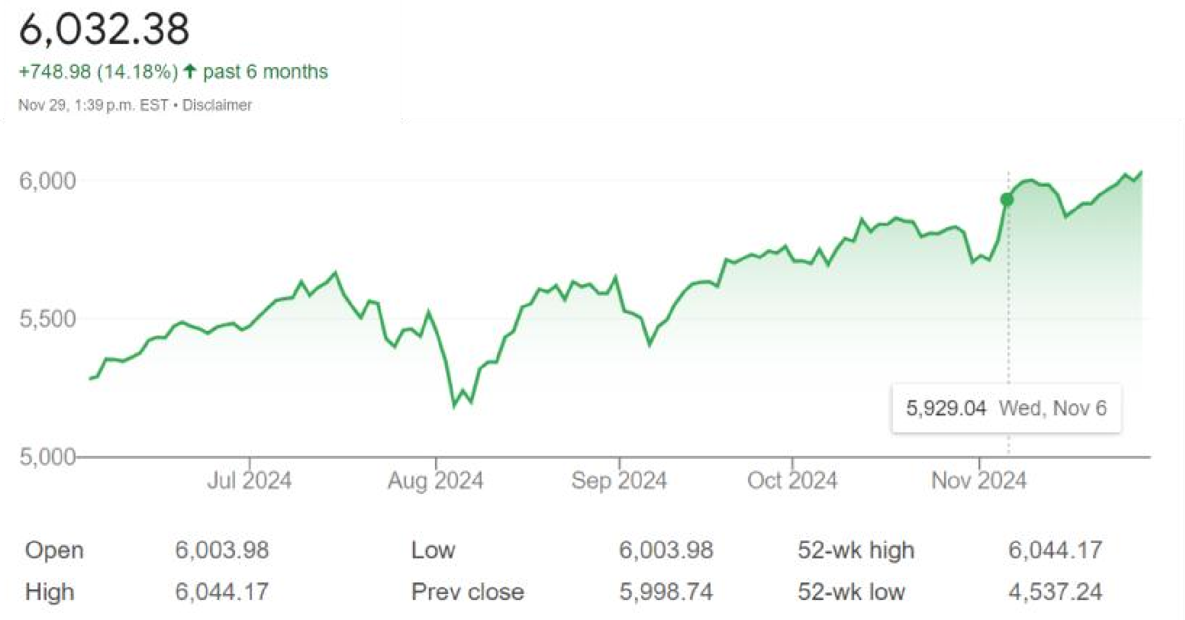
Furthermore, the report explores the broader economic implications of Trump's tariff policies, particularly in relation to trade wars and the potential for inflationary pressures. Tariff hikes, especially on imports from China and the EU, are expected to influence global supply chains, inflation rates, and consumer prices, adding complexity to the current economic landscape. The analysis includes potential risks and the strategies that investors and companies can adopt to mitigate the effects of these policy changes.

The purpose of this report is to provide a comprehensive understanding of these interconnected factors, offering valuable insights for businesses and investors to navigate the changing economic environment.

2. US stock market trends and analysis

2.1 S&P 500

1) Trends



Data Source: https://www.google.com/finance/quote/.INX:INDEXSP?sa=X&ved=2ahUKEwilipGQ4o-KAxUQlIkEHZJKJ8kQ3ecFegQIOxAf

Over the past six months, the index has demonstrated robust growth, rising by 14.18% (748.98 points) to reach 6,032.38 as of November 29, 2024. This strong performance underscores investor confidence and reflects positive momentum in the market.The index hit its 52-week high of 6,044.17 during the current trading session, signaling sustained market strength. In contrast, its 52-

week low of 4,537.24 highlights the significant recovery achieved over the year. This trajectory indicates a resilient market environment.On November 6, 2024, the index experienced a notable spike, closing at 5,929.04. This surge was likely driven by reduced political uncertainty following the announcement of election results, which buoyed investor sentiment and contributed to the overall rally.The market's consistent upward trend and record highs reflect strong fundamentals, including easing macroeconomic concerns, positive corporate earnings, and reduced policy uncertainty. These factors suggest continued optimism and stability in the near term.

