MARKET BRIEF

The Rise of The Populist

Donald Trump will be our next president. Former reality TV star and longtime admirer of Vladimir Putin, come January 20th, will be the most powerful man in the world.

Interesting...

I've noted how I was no fan of either candidate. Both were extremely lacking and carried serious risks. But looking at the response to the election results over social media the following two days you'd think either fire and brimstone were about to rain down upon the earth or that America had just won the political lottery and all of our problems were about to be solved.

I was quite taken aback by the level of irrational emotionalism from both sides.

America has strong institutions, checks and balances, and Trump is not the incarnation of Mussolini. If he tries to do anything crazy, then congress and the supreme court will put a stop to it.

And he's no savior either. He's a flawed demagogue who has A LOT of bridge building to do — among democrats and within his own party — if he wants to deliver on even a handful of his promises. He has a tough road ahead.

A president doesn't make a country anything. It's the people and its shared ideals (those written in our constitution) which make a country what it is.

America is still great. It was never not so. And it will continue to be a great country for many years to come.

Moving on… hopefully you (our readers) were not too surprised by the outcome. We've written numerous times over the last year how the media and market were grossly underestimating the chance of a Trump win.

A Trump presidency is the direct result of the long-term debt cycle that has been exacerbated by the rise in robotization and globalization. This has decimated the lower to middle income workforce in America — the very backbone of our country.

People are pissed. They want to blow up the system because it's not working for them. Trump masterfully played off these emotions. And if it wasn't him it would have been another populist (like Sanders) to get elected.

The elites have been put on notice.

The signaling from the Trump victory and Brexit are most important. Each shows the power of the populist/nationalist movement in the Western world at the moment. There are a number of important elections and referendums occurring in Europe over the coming year. Many of these will go the same way. Out with the old and in with something entirely new.

We will see the pace quicken in our turn from international cooperation to one of direct competition and beggar thy neighbor policies. I don't think the European project survives this movement.

Dissolution of trade pacts, fraying international security agreements, and the breaking up of political unions will mark the coming decade.

Returning from a long hiatus, global macro is about to come careening back to center stage. It will be a good time to be a macro trader.

What a Trump Presidency means for markets

I am keeping this week's Brief short. We've just experienced a massive regime change in markets which will have a significant impact on things moving forward. There's a lot of people rushing to make blind assumptions about what a Trump presidency means. I think this is dangerous to do. We need to spend some time thinking this over.

We will release a longer and more in depth Brief next week devoted to exploring the different possible paths going forward. Markets have been extremely volatile these last few days. I wouldn't read too much into this noise. Let's see where the week closes out and we should have a more precise picture of things in the week to come.

On the surface, Trump's 100-day plan is extremely bullish for the stock market and very bearish for bonds.

Here's a list of what he [wants to accomplish.]

The bullish proposals are:

1. Cutting marginal income tax rates
2. Cutting corporate tax rates
3. Rolling back regulations like Obamacare and Dodd-Frank
4. Repatriating overseas earnings
5. Infrastructure spending plan
6. Energy policy

These are great ideas but like every other President before him, Trump will have to deal with the reality of getting these passed through congress. He's helped by having a Republican majority in both houses. But we need to remember that there are many in his own party who detest him.

Also, and I think this is a key point, the republican congress is dominated by fiscally conservative small government types; many were elected by the tea party movement. And fiscally, Trump is only a republican by name. His spending plans — $1 trillion on infrastructure alone — combined with across the board tax cuts are extremely expansionary. This would be the deficit spending that many republicans in congress were elected to stop.

I believe that he's got the momentum now and most will be persuaded to back him on these spending plans. The fiscally hawkish austerity narrative that was popular four years ago seems to have lost much of its steam. But these plans are far from being a lock and there's a chance they get cut or shelved altogether.

His protectionist proposals to dissolve NAFTA and the TPP and label China a currency manipulator are definitely not bullish. Scrapping these trade measures would not only significantly raise costs for consumers here in the US but they'd also just push others to do the same. We'd have a trade war on our hands. Trade wars that are inflationary (not the good kind of inflation) don't enrich anybody. That's just economics 101. We've been down that road before and shouldn't be in a rush to get there again.

I don't think Trump will be successful in enacting these proposals. The free traders in congress would work to block him and I'm not convinced he's sincere in his protectionist talk. I think it was more of a populist appeal and that he'll make some small moves there if only to placate voters.

