

Trump Tilts

4th Quarter 2024

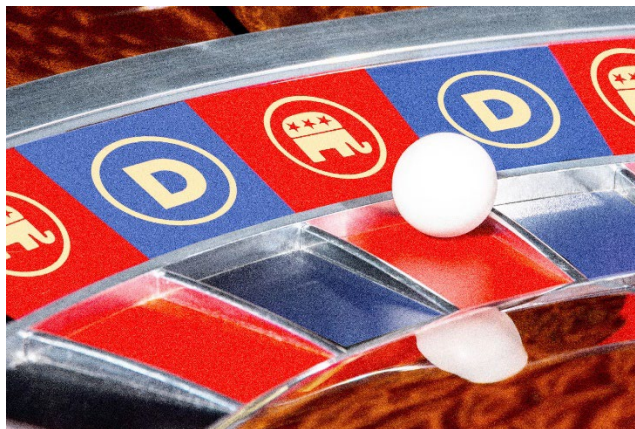
November 13, 2024

Soon, the keys to the White House will be back in Donald Trump's hands. With a unified Congress, this GOP comeback has inspired every sports metaphor in the book—and even a few Biblical ones, like a political Lazarus rising.

After the election, markets showed distinct reactions across sectors—from tech's cooling to strong rallies in energy and small caps. This letter explains the various shifts, or “Trump Tilts,” and what they might reveal about Trump's policy direction. Amid these market tilts, we will revisit our 2021 gold recommendation and new catalysts for a higher gold price.

Wagers Over Polls

Here's an interesting twist: the momentum in those sectors **didn't start on election night**. It began back in late June, shortly after the Trump-Biden debate. There was some wavering over the summer, but betting markets favored Trump by late September, and these sectors started to outperform. With startling accuracy, even down to the state-by-state level, these markets **predicted the election outcome weeks ahead of election night**.



Betting markets not only predicted the election outcome but also anticipated the direction of Congress. Since 1926, we've experienced nearly equal stretches of unified and divided government, with 50 years under unified control and 49 under divided. While we are not predicting this, U.S. stocks have averaged a 13.6% annual return under unified governments, compared to 10.9% during divided ones (See Exhibit A).

Rate Cut Puzzle

The Federal Reserve's ongoing **Fed Funds rate cuts** are particularly intriguing because **bond yields are rising** instead of falling. Historically, when the Fed lowers the Fed Funds rate, bond yields drop—but now, both bond yields and gold prices are climbing. Could the mix of deregulation, tax cuts, and tariffs fuel future inflation? This creates a tough choice for the Fed: continue cutting rates despite rising inflation risks or pause and see how Trump's policies play out.

Stock Market Rotation

Expensive technology stocks, especially those leading the S&P 500, could face a slowdown as they come under fresh regulatory scrutiny. Meanwhile, value stocks priced reasonably

that grow dividends could benefit. The cheaper financial, materials, energy, and small-cap sectors will likely be boosted if Trump's policies result in deregulation, tariffs, and tax cuts.

Before and after the election, there was a growing sentiment toward cash-flow-oriented sectors. This market segment is cheaper overall and could better fit with Trump's policies and the ongoing inflationary environment.

We do not expect a broad stock market run like Trump's first term. By all traditional metrics (Price/Earnings, Price/Book, Price/Sales), the S&P 500's valuation is sky-high, led by the tech sector—now a hefty 45% of the index.

Let's not forget that many big tech giants remain in Trump's crosshairs - apart from Trump's new BFF at X/Twitter/Tesla/SpaceX. It wouldn't surprise us if Trump nudges the DOJ to scrutinize mega-cap technology competitive practices. Recall that the dot-com bubble peaked days after Judge Thomas Penfield Jackson ruled **Microsoft a predatory monopoly** that should be split in half.