2) Reason

The results of the presidential election and the Senate were announced on November 6, significantly reducing the impact of political uncertainty on the stock market. On September 18, the Federal Reserve announced a reduction in the federal funds rate, lowering borrowing costs for businesses and individuals and improving profit margins. With the returns on fixed-income investments declining, some funds are expected to flow into the stock market.

Deutsche Bank strategist Bankim Chadha predicts that the S&P 500 index will reach 7,000 by the end of next year, up 17% from its current level of 5,987. This forecast is one of the most optimistic on Wall Street, far exceeding the 6,500-point targets set by Goldman Sachs and Morgan Stanley. The strong performance of U.S. equities is attributed to robust economic growth, easing inflation, and expectations of Federal Reserve policy loosening, particularly driven by tech stocks. This year, the S&P 500 has already risen by over 25%, potentially recording over 20% returns for the second consecutive year—a rare occurrence in the past century.

Chadha forecasts S&P 500 earnings per share (EPS) growth of 11% in 2024, reaching $253, and $282 in 2025, with the potential to exceed $295 under optimistic scenarios. He notes that while the high valuation of U.S. equities (24 times earnings) is approaching historical peaks, the combination of earnings growth, dividends, buybacks, and capital inflows keeps U.S. stocks attractive. He believes that the sequencing of future policies will determine the trajectory of economic growth.

2.2 Analysis of the trend of Trump concept stocks

Field	Policy	Company Case	Stock Trends	Features
Traditional Energy	The Trump administration's support for the fossil fuel industry and its loosening of environmental regulations could benefit coal, oil and gas companies	**ExxonMobil**		ExxonMobil's stock price rose to a high of about $122 in early November, driven by market expectations for energy policy. Then, as the election results became clearer, market sentiment stabilized and the stock price fell back to around $117.96, reflecting investors' wait-and-see attitude towards the new government's energy policy.

		Kinder Morgan		As can be seen from the chart, affected by the US election, the stock began to rise continuously in early November as market expectations for policy improved, and finally stabilized at around \$28.27 at the end of the month. The market's expectations for loose policies and economic stimulus after the election significantly boosted the stock price, especially the investment enthusiasm for the benefiting industries, which drove the stock's strong performance.
Defense Industry	During Trump's administration, increasing the defense budget was one of the important policies, and military-industrial enterprises benefited from it.	**Lockheed Martin**		As can be seen from the chart, the stock was boosted by policy expectations around the US election in early November, and once rose rapidly to around \$570, but then fell back to \$529.41 due to market uncertainty about future policy implementation and profit-taking. After the election results were clear, market sentiment stabilized, and the stock

				price rebounded but failed to return to its highs, indicating that investors are still waiting to see the details of the policy.
		Raytheon Technologies		From the chart, the stock fell significantly in early March, indicating that the market may be hit by major macro factors, such as policy uncertainty or economic pressure. Subsequently, despite a brief rebound at the end of March, the overall trend continued to decline, closing at around $116.96 at the end of the month, indicating that market sentiment has not fully recovered and stabilized.

Finance	Trump's tax reform and financial deregulation are good news for banks and financial institutions	**JPMorgan Chase**		From the chart, the stock rose sharply in early November and then maintained a steady upward trend, reaching $249.72 by the end of the month. This trend may be boosted by the results of the US election and related policy expectations. The market's optimism about loose monetary policy or economic stimulus plans continues to drive stock prices higher.
Infrastructure	The push for a massive infrastructure plan could benefit building materials, steel and engineering companies	**Caterpillar**		From the chart, the stock quickly fell back after a sharp rise in early November, and then entered a period of shock consolidation. In late November, the stock price climbed again and stabilized at around $406.11 at the end of the month. This trend may be related to the change in market sentiment driven by the results of the US election. The policy expectations after the election and the improvement of the macro environment supported the stock

				price in the second half of the month.
		U.S. Steel		This chart shows the market's volatility before and after the election, clearly reflecting the uncertainty of investor sentiment and the adjustment of policy expectations. As the election results became clearer, the market price rebounded after the shock and closed at 40.77.

