

POLITICAL PULSE

Our Hot Take on the Trump Upset

Wednesday, November 9, 2016

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Buy the dip? Probably, but it depends on whether we get the protectionist or the tax-cutter.

Donald J. Trump, the political black swan we bet on almost a year ago (see [“Trumped!”](#) December 14, 2015), has won an astonishing last-minute upset victory. And the GOP victory forecast made two years ago by our presidential election model has been fulfilled and vindicated (see [“Modeling the 2016 Presidential Election”](#) November 12, 2014). Trump’s margin of victory will be narrower than the model predicted (please see the chart below), but the model’s perfect track record stands!

Oh, we of little faith. Yes, dammit! We let ourselves get worn down by the relentless onslaught of polling and media narratives. As of Monday we were willing to concede – though without any conviction – that Hillary Clinton would probably win (see [“Our Fearless Predictions”](#) November 7, 2016). *Hey – we’re delighted to be wrong about our model being wrong.*

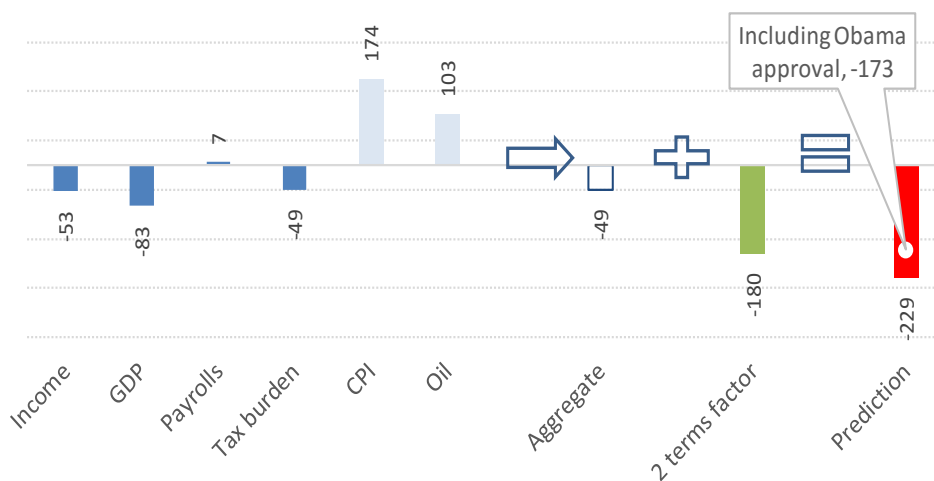
- We said three months ago that a Trump upset would cause a severe risk-off spasm in global markets, similar to the reaction following June’s Brexit referendum (see [“Trump’s To Lose”](#) August 12, 2016).
- It’s already happened. Weirdly precisely, in fact. In June US equities fell 5.8% over three days after the referendum. Stock index

Update to strategic view

US ELECTION MODEL, US STOCKS, US BONDS, US MACRO:

Our election model turned out to be right. And as we predicted, the GOP kept the Senate, lost very few House seats, and added governors. The overnight risk-off shock in equity futures markets precisely equals the correction induced by the Brexit referendum. Buy the dip? Risk on? Probably. It depends on signals from Trump as to whether he is serious about implementing the worst of his protectionist agenda. Abstracting from that, a GOP Congress can enact Trump’s business and personal tax cuts, repeal Obamacare, slash regulations and liberate energy production. We continue to believe that Trump can be the first truly pro-growth president in sixteen years. We have avoided a toxic gridlock situation that could have led to a series of crises, including a debt-ceiling crisis next March. The move higher this morning in Treasury yields may speak to Trumps earlier casual remarks about Treasury debt, or reflect belief that a debt-fueled infrastructure binge is coming. We don’t give either expectation much credence.

Our election model Electoral College votes + For incumbent party – Against



Source: Various, TrendMacro calculations

futures fell 5.8% in just four hours last night. As of this writing before the NYSE open, they've already recovered some of that loss.

- Is the Trump shock already over? Very possibly.
- We won't know for sure until we see whether Trump will move aggressively to clumsily implement damaging protectionist measures, some of which he can do by executive order. For now, all we have is the signal that in [his gracious victory speech](#) he didn't

Competitive seats held by: ■ GOP ■ Dem
 Outcome: ✕ Dem ✓ GOP ? Unknown as of this writing

Governors

Toss-up	Open IN	✓
	McCrory NC	?
Toss-up	Open MO	✓
	Open NH	✓
	Open VT	✓
	Open WV	✕

Senate

Lean GOP	McCain AZ	✓
	Portman OH	✓
	Rubio FL	✓
Toss-up	Open IN	✓
	Blunt MO	✓
	Ayotte NH	?
	Burr NC	✓
	Toomey PA	✓
	Johnson WI	✓
Lean Dem	Kirk IL	✕
Toss-up	Open NV	✕

House of Representatives

Lean GOP	Young AK-AL	✓
	Valadao CA-21	✓
	Open IN-09	✓
	Young IA-03	✓
	Yoder KS-03	✓
	Open MI-01	✓
	Bishop MI-08	✓
	Paulsen MN-03	✓
	Open NY-22	✓
	Katko NY-24	✓
	Open PA-16	✓
	Love UT-04	✓
Toss-up	Denham CA-10	?
	Knight CA-25	?
	Issa CA-49	?
	Coffman CO-06	✓
	Mica FL-07	✕
	Curbelo FL-26	✓
	Dold IL-10	✕
	Blum IA-01	✓
	Poliquin ME-02	✓
	Open MN-02	✓
	Open NV-03	✕
	Garrett NJ-05	✕
	Open NY-19	✓
	Open PA-08	✓
	Hurd TX-23	✓
	Comstock VA-10	✓
Lean Dem	Jolly FL-13	✕
	Hardy NV-04	✕
	Guinta NH-01	✕
Likely Dem	Open FL-10	✕
	Open VA-04	✕
Toss-up	Nolan MN-08	✕
	Ashford NE-02	?
Lean GOP	Open FL-18	✓
Likely GOP	Open FL-02	✓

