

ARCAPITA



US Presidential Election: The Return of Trump

Donald Trump wins the 2024
US Presidential Election

Election Edition 2024

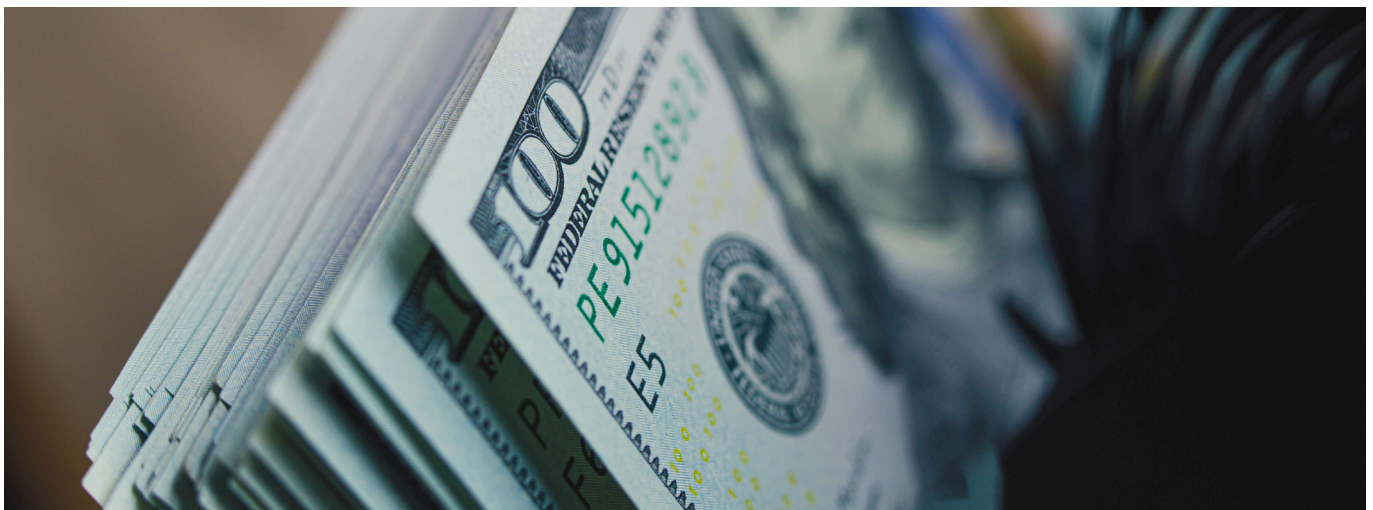
Overview

He's back. The man that launched a thousand memes, the quixotic celebrity deal-maker, the tanned and bequiffed golfing billionaire is back in the White House. So infamous that he can be referred to purely by acronyms, MAGA DJT is back into town. And this time, the constitution determines that it must be his final act. Presidents can only serve two terms and Donald J Trump, who will be 82 by the end of his term, is sure to want to secure his legacy.

In this note we outline Trump's economic inheritance, his economic policies and their impact on GCC investors. We also examine the geopolitical context and his likely impact on the US over the next four years, before highlighting potential actions to watch out for.



The Economic Context



The huge increase in debt racked up since the global pandemic along with the inflation shock wrought by conflict in Ukraine has created a huge challenge for all G7 nations. Every government must wrestle with the thorny question: How to service the debt whilst generating growth?

The US is in a better position than most. It has the trump card (and not one produced by The Donald) because the US dollar is the world's reserve currency. The hegemony created by the Marshall Plan in the wake of the Second World War has led every nation to hold at least some dollars. This pile of dollars is recycled into US debt which has enabled president after president to increase the US deficit without much care for the solvency of the nation. If the rest of the world will always invest in your debt, why worry about reducing the scale of that debt?