Medicine and Biotechnology	Pharmaceutical and biotech companies may benefit from relatively relaxed drug pricing policies	**Pfizer**		This chart shows the significant volatility of the market during the election, with stock prices falling from around 28.5 to the lowest point before rebounding. In the early stages of the election, the market was affected by uncertainty and selling pressure was high, causing prices to continue to fall. As the election results became clear, investor sentiment improved and the market rebounded, eventually closing at 26.2100.
Manufacturing and trade sector	Trump emphasizes "America First" and promotes the return of manufacturing, and local production companies may benefit	**Boeing**		This chart shows the significant changes in stock prices during the election, showing an overall "V"-shaped trend of first falling and then rising. In the early stages of the election, the price fell from around 157.50 to a low of about 137.50 due to uncertainty. As the election results became clearer, market confidence was restored, driving the stock price to rebound

				quickly and close at 155.44.

Data Sourse:
https://cn.investing.com/NEW EIC

In January, U.S. stock markets posted strong performance, with the S&P 500, Dow Jones, and Nasdaq indices recording their largest monthly gains of the year. The Dow Jones rose 7.54%, the S&P 500 gained 5.73%, and the Nasdaq climbed 6.21%. Chip stocks, particularly companies like NVIDIA and Applied Materials, saw significant increases driven by expectations that the Biden administration might ease export restrictions to China. Meanwhile, expectations of tax cuts and deregulation following Trump's election boosted overall market confidence, though some industries, such as automotive stocks, were impacted by uncertainties surrounding trade policies.

During the shortened Thanksgiving holiday trading week, both the S&P 500 and Dow Jones rose, with the S&P 500 up 26% year-to-date. In the bond market, 10-year and 2-year U.S. Treasury yields fell to 4.192% and 4.171%, respectively. The Federal Reserve's meeting minutes indicated an openness to rate cuts in December.

In the foreign exchange market, the U.S. Dollar Index ended an eight-week rally, declining 1.30% this week. In commodities, easing tensions in the Middle East led to lower oil prices, with WTI crude settling at $68 per barrel and Brent crude at $72.94 per barrel. Gold futures rose for three consecutive days to $2,657 per ounce but recorded a 3% decline for November.

Looking ahead, investors will focus on economic data, such as nonfarm payrolls, and speeches from Federal Reserve officials to assess the trajectory of the economy and future policy direction.

2.3 Trade Market

Potential Changes in Trade Policies:
The U.S. may impose higher tariffs on countries like China. These policy changes could impact American companies, especially those reliant on international markets.

Performance Differences Between Domestic and Internationally Oriented Companies:
Companies primarily focused on the U.S. domestic market (with most of their revenue coming from within the U.S.) are considered more resilient amid trade policy uncertainty, while those with a higher proportion of international sales may face greater challenges.

Sector Rotation in the Stock Market: Changes in trade policies may trigger sector rotations. For instance, industries more closely tied to the domestic economy (such as small businesses and financials) might outperform sectors more dependent on international markets, while industries like renewable energy could underperform.

Historical Performance Reference: During the 2018–2019 trade conflict, defensive sectors with a domestic market focus outperformed cyclical sectors with higher international exposure. A similar pattern might reemerge under comparable trade policies.

2.4 IPO

Expected Rebound in IPO Activity: With reduced policy uncertainty and continued economic growth, IPO activity is projected to rebound after the 2025 elections.

Macroeconomic Support: The macroeconomic environment is favorable for new stock offerings, particularly with rising CEO confidence, improving manufacturing indices, and low market volatility.

Valuation Challenges: High corporate valuations may remain a limiting factor, especially for private equity and venture capital firms. While they may hope for a return to the high valuation levels seen in 2021, rising interest rates have led to valuation declines.

3. Tariff Policy Influence

3.1 Trumponomics 2.0

When Trump's second term begins, it is foreseeable that his tariff policies and the potential trade wars they may trigger will have an impact on the domestic economy of the United States as well as on major global economies.