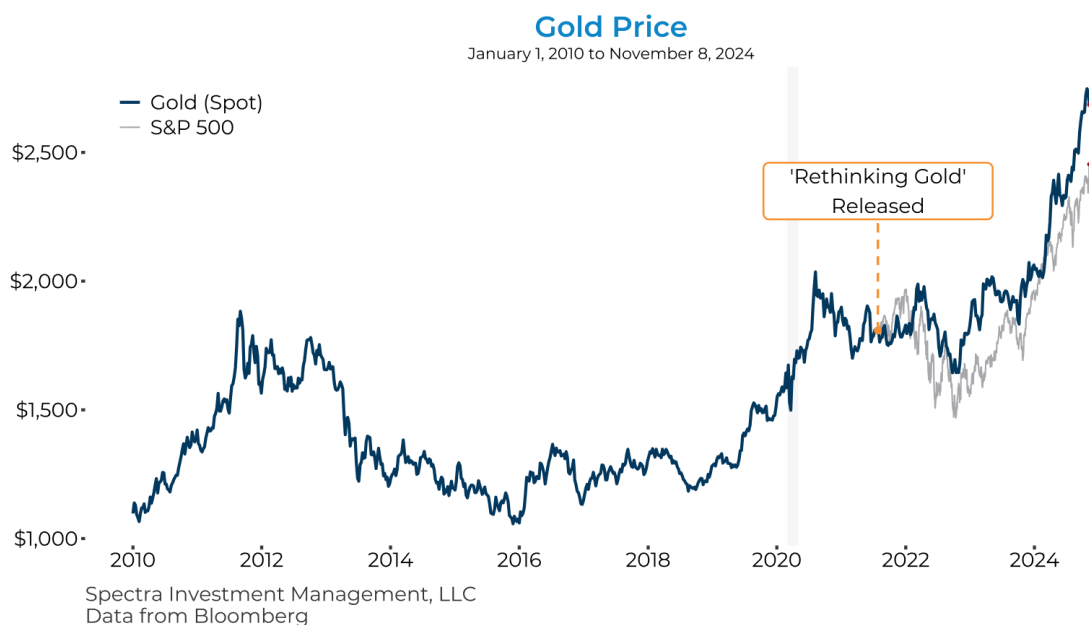
Speculative Exception

Yet, as our ego groans, it's hard to ignore Bitcoin—the ultimate speculative asset with no cash flow, intrinsic value, or meaningful regulation. Bitcoin's price move highlights a persistent speculative mood in the market, defying traditional investment wisdom. Trump courted the crypto community to win the election, so it will be interesting to see if he keeps a pro-crypto stance.

Unlike crypto, gold has intrinsic value, and its 30% rise this year signals potential challenges ahead for Trump's administration. This surge makes it the ideal time to revisit gold's merits—an asset rooted in stability and enduring value.

Revisiting Gold

Soon after writing “Rethinking Gold” in July 2021(see Exhibit D), we added a gold fund to all portfolios—client, personal, and Spectra reserves. Gold has proven a reliable performer, delivering excellent diversification in 2022 and outpacing the S&P 500 since we initiated the position.



Buying gold in 2021 was **very uncomfortable** for us. It was the first time in our careers that we recommended gold to hedge the inflationary, debt, and geopolitical shifts occurring at that time. But what's keeping this ancient safeguard so resilient? Let's explore a few new catalysts for this alternative asset.

