

MACROCOSM

The Trump Effect

Wednesday, December 11, 2024

Donald Luskin

The dog barked in the night. Small business optimism soars following Trump's election.

Yesterday we got resounding confirmation of our core thesis about the economic effects of the election of Donald J. Trump. *The Small Business Optimism Index of the National Federation of Independent Businesses vaulted from 93.7 for October to 101.7 for November* (please see the chart below).

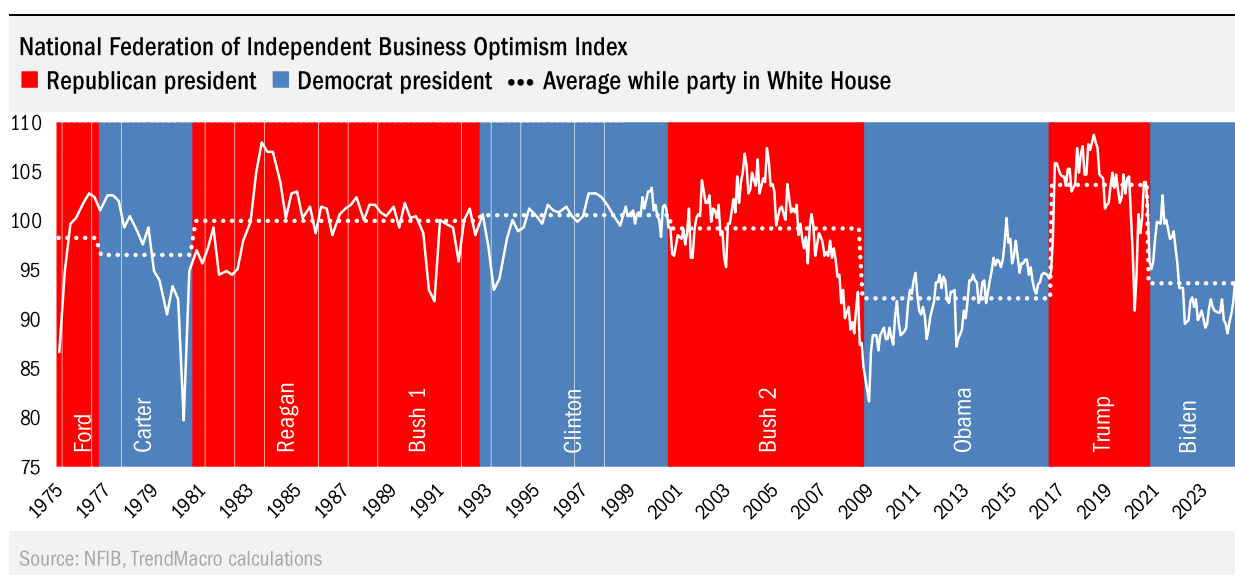
- This is the second highest reading during the presidency of Joseph R. Biden, and far above its average – but it has nothing to do with Biden, except that his time is over. It is still below all the non-pandemic readings during Trump's first term – there is room on the upside.
- *This is the fourth largest percentage gain in the almost half-century history of the index. This makes three of the top five that are associated with the election of a pro-growth president to replace an anti-growth one* (Number One was the 1980 election of Ronald Reagan to replace Jimmy Carter, and Number Five was the 2016 election of Trump to replace Barack Obama).
- The consensus was for 95.3. That would have been an uptick, but we would have regarded it as *a dog that didn't bark in the night* – that is, an absence of expected confirming evidence. But we got our evidence, as we did in November, 2016, that whatever else one may think of Trump, he is a powerful economic cheerleader

Update to strategic view

US POLITICS, US MACRO, US STOCKS:

The Small Business Optimism Index of the National Federation of Independent Businesses had its fourth largest gain in almost half a century yesterday. This confirms our core thesis that Trump's election will rouse the "animal spirits" at the grass roots of the economy responsible for 60% of US jobs. Two other previous large gains were also associated with the election of pro-growth presidents to replace anti-growth ones (Reagan in 1980 and Trump...

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who can call forth and encourage the [“animal spirits”](#) of the economy from the grass roots (see [“Trumponomics II, The Sequel”](#) July 17, 2024).

- John Maynard Keynes gave birth to behavioral economics in his 1936 masterwork [The General Theory of Employment, Interest and Money](#), when he wrote [\[our emphasis\]](#):

“Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than on a mathematical expectation, whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as a result of animal spirits – of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities.”

- Maybe such things don’t apply to the cold calculations made at the commanding heights of the economy, in the boardrooms of Nvidia or JPMorgan Chase (though maybe they do). The leaders of such firms don’t need pep talks, and the promise of a less punishing regulatory regime under Trump isn’t very important (indeed, large firms like regulations because they provide a competitive moat).
- Surely they apply at the grass roots, the commanding depths of the economy, those businesses of fewer than 50 employees who are responsible for 60% of the jobs in the United States. These are the companies that can’t afford to deal with the rising tide of regulations under the Biden administration, and are raring to compete, once liberated, with larger rivals.
- This is already playing out in markets with, as we predicted, the outperformance of small-cap stocks (see [“Our Hot Take on the Election”](#) November 6, 2024). Perhaps the fact that yesterday’s leap in the NFIB Index was so far ahead of consensus expectations indicates there is much more to come here.
- The dog barked. Animal spirits are being aroused. We are asked every day by clients to forecast what Trump will do with tariffs, taxes, Fed appointments, the border and other elements of Trumponomics. We can speculate on that, and we do. But the real actionable information is yet to come. What we do know is that optimism has been reawakened, and whatever sins may come, that will compensate for a multitude of them.

Bottom line

The Small Business Optimism Index of the National Federation of Independent Businesses had its fourth largest gain in almost half a century yesterday. This confirms our core thesis that Trump’s election will rouse the “animal spirits” at the grass roots of the economy responsible for 60% of US jobs. Two other previous large gains were also associated with the election of pro-growth presidents to replace anti-growth ones (Reagan in

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... in 2016). In part it’s a matter of sentiment – Trump whatever his flaws, is a more effective economic cheerleader than Biden. But it’s also a matter of dollars and cents, with Trump likely to roll back the regulations put in place under Biden that asymmetrically impose costs on smaller businesses. Small-cap stocks have already outperformed since the election. With the NFIB Index far exceeding consensus expectations, there is likely more to come.

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