- Expectation: trade, immigration, fiscal, and regulation

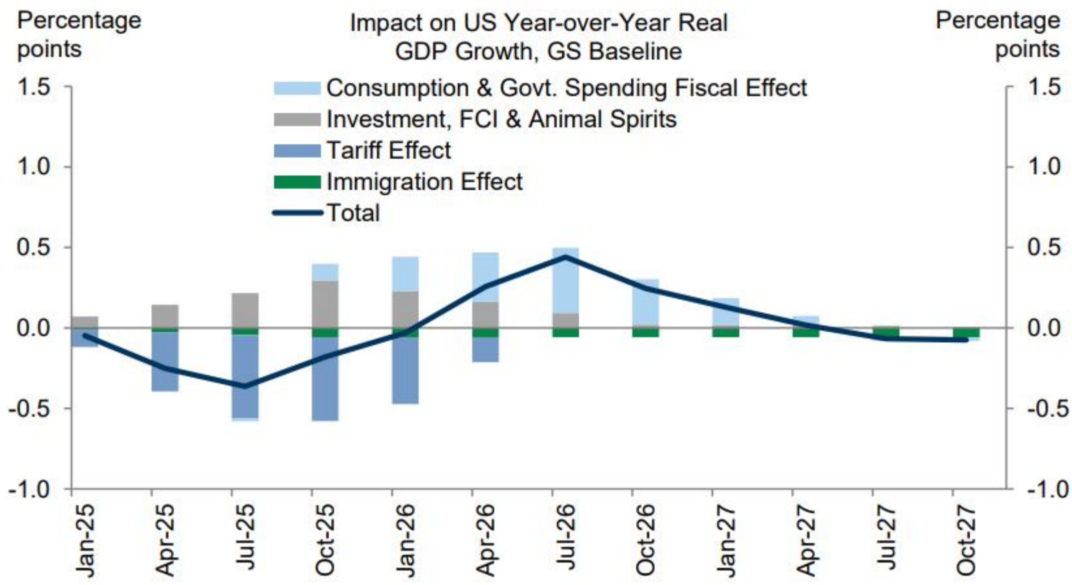
According to the Goldman Sachs Global investment research, we will set the base case for all these dimensions. Firstly, new tariffs on China, up to 60%, averaging to a 20pp increase in effective tariff rate; 22.5pp increase on euro and overall 3.4pp increase for US imports. Secondly, net immigration slows to 750k/year in response to increased funding and tighter enforcement. Moreover, the possible regulation and fiscal policy are listed in the following table:

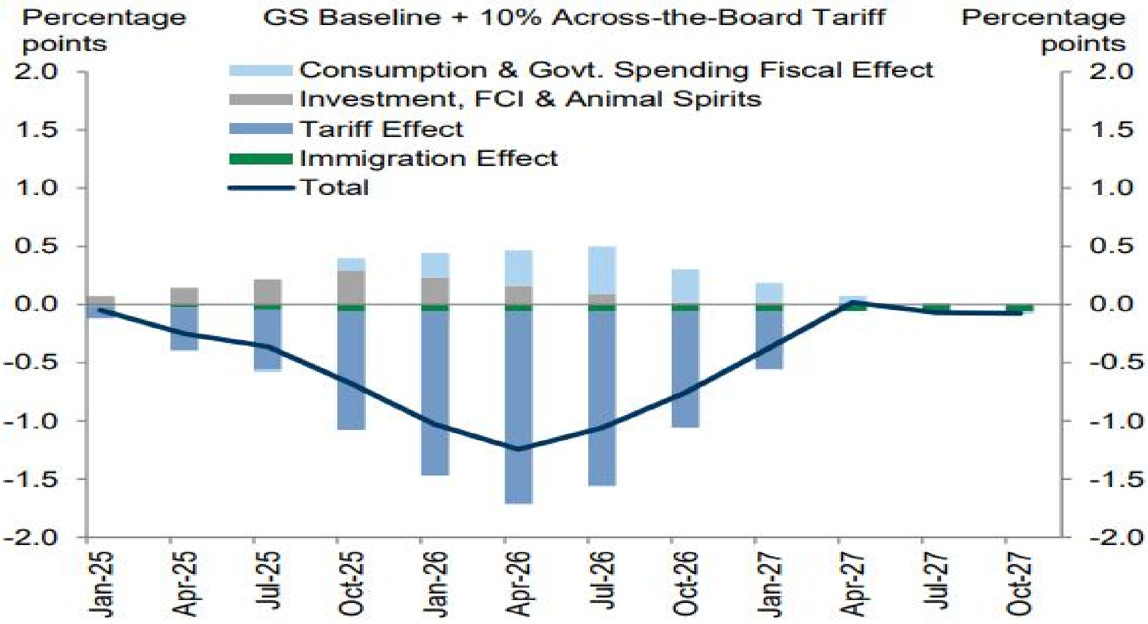
Regulation	Antitrust: Enforcement eases somewhat, though major pending tech sector cases proceed
	Energy: Easier approval of energy projects, expanding LNG exports, and reversing restrictions on greenhouse gas emission
	Financial: Near-term easing of regulatory burden on consumer finance companies, medium-term easing of capital and liquidity requirements
Fiscal	Full extension of expiring tax cuts in early 2025
	Expand SALT deduction ($30bn/yr)
	Exclude extra 50% overtime from income tax
	Exclude tips from income tax
	Lower corporate tax for domestic manufacturers to 15%
	Reinstate more generous corporate incentives
	Limitations on green subsidies