Reports on the election

[Our Fearless Predictions](#)

November 7, 2016

[Elections Have Consequences](#) October 20, 2016

[If – When? – Hillary Wins](#) October 10, 2016

[On the First Presidential Debate](#) September 27, 2016

[Gundlach and Load](#) September 12, 2016

[Trump's To Lose](#) August 12, 2016)

[On the Brexit Referendum](#) June 24, 2016

[Trump's Pro-Growth Path to Victory](#) June 21, 2016

[Trump's the One](#) May 4, 2016

[Trump May Be First Since Reagan To Unleash America's](#)

[Animal Spirits](#) March 19, 2016

[DisTrumption: What I Saw in Chicago](#) March 14, 2016

[Sympathy for the Donald](#) March 2, 2016

[Will Yellen Get Trumped?](#) February 11, 2016

[2016: Two Charts, Six Words, One Man](#) December 31, 2015

[Trumped!](#) December 14, 2015

[Modeling the 2016 Presidential Election](#)

November 12, 2014

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Source: Cook Political Report, RCP, TrendMacro calculations

even mention those matters – perhaps his first public statement in which they were not thrust front-and-center.

- Trump's silence on protectionism over the coming weeks won't be dispositive on the point. Unless he sends clear signals prior to his inauguration that it was just campaign posturing or a negotiating position, it will remain a threat for when he takes office. That will be a mere matter of months, so markets will stay focused on it. The Brexit threat was more vague, being deferred for years into an indefinite future. So volatility around this issue could linger as markets hang on every word.
- *But abstracting from that risk, and the challenge of pin-point timing, we stick with our long-standing view that Trump will be a pro-growth president* (see ["Sympathy for the Donald"](#) March 2, 2016). *We expect that, like Brexit, this is a buy-the-dip risk-on moment.*
- Setting protectionism aside, Trump's economic agenda of lowering business and personal tax rates, repealing Obamacare, reducing regulations and encouraging energy development is profoundly positive (see ["Trump's Pro-Growth Path to Victory"](#) June 21, 2016).
- This agenda can be implemented because, as we predicted, the GOP retained its Senate majority and lost very little of its House majority (please see the chart on the previous page, and ["Elections Have Consequences"](#) October 20, 2016).
- The Senate majority sets up the possibility of appointing one, or perhaps even several, Supreme Court justices who will uphold property rights and defend against the heavy hand of the administrative state.
- *One sign to watch for in the coming weeks is, hopefully, fence-mending between Trump and the Republican establishment. Vice President-elect Michael Pence will be key here, as an ambassador to "movement" conservatives such as House Speaker Paul Ryan, whose help Trump will need to implement a pro-growth agenda.*
- As of this writing, last night's risk-off move *lower* in long-term Treasury yields has been replaced with what may be, paradoxically, a risk-off move *higher*. If this reflects a fear that Trump will play fast-and-loose with the sanctity of Treasury debt – as [out-of-context statements on CNBC](#) seemed to indicate many months ago – we dismiss it out of hand. If it's about an anticipation that Trump and the GOP Congress will unite around a debt-fueled infrastructure binge, we can't rule it out, but we're highly skeptical given the debt-averse tendencies of mainstream Republicans who are still very much in control in the Senate and the House.
- If we may be permitted a subjective observation, a key dynamic may prove to be the awakening of the ["animal spirits"](#) of the economy, arguably for the first time in sixteen years, thanks to Trump's brash persona, for all its faults (see ["Trump May Be First Since Reagan To Unleash America's Animal Spirits"](#) March 19, 2016). Indeed, the fact that he was able to get elected as an under-funded outsider, [beset on all sides](#) even by his own party, is a spectacular and inspiring act of entrepreneurship.
- *Whatever volatility we have to endure while we sort out who our new president really is, Trump's victory spares us what we think would have been an even worse environment.*

- If Clinton had won – without a mandate, with only a plurality of the popular vote, while the GOP held the Senate and the House (and, as we predicted, added governors) – we think gridlock would have degenerated into a series of crises, including a debt crisis when the suspension of the statutory debt-ceiling expires next March (see [“If – When? – Hillary Wins”](#) October 10, 2016). Forgive us if this seems snarky, but we think Clinton’s decision to no-show in New York last night, to concede and thank her supporters, is indicative of the bitterness that would have made her relationship with a GOP Congress dangerously toxic.
- Well, it’s been a long night. That’s it for now. We will have much more to say in the coming days.

Bottom line

Our election model turned out to be right. And as we predicted, the GOP kept the Senate, lost very few House seats, and added governors. The overnight risk-off shock in equity futures markets precisely equals the correction induced by the Brexit referendum. Buy the dip? Risk on? Probably. It depends on signals from Trump as to whether he is serious about implementing the worst of his protectionist agenda. Abstracting from that, a GOP Congress can enact Trump’s business and personal tax cuts, repeal Obamacare, slash regulations and liberate energy production. We continue to believe that Trump can be the first truly pro-growth president in sixteen years. We have avoided a toxic gridlock situation that could have led to a series of crises, including a debt-ceiling crisis next March. The move higher this morning in Treasury yields may speak to Trump’s earlier casual remarks about Treasury debt, or reflect belief that a debt-fueled infrastructure binge is coming. We don’t give either expectation much credence. ▶