Because everything has its limits. No country can be confident of their position as the leader of the world ad infinitum. The

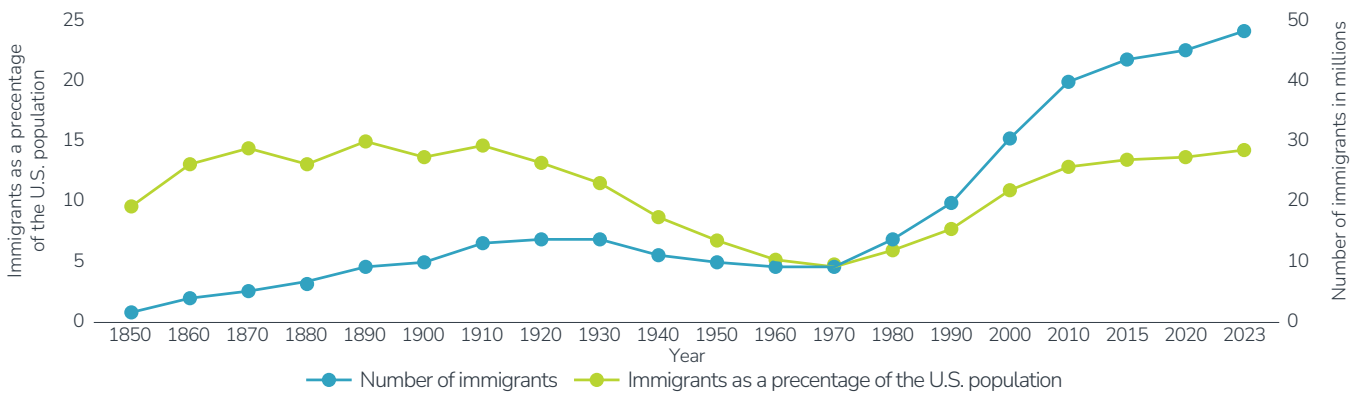
last few millennia have seen China, the United Kingdom and the Roman Empire come and go from the top spot, to name just a few. The USA is now heading into the record books with the run up in its debt. Of the current money supply, a quarter was created since January 2020. The Congressional Budget Office (CBO) projects the debt-to-GDP ratio will overtake its all-time high in 2027. This projection led the Director of the CBO to warn of a Liz Truss-style "snap back" in the US bond market, where huge unfunded promises by the government could lead to a sudden and destabilising increase in government bond yields.

Fortunately for Trump on the growth side of the debt/growth balancing act, the US economy is one of the most dynamic in the world thanks to its flexible labour market. The ability for a barista to leave from a latte bar in San Francisco, California one day, then move to Austin, Texas and set up as an online digital marketing expert the next, contributes to a higher potential growth rate for the economy.



According to the Pew Research Centre, the US is home to one-fifth of the world’s international migrants. Immigration has soared in recent years:

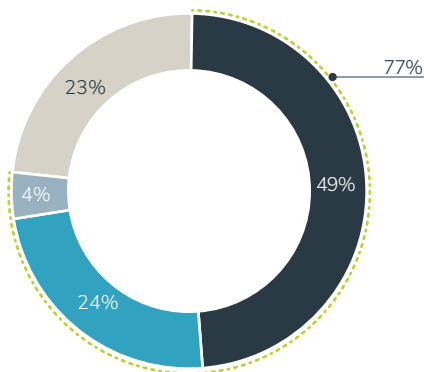
Number of Immigrants and Their Share of the Total U.S. Population 1850 - 2023



Source: Migration Policy Institute (MPI) Data Hub

Most immigrants are in the country legally but almost a quarter are unauthorised:

Foreign-born Population Estimates, 2022



- Naturalized citizens 23.4m
- Unauthorized immigrants 11m
- Lawful permanent residents 11.5m
- Temporary lawful residents 2m
- Total lawful immigrants 36.9m

Source: PEW Research Center

From an economic perspective, immigrants can add to the productive capacity of the economy if they deliver more output than they use. The US is about to find out in real time whether its immigrants are adding value to the economy. To date, many immigrants have gone into productive employment, which has meant the US could get a lid on the double digit inflation that has plagued so many economies in the wake of the pandemic. With job vacancies dropping, it remains to be seen if they will all remain employed.

This then is the central economic question facing Trump: how to balance generating US economic growth while servicing the growing US government debt. At a second level: in generating the growth, how to balance the labour market, immigration and interest rates? And in servicing the debt, can anything be done to limit debt growth – indeed, is there a will to limit debt growth?

In this context, we would highlight that the softening labour market is a key reason why the US Federal Reserve has chosen to start cutting interest rates even though inflation remains above their target. A weaker labour market means that they are biased towards continued reductions in interest rates, no matter what the new president does.