Extended Stay Inflation

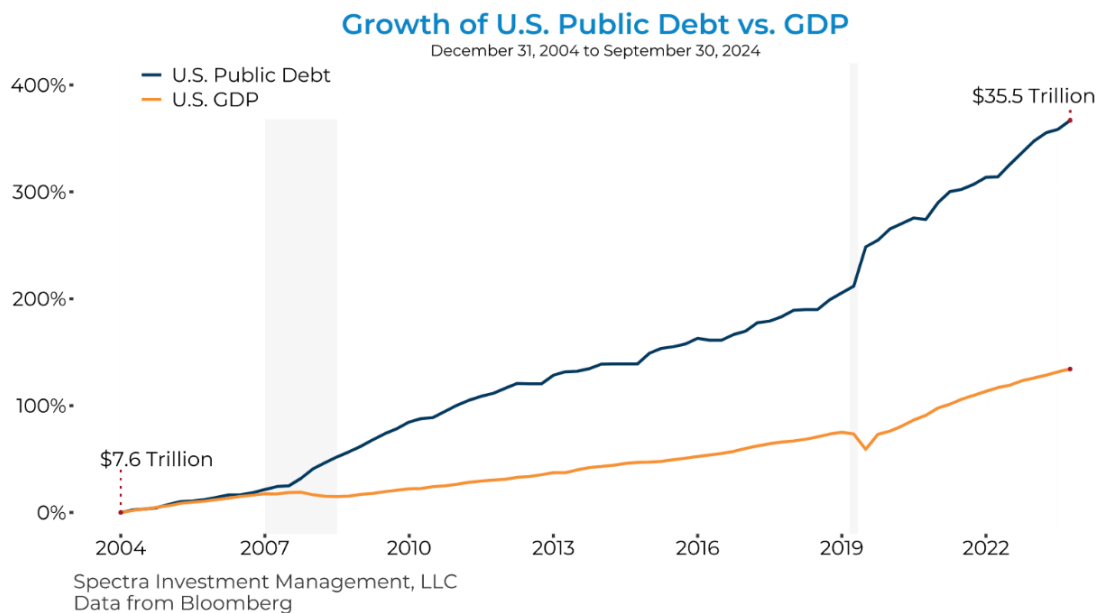
Remember when the Federal Reserve called inflation “transitory”? In our "Time to Get Real" letter, we viewed inflation more as the economic equivalent of Cousin Eddie's extended stay at Christmas. Despite the Fed's rate hikes, inflationary pressures have lingered. We believe that taming inflation will be difficult without a meaningful economic downturn.

Is stubborn inflation pushing gold higher? It's likely an influence—but new gold buyers are a more compelling argument.

BRICS Buyers

U.S. federal debt is approaching \$36 trillion. With rising interest rates, the cost of servicing this debt is set to become the largest item in the U.S. budget. About one-third of this debt will reach maturity in the next few years, adding further budget pressure.

See: [US Debt Clock](#)



Global central banks are noticing sovereign debt levels in the US and Euro regions. For them, gold isn't just an inflation hedge—it's a shield against future currency volatility. BRICS countries (Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, and the UAE) are building their gold reserves as a response to potentially destabilizing forces in currency markets.

Further, BRICS nations have been aggressive gold buyers following the U.S. decision to freeze Russia's foreign reserves after the Ukraine invasion. It's fair that these countries are asking themselves, "If they did it to Russia, could they do it to us?" In response, the BRICS nations aim for more independence from the U.S.-dominated financial system, and gold has become a key part of that strategy.

Gold Price Signals

We can only offer anecdotes if you're wondering whether it's too late to buy gold. Based on one classic anecdote, gold doesn't appear overvalued. One ounce of gold should buy a nice men's suit and a pair of shoes. We are thrifty shoppers, but browsing Saks Fifth Avenue's website, we find that a mid-range suit and shoes combo costs about \$2,500 to \$3,000—roughly equivalent to an ounce of gold.

The expected follow-up question is: when do you sell gold? Remember the frenzy after the Global Financial Crisis (GFC), when gold prices soared? By 2009 and 2010, "We Buy Gold" stores opened on every other street corner, and gold ads flooded late-night TV. The selling and melting of personal jewelry increased supply, and gold prices fell soon after. So, we don't think gold is a buy-and-hold forever asset.



Key Takeaways

1. **Positioning:** With Trump's policies focusing on deregulation and tax cuts, we expect value stocks with strong cash flows to benefit, while tech stocks with high valuations face headwinds.
2. **Gold's Relevance:** Inflation, high debt, and geopolitical uncertainty support gold's ongoing strength.
3. **Geopolitical Hedge:** Foreign central banks, particularly BRICS nations, buy gold to protect their reserves in a multipolar (G7 vs. BRICS) world.

We know that some of our clients are excited, while others may be concerned about a recrudescence of political discord. Since July, the market has tilted in favor of our yield—and value-oriented strategy, a trend we're pleased to see benefiting all of you.

Thank you for your ongoing trust and support. We look forward to spending time with you soon.

Very truly yours,

A handwritten signature in black ink, appearing to read "Scott A. Roads".

Scott A. Roads
Founding Principal

A handwritten signature in black ink, appearing to read "Julia E. Zaino".