- More Risky Position

The first graph shows the effects on US GDP growth under our base case across all policies,

while the second graph shows the effects for our risk case in which President-elect Trump imposes an across-the-board tariff of 10%. If the worst-case scenario occurs, it is most likely to happen in the second half of 2025, which means that there will likely be a period of uncertainty. The uncertainty will continue to make financial conditions tighten further.





Source: Goldman Sachs Global Investment Research

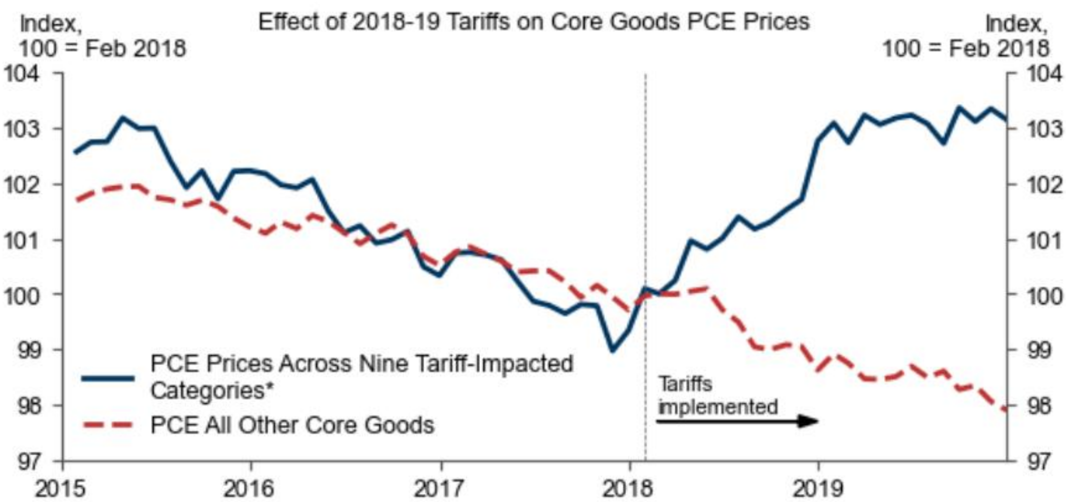
- Effects on China and EU

The trade policy uncertainty(TPU) affects growth in the Euro area. From the evidence from the 2018-19 trade war, the real GDP hit for the US is -0.3pp, however, the average hit for the euro area is -0.9pp, especially, the stock market's reaction to tariff policies is more intense in the Eurozone.。The impact is more direct in China, which will almost certainly face tariff increases that we expect will reach up to 60pp and average 20pp across all exports to the US. Assuming that Chinese policymakers provide macro stimulus and some of the growth hit is offset by RMB depreciation, the 2025 growth forecast may be more modest, by 0.2pp on net to 4.5%. However, larger downgrades will be made if the trade war were to escalate further.

