SPECIAL UPDATE

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The Expected Happened Unexpectedly

On Sunday afternoon President Joe Biden sent out a message that had become expected since the disastrous debate performance in June, that he was dropping out of the race for the presidency of the United States. A few moments later he sent a second message endorsing his vice-president Kamala Harris as his successor and preferred nominee for the Democratic party nomination.
This will be a quick report to recount the current conditions and project the possible ramifications of the political changes on the markets:

Current State of Political Affairs:

1. Biden was losing to Trump in the national polls (as of Sunday morning) by 3% (RCP Poll Average)
2. In the latest Emerson poll including all candidates (Trump, Biden, Kennedy, West, Stein), Trump was leading by 6% nationally.
3. Political Figure Favorability Ratings (RCP Averages):
    a. Biden 39.1% favorable
    b. Trump 42.8% favorable
    c. Harris 38.1% favorable
4. There were a few polls taken of Trump vs. Harris in battleground states last week by Emerson:
    a. Florida: Trump +4%
    b. Arizona: Trump +6%
    c. Nevada: Trump +10%
    d. Pennsylvania: Trump +6%
5. Currently our analysis of the race puts a 75% likelihood of a Trump victory.

US Treasury Bond Yields

US1MO	5.37%
US3MO	5.38
US6MO	5.19
US1Y	4.87
US3Y	4.28
US5Y	4.16
US10Y	4.22
US30Y	4.43

What would a Trump victory mean for the markets?

Here are some excerpts from an article by Matt Peterson in Barrons on Saturday:
Should Trump win, he's poised to start rewriting long-embraced economic rules. What the transition will mean is unknown at this point. But, as his vice-presidential pick of Ohio Sen. JD Vance shows, Trump is willing to embrace views about how to manage the U.S. economy that clash with longstanding tenets of free-market Republicanism. Suffice it to say, Trump 2.0 has a vision, and will almost certainly have the power to execute it.
The near-term economic cycle favors Trump, as a cooling labor market is likely to launch a cycle of Federal Reserve interest-rate cuts that will begin this year and continue into his presidency. His tax-cut-heavy economic agenda is stimulative, and the stock market may respond positively to the prospect of his victory, particularly as the economy slows.
The bond market, on the other hand, is likely to struggle to absorb the supply of new debt a Trump Treasury will need to issue, partly to offset new tax cuts. That is likely to drive up interest rates on long-term government debt.
Financial markets already show signs they are taking stock of Trump and Vance's economic plans. The spread between short-term and long-term Treasury yields has widened since the June 27 presidential debate, suggesting that bond traders are accounting for expectations of falling interest rates in the near term as the Fed adjusts to a cooling economy, along with expectations of higher nominal growth and inflation in the long run.
Trump wants to deport as many as 20 million people who have skirted the legal immigration process, while raising tariffs to 10% on all U.S. imports and as much as 50% to 60% on Chinese imports, in particular.
One source of investor worry centers on the dollar. "We have a big currency problem," Trump recently told Businessweek. The dollar has risen against other major currencies such as the yen and China's carefully managed yuan, buoyed by rising U.S. interest rates and the artificial-intelligence-driven stock market boom. Overall, tariffs and rising deficits, with their high-yielding debt, would tend to lift the value of the dollar. That has raised questions about what a Trump presidency could do to lower it. In the short run, it would be challenging to curb the dollar's strength without the acquiescence of the Fed, and Powell says he has no interest in managing the currency.
Members of Trump's circle have floated more-radical ideas. Lighthizer, in his recent memoir, considers the possibility that the U.S. could "put an adjustable fee on investment funds coming into the United States. Essentially this would be a market access charge on foreign capital coming here." Those capital controls would effectively devalue the dollar. (Petterson, 2024)

	7/19/2023	1/1/2024	07/19/2024	12 MO ROR	YTD ROR
DOW	35060.482	37,566.22	40288	14.91%	6.89%
S&P 500	4565.8124	4,745.20	5505	20.57%	15.41%
NASDAQ	14358.497	14,873.70	17727	23.46%	18.09%

Sources:

https://www.barrons.com/articles/trump-election-economy-markets-inflation-debt-deficit-8a5c19b5?mod=RSSMSNBarrons