VICTORIA Capital Management, Inc.

Weekly Market Missive

An Interesting Economic Parallel

December 30, 2024

How might financial markets react to President-elect Trump's economic policies? During his first term, he lowered tax rates, imposed tariffs on select countries, and reduced regulations. These policies added up to a freer market economy that favored U.S. businesses. As a result, the stock market rallied more than 16% per year during his term. In 2017, President Trump's first year in office, the S&P 500 rallied 21%, more than twice the historical average market return.

For President-elect Trump's second term, markets expect more of the same. Promises to reduce tax rates further favor domestic producers over imports through the imposition of tariffs, further reductions in regulations, and a wholesale revamping of the federal government. Such promised changes suggest that there could be a rerun of that 2017 experience in 2025.

With one exception, foreign economies seem to be going in the opposite direction. Many countries are imposing higher taxes, more government spending, and increased regulation—in other words, a return of big government. However, there is one exception: Argentina. Slightly over a year ago, Javier Milei was elected president of Argentina, a country with an economy that had been in dire condition for decades. He won the election based on promises that could be seen as parallels to President Trump's. He also implemented measures to reduce the gap between official and black-market currency rates. Although his shock therapy caused some pain, inflation has slowed dramatically, and recent data indicates that the country is no longer in recession and is growing at a 3.9% rate as of this past September.

Investor attitudes toward the country have changed dramatically as Argentine sovereign bonds and the Merval stock market index have rallied substantially. The ICE BofA U.S. Dollar Argentina Sovereign index has rallied 90% this year, while the Merval index is up more than 160% in Argentine pesos and more than 100% in U.S. dollar terms! While the parallels in policy, sentiment, and leadership make sense to compare, there are critical differences—such as market size, stability, and economic maturity—that make the two scenarios not entirely comparable.

If Trump follows through on his promises as did Milei, the outlook for financial assets is rosy indeed. The U.S. dollar remains strong, corporate profits are expanding, and the economic outlook is for further above-average gains in GDP. U.S. markets are likely to attract foreign capital not only in response to Trump's economic programs but also because the U.S. economy and financial markets are the healthiest in the world. We are entering a new phase of government and the economy, and we could look to the Argentine experience as a leading indicator of what could happen here next year and beyond.

109 East Bay Street, #1E, Charleston, SC 29401
843-342-3044 www.vcm.us.com