Key Economic Policies

1. Deport Undocumented Migrants

And President Trump wants to do something about all that immigration. He has promised to deport all undocumented migrants, which prompted signs at his rallies for “Mass Deportations Now!”. There are clear logistical difficulties in trying to expel 11 million people en masse, not least the cooperation required by local law enforcement and the federal Immigration and Customs Enforcement agents. There will be legal challenges but Trump can at least expect the Supreme Court to back his decisions, given there is now a 6-3 conservative majority after Trump appointed sympathetic nominees during his previous term in office.

At the very least, the change in approach towards illegal immigrants is expected to encourage fewer to cross the border. All else equal, this would reduce the supply of labour which would tend to cause inflationary pressures. This would particularly impact industries that rely on lower cost, non-unionised workers, such as construction, hospitality and warehousing.



2. Raise Tariffs

And Trump already has plans to raise prices. He has described himself as “Tariff Man” and is expected to announce a 60% tariff on goods from China and up to 20% on everything else the US imports. During the campaign he even threatened the US machinery manufacturer John Deere with a 200% tariff if it moved production to Mexico and then tried to export its goods back into the US. Trump’s protectionist focus on encouraging production to take place on American soil runs hand in hand with his anti-immigration stance. But if goods are to be made in America for Americans and by Americans, the demand for low cost labour is likely to rise just as he cuts off its supply. This would tend to exacerbate the inflationary impact of his programme.

Tariffs are a key lever for the US President to pull. They are beguiling because they can be enacted by executive order alone, meaning the president doesn’t need to rely on Congress to get them passed.

3. Tax Cuts

Trump wants to extend the tax cuts he introduced in 2017 which are due to expire in 2025. The rate for almost all tax brackets was reduced and it raised the limits on various tax credits and reliefs. It also permanently slashed corporation tax to a single rate of 21% from 35%. Trump wants to continue with all of this and more. This would be a significant fiscal stimulus. Coming alongside monetary stimulus from the Fed, this would tend to increase growth and inflation in the economy.



The Impact

Adding up all of these policies, the macro picture is one of higher inflation. The impact on GDP growth is harder to predict. On the one hand, stimulating consumer demand through tax cuts and the higher wages that would result from a smaller workforce might boost growth. But if prices rise too high due to tariffs, not least if other countries respond with retaliatory tariffs of their own, and there are fewer workers in the economy available to do productive jobs, this could result in a stagflationary environment.

On US capital markets, the picture is mixed:

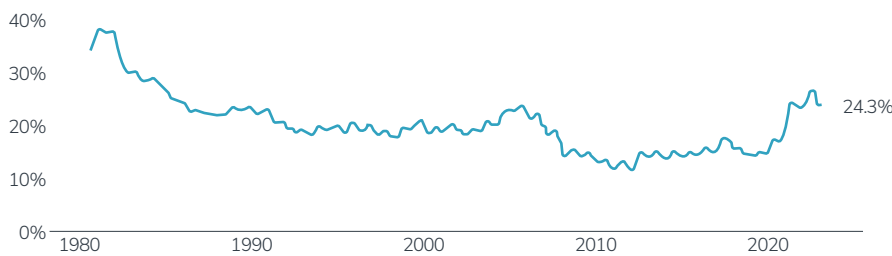
IPOs

“Made In America” companies are likely to perform better. Trump is effectively looking to isolate the US, sealing in its workers and its production. Indeed, domestic IPOs may see a more appealing environment, which may help to unblock the logjam of private equity held companies looking at IPO, and thereby provide fresh impetus to the US private equity sector.

Housing

Trump wants to increase housing supply but it will be difficult to make a meaningful impact on this in the relatively short space of time he has in power, though it may prove a tailwind to residential developers over the next four years. In the shorter term though, decreasing interest rates should increase the number of housing transactions, releasing pent up demand that has been frustrated for the last couple of years.