Julia E. Zaino
Principal

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Exhibits

A. Divided vs. Unified Government Stock Market Performance.

Source: Grantham Mayo Van Otterloo & Co.

Stock market performance based on unified or divided government

U.S. stocks by calendar year returns (1/1/26 to 9/30/24)

Situation	Number of Years	Annual Average Return
Unified Government	50	13.6%
Divided Government	49	10.9%
Unified Democrat	36	14.0%
Unified Republican	14	12.6%
Divided with Republican President	33	7.9%
Divided with Democratic President	16	17.0%

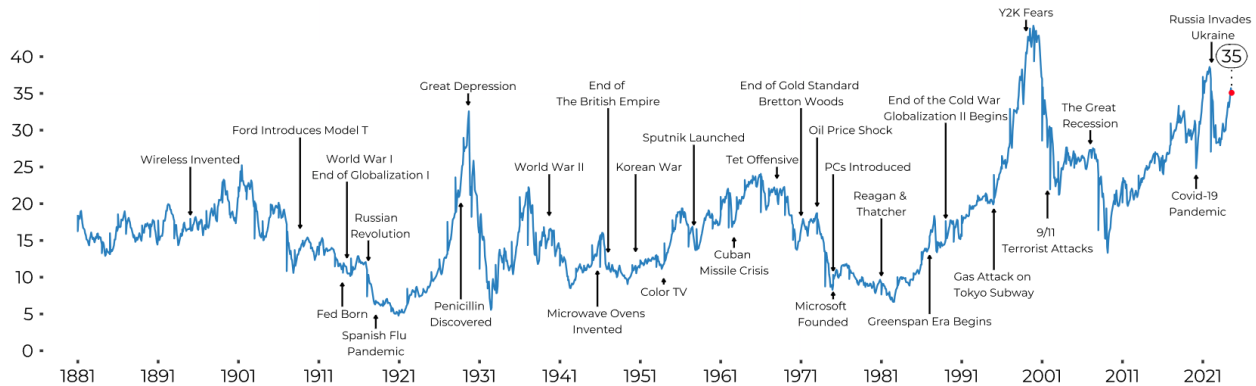
B. Largest Sovereign Gold Buyers 2013 – 2023

Link: [Visual Capitalist](#)



C. Sky High Valuations – Price/Earnings Ratio for the S&P 500 as of September 1, 2024

Price/Earnings Ratio Cyclically Adjusted 1881 to September 1, 2024



Spectra Investment Management, LLC
Data from Robert Shiller, econ.yale.edu/~shiller/data.htm
Chart adapted from a Grantham Mayo Van Otterloo & Co. chart, circa 2009

D. Rethinking Gold, July 28, 2021



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Rethinking Gold 3rd Quarter 2021 Letter

July 28, 2021

Until recently, gold as a portfolio asset seemed too passive to us. Perhaps it was the lack of compounding cash-flows or late-night gold television ads that gave us hives. And avoiding gold for our entire careers worked well in the age of government money printing – mid-1990s to now.

But current extremes in areas of finance, government, and human psychology have challenged our beliefs about gold. The questions we have are: Will the U.S. Federal Reserve (Fed) and the U.S. Congress (Congress) run the wheels off this long stimulus train? If so, does gold play a resiliency role in wealth preservation?

Central to understanding gold is its role as free-market money with one caveat – in the absence of politics. What we mean by “in the absence of politics” is the fact that world leaders have confiscated gold over the past 100 years to further political or policy ambitions. Specifically in the U.S., it was a felony for U.S. citizens to hold gold reserves from 1933 - 1974.

The Political History of Gold

The starting point for gold enthusiasts is often inflation. In the current inflationary environment, we believe gold can play a role that merits investigation.

Unlike money printing to support bank reserves during the Global Financial Crisis (GFC), the Fed and Congress are printing money and giving it to people to meet their current expenses. People, not banks, are now attempting to consume more goods than businesses can produce. Looking back the last six months, this has resulted in transient hyper-inflation from boats to beef.



"Midas, Transmuting all into Gold Paper"
James Gillray circa 1797

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