



INVESTMENT STRATEGY NOTE

Politics – Same Thing



JUNE 2024

TLDR: Both candidates are Populists and will overspend and destroy the dollar. Use the French as our canary in the coal mine for the election (Brexit June 2016 – Trump Nov 2016 to Le Pen June 2024 to ???). We are in for a wild run – this isn't the 2016 economy Trump is walking into – All of those warnings about Trump blowing things up in 2016 might ring true in 2024 (Biden probably does it too though). How to be positioned – Own a barbell approach – own way out of the money downside risk and own a ton (pun intended) of commodities. Either SPX under 4500 in the next 12-18 months or Bitcoin >150k and Copper 30,000 ton.

The inevitable takes longer to occur and then it happens twice as fast. Somebody smart said this – I'm not sure who but I love that saying regarding trading. I really don't think people realize what is going on in this election. We are voting on whether trans people can read to elementary school students (joking but kind of serious), and maybe immigration but even Trump will let people walk over the border because it's great for labor markets. This is a separate rant but wages can spiral, and keeping wages down via illegal immigration is unfortunately good for both parties. We have two populists running for president with different social agendas. Left-wing populism and right-wing populism is taking over our political spectrum. "Hornbach's quick take:

For reference – Populism is a range of political stances that emphasize the idea of "the people" and often juxtapose this group with "the elite". [Populism - Wikipedia](#)

I'll use China tariffs as the biggest example. Populism very closely relates to nationalism and both parties want China tariffs which is arguably the biggest international story this election. Israel/Iran/Gaza might add 10-15 basis points to global inflation on an annual basis, but it's miniscule compared to China's economy. Israel is an incredibly important social issue which people will vote on but it's not significant economically due to a lack of major oil supply and/or major exports. It's the same with waterway trade issues created by the conflict. **Biggest international economic policy – SAME POLICY**

The screenshot shows a news feed search results page. The search criteria are 'China' and 'Trade Tariffs, Wars'. The results are listed in a table with columns for rank, title, source, and time. The following table represents the data from the screenshot:

Rank	Title	Source	Time
1)	Facing E.V. Tariffs, China Threatens Pork Imports From Europe	NYT	10:52
2)	Trump's New Tariffs Would Feel Like Taxes, Economists Warn	BN	04:00
3)	Global Times: Europe should avoid setting stumbling blocks to stymie win-win t...	NS6	06/16
4)	Renewables chief says Joe Biden's China tariffs risk slowing green transition	FTI	06/15
5)	ATF: US Trade Groups Want a Hearing on Biden's China Tariffs Hike	NS6	06/15
6)	Reuters: US industry groups seek hearing, more on Biden's China tariff hike htt...	TWT	06/14
7)	Two-Front Trade War Risk Limits China's Options: Economics Daily	BN	06/14
8)	China Has Trade Troubles on Every Continent: Balance of Power	BN	06/14
9)	Many Chinese EV Manufacturers Already Prepared for EU Tariffs -- WSJ	WSJ	06/14
10)	The Standard.hk: Xi Has Few Options to Punish EU Without Starting Trade War	TSD	06/14
11)	G7 summit turns to simmering tensions with China	AFP	06/13
12)	Xi Has Few Options to Punish EU Without Starting Trade War (1)	BN	06/13
13)	US News: Analysis-Bound by Rules and Economics, EU Trails U.S. on China Tariffs	NS1	06/13
14)	Fox News: Europeans await China's response to new EU tariffs on Chinese cars	FOX	06/13
15)	100% EV Tariff - Biden Slams Brakes on Xi's Plan	BI	06/13
16)	The EU slapped massive tariff hikes on China's EV giants. Investors don't seem ...	BDR	06/13
17)	China slams EU's provisional EV tariffs	SKA	06/13
18)	Chinese EV stocks surge after EU slaps up to 38% additional import tariffs	CND	06/12
19)	Why Biden Is Escalating Trump's China Tariffs: QuickTake	BN	06/12



The biggest domestic issue: Fiscal (government spending) deficit. Trump wants to keep his corporate tax rates and extend his cuts. US Tax revenues will stay depressed and economic growth won't improve as it did in 2017. Persistent deficits will lead to increased dollar printing, fueling inflation and creating a vicious cycle that erodes purchasing power. (Don't forget that cutting corporate tax rates in 1968 led to an awful economic decade in the 70s). If you think Trump will take office without consequences and play the "bad guy" by ripping off the band-aid from COVID stimulus, you're overlooking his history of heavily leveraged business practices. Trump is not Javier Milei (President of Argentina making massive reforms to cut inflation).