Monthly Payment as a Percent of U.S. Median Family Income



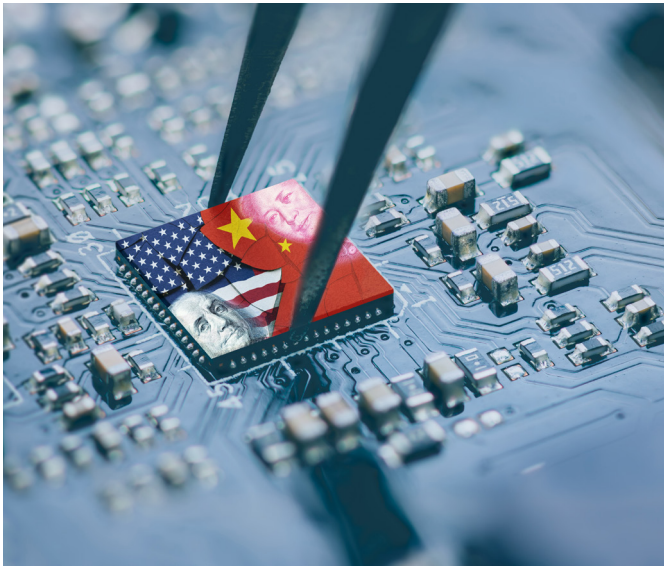
Source: National Association of Realtors



Energy

Trump will maintain his scepticism on renewable energy, with one key caveat – electric vehicles, where his bro-mance with Elon Musk is due to see the latter installed into the administration in some capacity. It won't last, with two large egos unable to share the same stage, but it might make Trump sound happier with electric vehicles than he is with any other part of the alternative energy policy platform. Trump will certainly give ongoing support to fracking and ensuring American energy security – he has already promised to restart oil drilling in the Alaskan arctic refuge after Biden cancelled the lease sales that Trump had granted in his first term.

Geopolitics



The US President doesn't simply have an impact on his own country. The leader of the free world inevitably has a far greater impact than that. New battlelines and alliances are being drawn across the globe as we move out of the post-Cold War consensus into the challenges of the Technological Revolution.

The new economic environment of a more virtual world, increasingly interconnected but also increasingly protectionist, has exacerbated tensions between nations. Global conflict is on the rise as countries find themselves low on resources just as a new economic world order emerges. Some countries have spotted the chance to grab more resources by war; others have simply spotted an opportunity to attack whilst their enemies have been consumed by domestic matters.



In such an environment, it will be challenging for any country with a global footprint to stay neutral.

This causes consternation when it comes to the key global player: China. Can they maintain a relationship with both Russia and The West? Can they continue to be a key part of supply chains for goods desired by Western consumers even as they apparently supply weapons of war to the enemies of the West?

The US cannot afford to isolate itself whilst China, India and a host of other developing nations grow, both in terms of population size and economic scale. Simply pulling up the



drawbridge and retreating is not an option. However, America also can no longer afford to be the global policeman. The huge debt pile and its internal domestic demands push the new President to mass its resources internally, rather than expend its budget, particularly on defence, externally.

Borders are back across the world. Migration is under the spotlight everywhere as countries have to struggle with feeding more mouths under diminishing resources which have been diverted to service Covid-induced piles of debt. Visa restrictions will become commonplace. Foreign policy goals will be as relevant as economic goals for governments in terms of which countries they choose to stand alongside.

Trump straddles this with his Apprentice-era finger ready to point "You're Fired" at anyone who gets in his way. He sees countries as businesses to cut deals with. He was the first American leader to visit North Korea. He has said he can "work out something" on the Russia/Ukraine war immediately. His pragmatism will stand him in good stead but it will look strange and inconsistent, particularly to the US's allies, as he appears to switch sides in order to thrash out deals.

Society

The lockdowns, inflation and war have led to fractured angry electorates. This has put a strain on electoral systems. Those with more flexible systems can adjust to the pressure – in France, Emmanuel Macron became President after founding a whole new party which has undergone several rebrandings in just its 8 years in existence (from En Marche! to Renaissance) whilst Germany now has its first ever three-party coalition (the SPD, the Greens and the FDP).

But the US only has a two party system. “Democrats” and “Republicans” are two tribes at odds with one another. As the electorate has fractured, these tribes have become more internally conflicted as they try to bridge the gap across very broad coalitions.

Checks and balances in the US system are designed to prevent the centralisation of power but they cause frustration when parties can't work together. Policy making becomes difficult.

Trump's greatest genius was running as an insurgent under the banner of an existing party. Over the decades, independent candidates with huge war chests of money have tried to become president – and always failed. Trump understood he had to work within the existing machinery, rebranding himself, a New York Democrat, under the Republican banner, with a new slogan: Make America Great Again. This movement exists both within and outside of the party, attracting those who are disaffected from the entire political process and want to back a candidate outside of the establishment – but also working within the existing party framework of the Republicans.



He also had the name recognition that pre-dated his association with any political party. Trump is Trump, whether he sits under a blue banner or red. This allows him to take more risks than other politicians. He doesn't owe his success to a party. He can take the wins under his own name. With this being the final term that he can constitutionally serve, and entering his 80s, he will be keen to ensure a legacy on his own terms. This means he is unshackled. He can do a deal with anyone in Congress that serves his purposes. He can use the presidential bully pulpit to set the narrative. In his own words, he is “a very stable genius” who rocks the mainstream elite yet whose approach remains entirely rational to his core voters.

What To Look Out For?

The President has few powers that he can execute alone but the ones within his/her remit include executive orders on tariffs, foreign policy direction as Commander-in-Chief and influence over institutions.

So we could see:

Replace Fed Chair Powell

Trump has form in his interactions with Fed Chair Powell. He did not shy away from criticism of Powell in his first term and has continued to complain about actions the Fed has taken, not least that kicking off the interest rates cuts with a chunky 50bp reduction in September was “a political move”. Despite this, Trump is likely to be happy with the stimulus impact of a Fed which is cutting rates during his presidency. This could come into question with all of Trump's tariffs however, if that raises inflation expectations. Then the Fed and the President would be at odds. Although constitutionally difficult for a president to fire the head of the Fed, it is not impossible. A barrage of pressure could be enough to force Powell to jump before he is pushed.

Do a deal with Russia

Trump's first book is “The Art of the Deal” and it spends a lot of time detailing how Donald likes to get on the phone and call everyone up, knock heads together and get a deal done. That might work in business, but in an increasingly geopolitically fractious world, it will be difficult for his allies to accept anything which approaches appeasement of Putin the aggressor. That won't stop him if he thinks he can spin it into a popular narrative at home.

Tariffs on everyone

Should Trump be frustrated by Congress he will fall back on the few levers he has under the executive branch of government. Slapping tariffs onto everyone could become a habit, not least if we tie it into Trump's love of deal making. Tit-for-tat tariffs would make the whole world a more conflicted, and less prosperous, place.

Increased military spending

In Trump's first term, the US dropped one of its largest non-nuclear bombs, the so-called MOAB, on a tunnel used by Islamic State in Afghanistan. He is not a man to shy away from flexing macho muscles. We know he's threatened to pull the US out of NATO because he feels the rest of the world is free-riding on the American military. With conflict set to rise, Trump will not hesitate to spend more money on US defence, even if it becomes clearer that the US cannot afford to remain the world's policeman.



Private Equity

A Trump second term should be positive for US private equity. A higher inflation and higher growth outlook, plus a receptive political ear to Wall Street, would point to favourable conditions for investment, together with a potential unblocking of the IPO exit route for “Made In America” companies.



Real Estate

Fed policy and likely increased debt issuance points to lower short term interest rates and higher long term interest rates. This would in general favour shorter term leases and nimble investment strategies. Equally a higher inflation but potentially higher trend growth environment may lead to a wider range of attractive real estate opportunities, particularly where shorter term leases can capture inflationary growth, or for development strategies.



In Conclusion

Trump returns for his second bite at the cherry with a mountain of challenges ahead. The US debt pile demands higher growth but is not clear that this can be achieved through his policy platform of higher tariffs and restrictions on immigration. This

will not faze him. He will take on the increased geopolitical conflict like the seasoned dealmaker that he portrays himself as throwing the weight of the US around in his bid to Make America Great Again. “Fight Fight Fight” he chanted whilst punching his fist in the

air after the assassination attempt of 13th July 2024. He will hope investors into the US will not take flight, flight, flight. Trump is back and this is one sequel that is sure to keep audience eyes glued on America.

ARCAPITA

Overview

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With two decades of experience, Arcapita’s management has built a global investment platform to access the opportunities that exist in our core markets of the US, Europe, Middle East and Asia.



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