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SUMMARY

- Cyclical value sectors, such as financials and energy, would likely see an immediate benefit from a Trump re-election, in our view.
- However, like Trump's first presidency, we believe deregulation and lower taxes may end up benefiting growth-oriented Technology as well.
- History suggests to us that executive branch policy often matters less for relative sector performance than macro and microeconomic factors.

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Trumponomics 2.0 (Part Two): Who Gets the 'Trump Bump'?

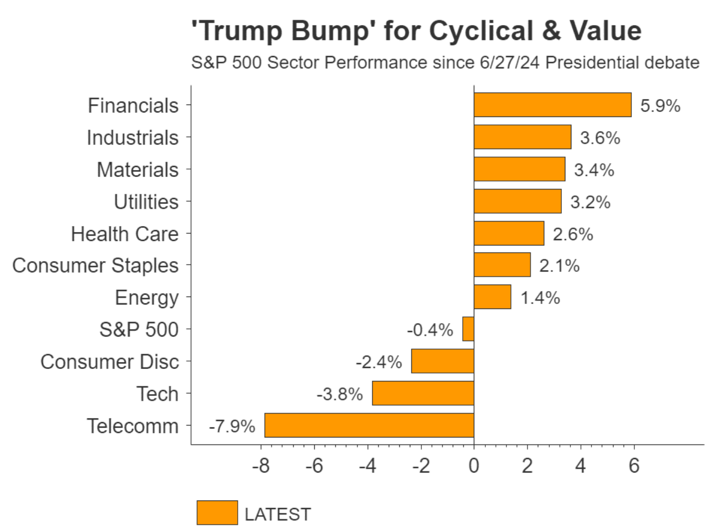
Potential Sector Impacts of a 2nd Trump Presidency

Even in today's hyper-driven electoral news cycle, the past week or so counts as a memorable one. President Biden's announcement to not seek reelection, and a newly energized Democratic base rallying around Vice-President Kamala Harris, has brought a new energy to the Presidential race. However, most polls and betting markets still show former President Trump currently in the lead.

In our macroeconomic-focused Part One of the *Trumponomics 2.0* series published last week, we concluded that a Trump win could potentially lead to a 'reflationary' backdrop where both economic growth and inflation would be elevated through the next business cycle. This is a scenario that, depending on the interplay between these two macro drivers, could potentially support positive stock returns, in our view. But which areas and sectors would catch a 'Trump bump', and which might suffer?

Trumponomics 2.0 *Could* be a Catalyst for a Value-over-Growth Rotation

If we are correct about Trump's policies being reflationary and a driver of steeper yield curves, then strong performance by financials and cyclical 'value' US sectors such as banks, industrials and energy companies would make sense. And indeed, since President Biden's poor debate performance on 6/27, these areas have outperformed the market (see chart, below)...with the classic 'growth' areas of tech and communication services meaningfully underperforming. This is similar to relative sector moves in the weeks following Trump's election win in 2016. However, we think what actually would transpire across the longer cycle of an entire Presidential term is more nuanced and requires deeper exploration.



Source: LSEG Datastream, RiverFront; data daily, as of 7.26.24. Chart shown for illustrative purposes only.

Energy: Trumponomics Favors Deregulation and Fossil Fuel...but Macro Effects Will Prove More Important

Trump is a champion of the traditional US energy industry — 'Drill Baby Drill' is a mantra repeated over and over in recent Trump speeches and interviews. The loosening of regulation and the promotion of fossil fuel over alternatives should be a boon to the North American oil and gas industry, in general. However, the ability for US executive order alone to affect global oil supply/demand dynamics is somewhat limited, in our view. From a supply side, the OPEC+ cartel operates well outside of the control of the US. Furthermore, Trumponomics' preference for tariffs could depress international economic activity, including from major sources of US energy demand such as Europe, Asia, and Canada. Ironically, Trumponomics may end up achieving its stated goal of lower oil prices by depressing global energy demand rather than by boosting supply…which would likely be a negative for oil and gas companies' revenues, in our view.

Regardless, Riverfront continues to favor energy stocks. With 'breakevens' for existing shale wells currently around $60/barrel, we believe that well-capitalized energy companies have attractive economics even if oil prices are lower than current levels. We prefer less-indebted energy companies, as they should be more able to make strategic capital allocation decisions to take advantage of any distress caused by elevated interest rates or lower oil prices.

Financials: Steeper Yield Curve and Deregulation Likely Positive for Banks: We Prefer Larger Lenders

In general, we believe stocks of financial institutions should respond positively to Trump-led deregulation. This is because regulation in general tends to add operating costs and restricts the types of loans these companies make, as well as the amount of capital required to be held on the balance sheet. In addition, banks, who tend to fund their long-term loans from short-term deposits, become more profitable when short-term rates drop relative to long-term rates. Thus, our view espoused last week that Trumponomics will likely drive deregulation and steepen the yield curve could be positive for banks.