Biden will spend like a drunken sailor as he is now.

Fiscal Deficits: Let them grow. We'll print dollars out of this – SAME POLICY

Now, I know what you're thinking – *"but they are spending on different things. It's so different."* Correct – they are spending on different social issues which is what you, me, and your neighbor will argue about for the next 4-5 months. With that being said, take a step back and do some simple math. Deficits mean the government is spending more than they make – in order to make ends meet, they need more debt. When they have more debt, the interest makes the deficit worse. The Fed will have to raise rates to keep the mandate of stable prices (both parties will use illegals to keep full employment via an open border or stop immigration and watch the economy come to a SCREECHING HALT). The only way out of the area between this rock and a hard place is to print more dollars. We (the US) are not alone - Everybody (Europe, Asia, South America) will print more. The dollar may not go down vs the euro, but it will decrease in purchasing power. There are a million different ways to overspend and it will eventually kill us because for the first time we are spending like drunken sailors with raging inflation.

Europe is the canary in the coal mine. When Brexit was voted on in June 2016 – people were shocked, and it sent waves into a global economy. Populism was growing. The difference is the world was in a much better

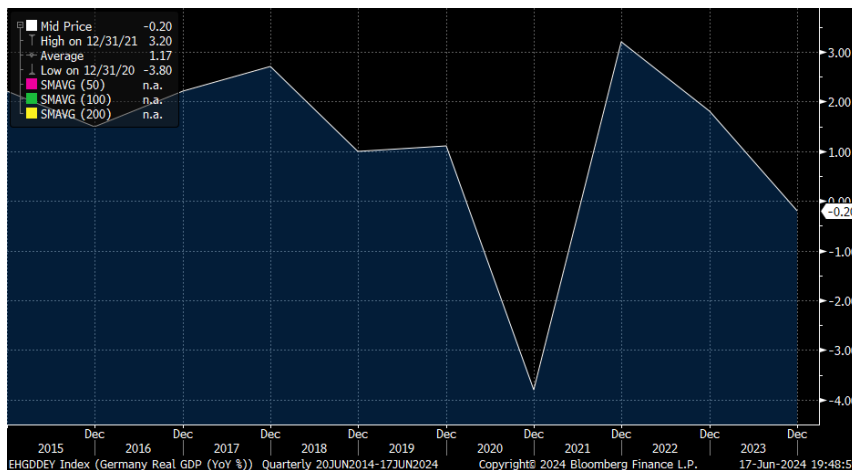
place in 2016. Brexit had a roaring Germany carrying the continent. Trump's populism driven election win followed in the US in 2016, and he also walked into a roaring US economy.

The Le Pen vote in France in June of 2024 is likely the next wave of European populism. Germany's growth is slowing, and real GDP growth just went negative – far different than their ~2% growth in 2016. France CDS is SKYROCKETING which is a measure of the probability of default for their federally issued bonds. Europe is a different animal because of the complex euro/franc currency dynamic – which is why we don't trade it. Too hard – there are easier ways to ride the wave. If Europe really is the canary in the coal mine – Trump is likely going to win in November. Then, we are going to overspend and destroy the dollar or rip off the band-aid from years of stimulus and crash the economy. Like Le Pen, Trump is not walking into a strong economy like 2016. His policies will have consequences. The US economy doesn't even have a chance to grow into the deficits like promised in his tax cuts in 2017.

There are two outcomes – the value of government issued currencies gets destroyed and supply constrained real assets go on a tear (commodities, crypto) OR someone rips the band-aid off and sends equities down 30+% because rates go up, small business gets slashed all over, unemployment rises, and we save the dollar for our children (good luck winning on that policy).

How to be positioned – Own a barbell approach – own way out of the money downside risk and own a ton (pun intended) of commodities. Either SPX under 4600 in the next 12-18 months or Bitcoin > 150k and Copper 30,000 ton.

Germany Real GDP Growth



France CDS 5Y (Up is bad)

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