And the China currency manipulator thing is ridiculous. It's true that they've been manipulating their currency, but that's because they've been keeping it artificially strong… to their own detriment! Threatening to label China as a currency manipulator simply opens the door for the government to let market forces take over and let the yuan run. We'd get a 30%+ devaluation in the yuan and a much stronger dollar. That's not something anybody wants.

So it's a mixed bag. Overall my gut reaction here is that the bond bull market is over — in the US and Europe — and equities will be the only game in town… and possibly a very good one.

But there's a lot to mull over here and many things that can change and go wrong. One of the reasons Trump got elected was because he was many things to many different people. A surprisingly skilled campaigner, he was very good at standing for a bunch of things while not committing to anything.

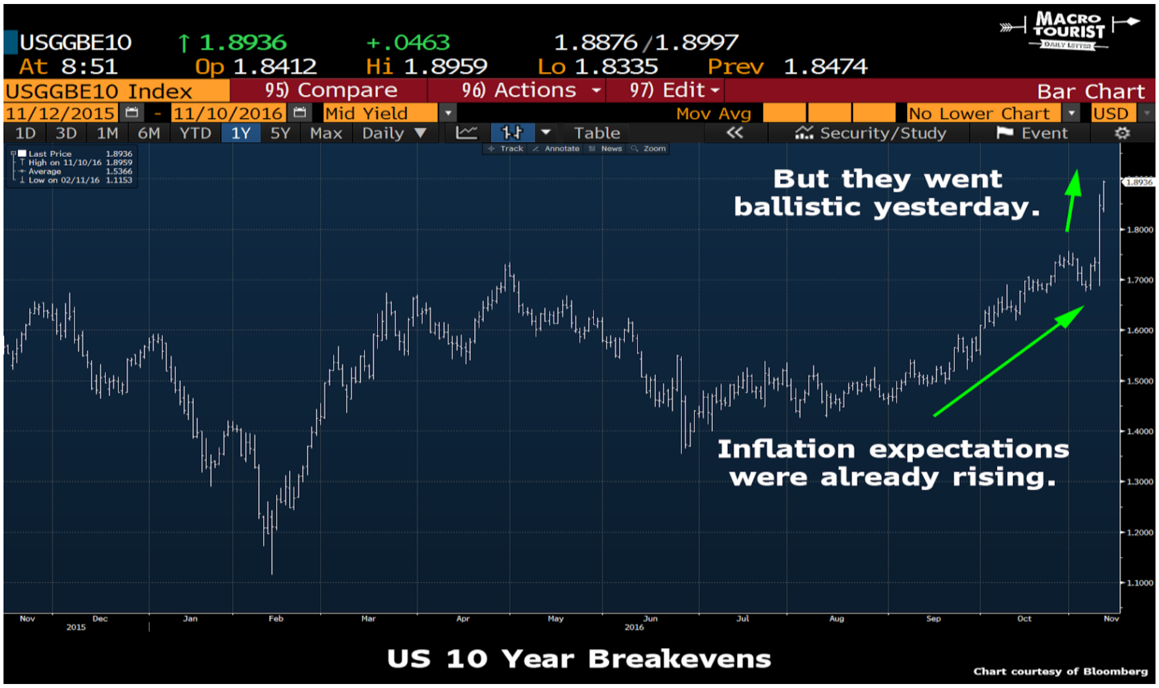
I don't think anybody knows what Trump really wants… I'm not even sure if he does. So we have to be very pragmatic moving forward but we could possibly be on the verge of extending this bull market another few years… or not. We'll get back to you next week after we've had a chance to dive deep into this.

Macro

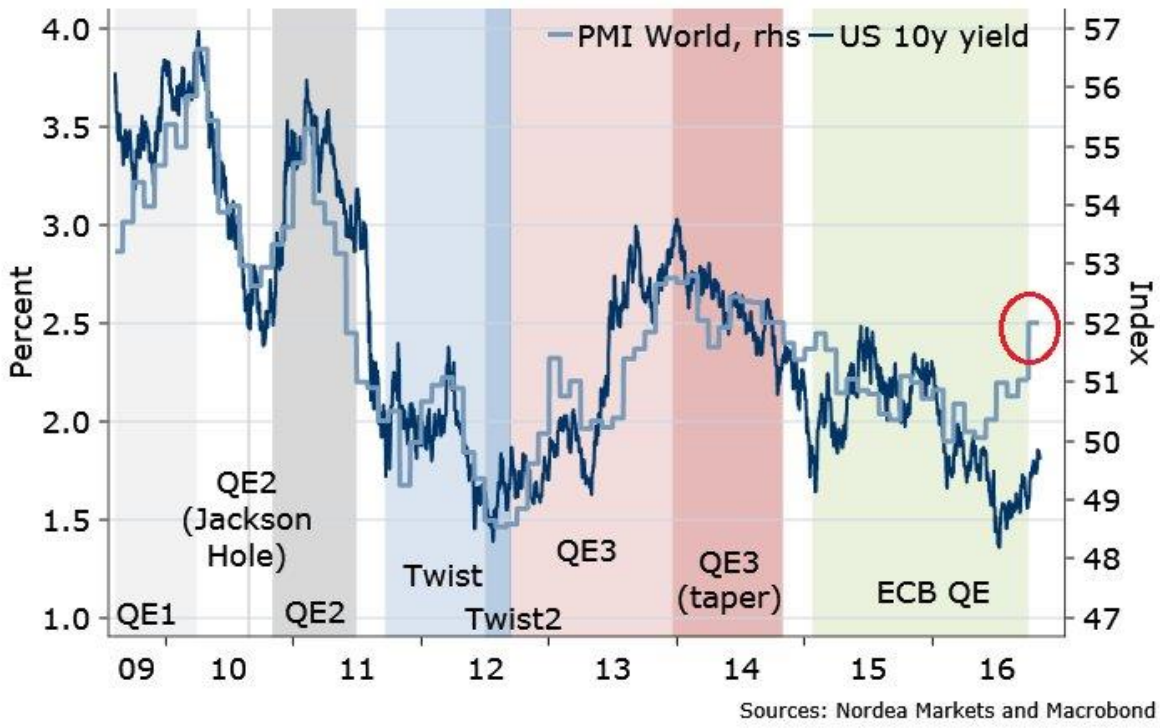
Outside of politics, there's been some interesting data points that have come out over the last month. Many confirm the end of the bond bull market that we've been writing about and suggest we're moving into a growth and possibly inflationary environment.

Take a look at the chart below. Manufacturing PMIs have turned and are now trending higher. This is a big positive indicator of coming economic growth.

Now look at this chart of US 10yr breakevens. A higher breakeven means the markets expectations for inflation are increasing. These expectations went parabolic since the Trump victory. Like we talked about, if Trump succeeds in carrying out most of his initiatives we will see a lot more government debt and much higher inflation.



US long bonds have been getting pistol whipped the last few weeks as a result. And the chart below, which shows the correlation between global PMI and the 10yr yield, suggests that US rates still have a ways to go.



So we could possibly be moving into a period of growth fueled by tax cuts and fiscal spending but there's a number of hurdles that we need to cross to get there and many potential exogenous shocks that could derail us.

We're going to dig into this a lot more over the weekend and once we have a better idea on the macro theme we'll let you know what the best vehicles are to play it. I'm thinking it'll be some heavy construction, financials, and beaten down resource stocks. I'm seeing a lot of great price action setups at the moment and we may finally have a catalyst to propel us on the next leg forward.

We've been running an extremely light portfolio in Strat the last six months but I think that's about to change. We're likely entering a target rich environment where we'll be loading up on risk and being a lot more aggressive in the markets.

Take care and enjoy the rest of your week!

-Alex

Portfolio Snapshot

Macro Ops Strategic Portfolio								
NAV	$1,030,580							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target 1	Beta (1yr)	Notional

Metrics			
Exposure Breakdown		Total Open Risk	Portfolio Beta
Equity	$0.00		
Commodity	$0.00	0.00%	
Fixed Income	$0.00		
Forex	$0.00	*Updated 11/10	

Macro Ops Income Portfolio				
NAV	$1,067,113			
Asset Class	Position	Size	Cost Basis	Max Profit
Option	SPX Dec 15 2045 Put	-10	$15.38	$15,380.00
Option	SPX Dec 15 1600 Put	10	$1.06	Hedge
Option	VIX Dec 20 15 Puts	800	$1.21	~

Scenario Analysis/Stress Tests	
Worst Case	Worst Drawdown
SPX-10%	-$88,800
SPX-20%	-$300,000

**Updated on 11/10

Macro Ops Tactical Portfolio								
NAV	$928,660.00							
Asset Class	Position	Size	Cost Basis	Risk Point	Market Price	Open Risk	Target 1	Notional
Equity	First Solar FSLR	-2,000	32.49	37.00	31.97	$10,060.00	19.66	-$64,000

Metrics		
Exposure Breakdown		Total Open Risk
Equity	$10,060.00	$10,060.00
Commodity	$0.00	1.08%
Fixed Income	$0.00	
Forex	$0.00	**Updated 11/10