Source: Goldman Sachs Global Investment Research

3.2 Tariffs moderately stimulate inflation

Higher tariffs will also raise US inflation, at least in the short term. The experience of the first Trump administration shows that tariffs are largely passed on to consumer prices. This is visible in the fact that prices in tariffed PCE categories rose by almost exactly the tariff amount, while prices in non-tariffed categories remained on their prior trend.



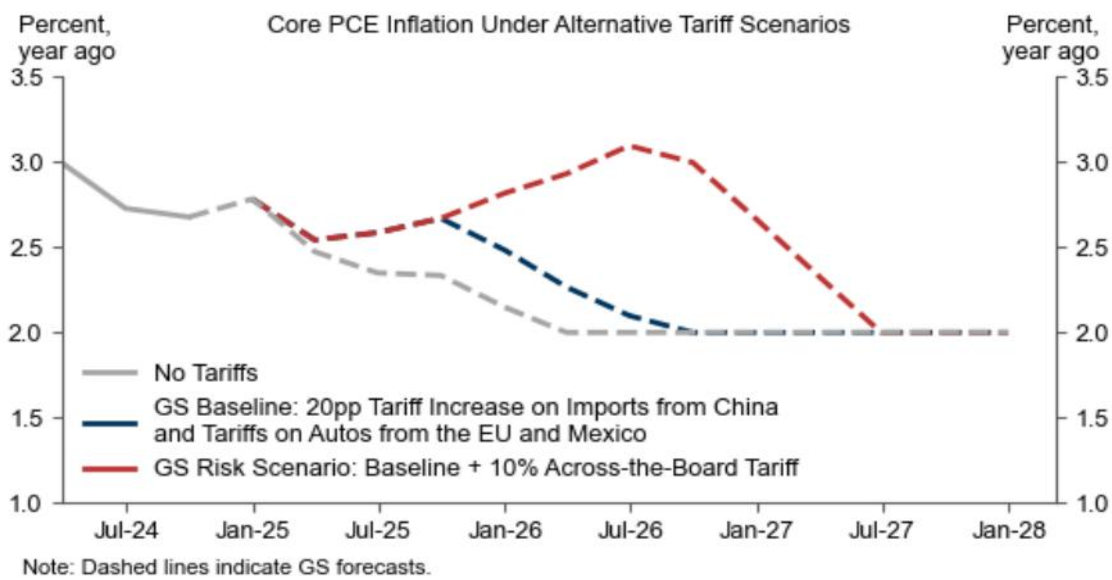
*Includes laundry equipment and other appliances, furniture, bedding, and floor coverings, auto parts, motorcycles, and sport vehicles, housekeeping supplies, and sewing equipment and materials. Items are weighted by relative importance to headline index.

Source: Goldman Sachs Global Investment Research

A solid year for global growth: due to the dramatic inflation decline over the past two years, this directly supports real income because price inflation has fallen far

more quickly than wage inflation, resulting strength in real hourly wages has helped real disposable household income grow 3-4% over the past year across the major advanced economies. Therefore, policy changes in the second Trump administration are unlikely to change the broad contours of our global economic views.

However, we still revised up our core PCE inflation forecast for late 2025 higher than before the election. The risks are tilted to the high side because of the risk of a broader trade war. An across-the-board tariff of 10% on top of the China and auto tariffs would likely raise core inflation to 3.1% in early 2026.



Source: Goldman Sachs Global Investment Research

3.3 Tail risks and diversify investments

In the current macroeconomic environment, focusing on tail risks is critical, particularly with the potential for broader trade wars, high equity valuations, and geopolitical uncertainties. Diversification across asset classes and geographies is essential to mitigate these risks. U.S. Treasuries, alongside Bunds and Gilts, remain key diversifiers, offering protection during growth downturns.

Additionally, TIPS can provide inflation protection while benefiting from falling real yields in case of weaker growth. A more balanced equity allocation, including mid-cap stocks or equal-weighted portfolios, helps address valuation concentration risks. Furthermore, maintaining long USD positions and employing options strategies can hedge against adverse macroeconomic scenarios and exploit volatility opportunities. Maintaining exposure and limit tails will be incredible for the investment decision and asset allocation.

Reference: