



## Letter n°20

### After Trump

« *The destiny of men hangs on a fragile thread. An accident occurs, and the strongest edifice suddenly collapses.* »  
Ovide in *Letters from the Black Sea*

Rarely in history are American presidents unable to win a second term. Since 1945, such a misadventure had only befallen Jimmy Carter and George Bush Sr. So we measure Trump's pain. In 1972, during his re-election, "tricky" Nixon, another controversial Republican figure, won in 49 of the 50 states, a score never seen before. The passionate climax of the election, with 67% record voter turnout finally led to Biden's victory with possibly almost 5 million votes ahead and 306 electors, well over the 270 required, once all mail-in ballots are counted. One remembers *Churchill*: "*Americans always manage to do what's best to do*".

For four years, *Trump* played the restorer of identity & pride of the downgraded whites, feeding them "America first". To the blue-collar workers who have been often unskilled, sometimes unemployed, and always penalized by declining purchasing power over the last 30 years, Trump sold the false idea of a renaissance, the vain idea of reindustrialization with a magic wand of steel tariffs, the chimerical idea of a trade rebalance with China. These abused workers are reminiscent of *Marc Ferro* and his book "L'entrée dans la vie" when he evokes the workers, manipulated by robots in Lang's Metropolis, massacred in Eisenstein's Strike, mystified in Duvivier's Belle Équipée. Trump made people dream for one term but lost the famous "Rust Belt" states taken from the Democrats in 2016. His lies will have beaten him. *Umberto Eco* in his good book "On the shoulders of the giants" disserted on the century of Mazarin, the century of the liars of theater, Iago, Tartuffe, Don Juan but also the liars in architecture with Borromini and his false perspectives. If Umberto Eco were still alive, he would have plenty to say to Trump about liars in politics.

After the tax cuts at the beginning of his mandate, the course of his program has often been confusing for Republicans who are more adept at liberalism than protectionism, multilateralism than tariffs, balanced budgets than a record budget deficit. Boiling hot and rough, impulsive and repulsive, he ruled with many exclamations, imprecations, and injunctions in an acerbic tone.

Aggressive during his campaign, showing his contempt for opponents, ready to flout democracy, mixing strange and aberrant remarks about his management of the Covid crisis, he fascinated his supporters with his anger and terrified his opponents with his outrages. Repulsion finally prevailed over attraction. To maintain connivance with his hard core supporters, Trump defended sometimes outdated values, and shunned upon omens and threats to his re-election, ultimately failed to capture moderate votes and left 5 million votes short to Biden.

Today, tainted by failure, all to his wounded pride, locked in denial, frustrated by the opponent's victory, seeing his present collapse, let down by many Republicans, deprived of hope for a future, like the usual losers in politics in the United States, Donald Trump multiplies the plaintive libels, addresses to his supporters a desperate exorcism, tries to conjure up the inexorable, but many Republicans will become weary of his tired themes. It is in loneliness that he risks completing the last part of his term of office. Soon, like *Cioran*, he will be able to flatter himself "*to have known several forms of decline, including success*" which included the unlikely election in 2016.

**Biden**, with skill and talent, exalts cohesion, uses benevolence towards his opponents and pleads for charity in the fight against Covid. From the outset, he gauges how difficult it will be to sail together in this divided country, difficult to match these "two clans", with San Francisco and Manhattan 85% behind him but rural areas hostile to him.

Deprived, perhaps, of a majority in the Senate, we will only know it in January after a second round in Georgia for the election of two senators. Biden will have the vote of Kamala Harris, but that may not be enough and the Senate could block many of Biden's appointments to the Supreme Court, the government and the administration. Without a clear majority, it is hard to imagine an Elizabeth Warren entering the government, who may be considered too left by majority of Senators, but the centrist Biden will probably not mind. Biden and McConnell, leader of the Republicans in the Senate have already worked together when Biden was Vice-President, but Biden will probably have to wait for the mid-term elections in 2022 with the renewal of 35 senators, including 23 Republicans, to be able to pass certain measures such as the \$2 trillion Green New Deal and the minimum wage at \$15/hour.

Very quickly, he will steer his policy towards the implementation of an ambitious recovery plan and this will be welcomed by the stock market. Then, he will not be able to sail without impunity, letting the left wing of his party implement the fiscal program which is already factored in by the market.

### **Conclusion**

**From a stock market perspective**, we're not concerned with Trump's legal recourse before December 4 to challenge Biden's legitimacy. Market doesn't seem to concern either given VIX has fallen sharply. From business circles to prominent figures in the Republican Party, everyone has recognized Biden's victory and Trump is well isolated with his lawyers. Last week, the Nasdaq gained 9%, the S&P500 7.3%, the Japanese market is at its highest level since the early 90s and European markets participated in the jubilation with appreciations of 8%. The same is true in South Korea and India. Globally, world capitalization has increased by more than \$6 trillion, more than Japan's GDP. The big winners are the pharmaceutical and tech sectors, while the loser is the banking sector because of a smaller stimulus plan, as well, lack of majority in the Senate means a less steep yield curve. The dollar has depreciated, Yuan at 6.56 is at the highest level of the last 2 years. Emerging markets generally have done well.

Another reassuring factor is the rebound in 3Q earnings, evidencing corporates' ability to adapt, with 85% of corporate earnings beat expectations. According to FactSet, despite the crisis, 3Q corporate results in the United States were only 7% lower than last year. A 9% appreciation of the S&P500 this year is therefore not unreasonable because liquidity and savings have increased significantly, and 21x S&P P/E versus 17x average of the last few years expresses that we are now at the bottom of the cycle.

**From a political perspective**, as **David Goodhart** notes in his very good book "Just as America is divided between red and blue states, France between the periphery and France from above, Germany between West and East, the UK between London and the rest ... it's a worldview gap". Faced with such an observation, the men in power must, like Biden, strive to take diversity into account and not, like Trump, aggravate oppositions. Britain in the last election, working class did not identify itself in a Labour party dominated by graduates, blame-shifted issues of security and immigration onto ethnic or sexual minorities voted in Boris Johnson, much of the same way Trump was voted in 2016. Biden understood the working class's disconnection with the Democratic Party and invested a great deal of time and money to win back the Rust Belt states lost in 2016.

**From a commercial point of view**, one simply cannot deny the catching-up by China, little by little. **Yascha Mounk in People Against Democracy** deplored the weak growth of the American GDP between 1986 and 2016, +59%. It should be remembered that the Chinese GDP was \$1 trillion in 2000 and is \$13 trillion today.

**Jared Diamond**, in his latest book notes clearly: China already overtakes United States in the production of alternative energies, high-speed rail network, and, one might add, infrastructure in general. Trump's ambition was to rebalance trade with China and he failed. In October China's trade surplus with the United States grew to more than \$31 billion, as Chinese exports towards United States increased by 22% YoY. Biden will not be complacent, but will employ alternatives to tariffs, which is ineffective and costly to the American consumer.

Geneva, November 9, 2020



Bruno Desgardins  
CIO

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