

On Trump 2.0, we're addicted to context

By Warren Lovely & Taylor Schleich

As the dust settles on the all-important U.S. election, we have an apparent 'Red Sweep', with the final standing in the House the sole outstanding issue. Cue rapid re-initiation of 'Trump trades' that were partially unwound (or at least placed on hold) earlier this week.

You will hear, see and read much on the election outcome and its perceived implications. Avenues of influence are, after all, limitless... spanning international relations, growth, jobs, investment, inflation, trade, tax, regulation, deficits, debt, immigration, personal liberty, etc. Nor is there an asset class likely to be untouched. We'll be adding our voice to the analytical cacophony, with our dedicated geopolitical analyst, Angelo Katsoras, having already offered an initial take ([link](#)).

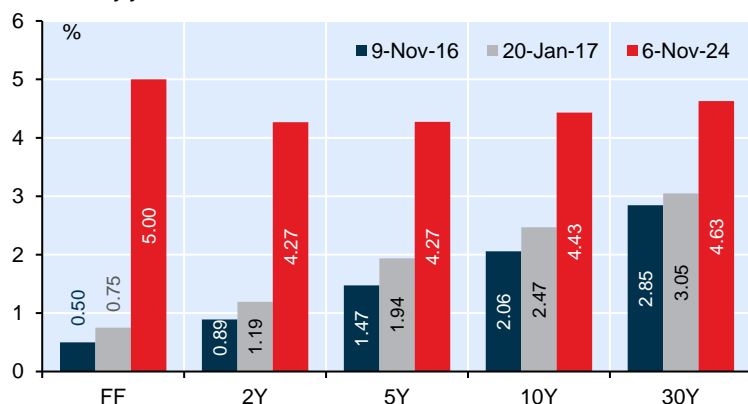
For many it seems, Trump's stated plans/priorities and known proclivities offer an apparent trading roadmap. Meanwhile, for those of us 'addicted to context'¹, it might additionally be helpful (informative) to reference back to November 2016, when Trump's first presidency was secured and the GOP controlled both houses of congress.

Let us be clear: Current economic and financial conditions simply don't correlate with those from eight years ago. Back in late 2016, the level/direction of Fed policy was the opposite of what we face today. Steep curves were biased flatter, while a compressed rate environment left limited scope for monetary policy divergence and cross-market extremes. Not so today. There was still ample slack back then and less underlying inflation anxiety compared with today.

As for similarities, the dawning of a pre-growth agenda (with lower taxes and a lighter regulatory touch), kicked off a nice rally in risk assets. That trade was well in evidence from election night to inauguration day and well beyond. Of note, the U.S. deficit and debt load were *far less* worrisome in 2016 than they are today. Still, the extra growth, inflation, budgetary red ink and bond supply hinted at by Trump v1.0 (temporarily) added to the term premium. It's on [fiscal sustainability](#) where the road ahead is most perilous and where comparisons to the past are truly sobering. Context junkies surely get this, although fiscal consolidation is not yet an apparent priority for the president-elect.

Chart 1: No comparing today's rates complex to late-2016

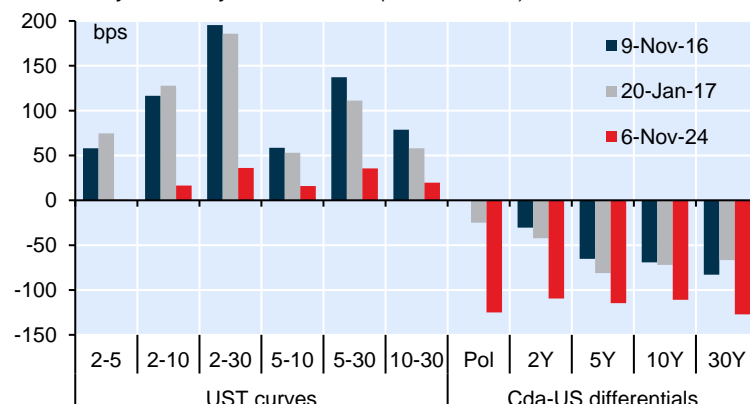
US Treasury yields: Nov-16 vs. Nov-24



Source: NBC, BBG | Note: Levels are T+1 for elections & T=0 for inauguration

Chart 2: It's likewise night & day for curve & x-market levels

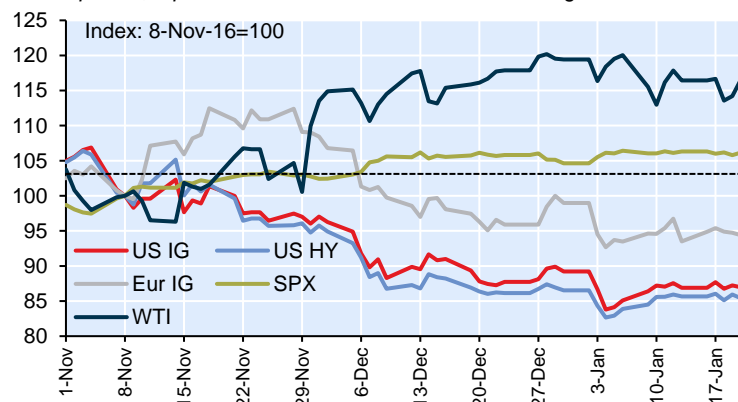
US Treasury curves & yield differentials (GoC less UST): Nov-16 vs. Nov-24



Source: NBC, BBG | Note: Levels are T+1 for elections & T=0 for inauguration

Chart 3: U.S. credit outperformed as risk-on tone built...

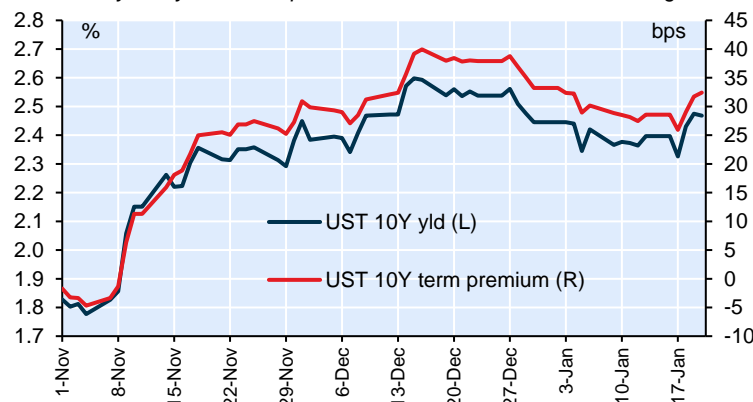
Credit spreads, equities & oil: Nov-16 election to Jan-17 inauguration



Source: NBC, BBG

Chart 4: ... while U.S. term premium grew. Hmmm

US Treasury 10Y yield & term premium: Nov-16 election to Jan-17 inauguration



Source: NBC, BBG

¹ We borrow the 'addicted to context' line from Dan Carlin, podcaster/storyteller/historian extraordinaire. Check out Dan's *Hardcore History* series and judge for yourself. Regardless of the subject/topic, we guarantee no little amount of historical context.



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