However, we would caution investors from over-extrapolating these potential macro benefits too enthusiastically to smaller US regional lenders. As we have discussed in the past, if rates rise high enough to really stunt economic growth, this can hurt lending and credit for regionals, whose loans tend to be riskier and more sensitive to changes in economic fortunes. Regional lending is already showing signs of distress from a post-pandemic downturn in commercial real estate. While these macro factors also affect larger banks, they tend to have stronger balance sheets and a higher percentage of their revenue and profit coming from securitization of loans and other non-interest rate related activities, like trading, asset management, and investment banking. These are all activities that are less exposed to interest rates.

Technology: Despite the Noise, Trump 2.0 May be Positive for Tech

Technology is a particularly thorny issue to pin Trump down on. For instance, Trump's tariff strategy and America First rhetoric regarding support for Taiwan could be potentially damaging for chip manufacturers with direct or indirect ties to Taiwan. However, supply-chain reorientations towards allied nations such as the US and Japan could lower the geographic risks for these companies. Furthermore, strong marketplace demand for sophisticated chips used in a variety of end markets creates pricing power for these manufacturers even at higher prices.

More broadly, Trump's relationship to Silicon Valley has historically been strained. For much of his stint as POTUS, Trump was frequently critical of many of the tech industry's largest companies and CEOs, particularly ones who attempt to police online speech.

However, these tides may be turning. Titan tech CEO Elon Musk is a high-profile convert, announcing recently a nine-figure pledge to a Trump-friendly 'super political action committee (SuperPACs). Newly chosen Trump running-mate J.D. Vance, a young senator from Ohio, was previously a Silicon Valley venture capitalist with close ties to other powerful tech leaders such as Peter Thiel.

In addition, Silicon Valley has been increasingly frustrated with the Biden Administration's focus on AI regulation and anti-trust. Deregulation of the tech sector would likely be a positive catalyst for tech, in our view. It is worth noting that during Trump's Presidency, tech stocks meaningfully outpaced the broad gains in the S&P 500. We continue to favor high free cash flow technology companies.

Industries Who May Suffer from Trumponomics 2.0

However, this amount of steepening not only depends on growth and inflation impulses behaving as expected under Trump's economic and political agendas, but also that the Fed reaction function remains apolitical. In his first term, Trump was at times critical of the Fed under current Chair Jerome Powell. Many have voiced concern that a 2nd Trump Administration may try and call into question the Fed's stated political independence. For his part, Trump in a recent interview with *BusinessWeek* stated that he is willing to allow Jerome Powell to serve out his term, which expires May 2026.

- **Tariff-sensitive companies and geographies:** While Chinese and European exporters will likely struggle in the US with Trumponomics' tariffs, this dynamic could also conversely hurt US-based exporters. US companies who are reliant on export sales into Asia and Europe will be exposed to retaliatory trade measures from these geographies. Also, these firms' price competitiveness in foreign markets could be impacted by a strong US dollar. This includes many US branded consumer companies, which may also face input costs issues as well (see below).

- **Alt-energy and electric auto manufacturers:** These types of plays are the antithesis of Trumponomics' desire to promote fossil fuel production and cut funding to low-carbon tax credits. Companies in the crosshairs include wind and solar power companies, as well as any firm relying on carbon capture and storage credits to drive revenue. Trump has also been outspoken about the Biden administration's EV policies and has said that he will "end the electric vehicle mandate" if he is victorious in November.

- **US consumer companies:** A 'reflationary' backdrop may place input cost pressure on consumer companies' margins, especially those without valuable brand names to help provide pricing power. Depending on the level of inflation, it may be difficult to fully pass through these costs to consumers. Also, some of the larger staple companies with large international revenue and supply chain exposure could be harmed by tariffs. A higher cost of capital due to higher rates could limit growth opportunities, taking into account tariff, inflation, and rate impacts. Riverfront believes that judicious selection among consumer stocks will be important in a Trump 2.0 regime.

- **Pharmaceuticals:** Pharma — and the regulation of drug prices specifically — tends to be a political football regardless of which party is in office. However, we expect big pharma will continue to have headline risk from regulatory pressure, with a populist Trump administration eager to demand lower prices and more transparent negotiations between pharmaceuticals, prescription benefit managers (PBMs) and healthcare insurers.

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In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa). This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

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Index Definitions:

Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero).

High-yield securities (including junk bonds) are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities.

Dividends are not guaranteed and are subject to change or elimination.

Technology and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

Definitions:

In a rising interest rate environment, the value of fixed-income securities generally declines.

Inflation is a gradual loss of purchasing power, reflected in a broad rise in prices for goods and services over time.

Reflation is a fiscal or monetary policy designed to expand output, stimulate spending, and curb the effects of deflation, which usually occurs after a period of economic uncertainty or a recession.

The term Organization of the Petroleum Exporting Countries (OPEC) refers to a group of 13 of the world's major oil-exporting nations. OPEC was founded in 1960 to coordinate the petroleum policies of its members and to provide member states with technical and economic aid. OPEC is a cartel that aims to manage the supply of oil in an effort to set the price of oil on the world market, in order to avoid fluctuations that might affect the economies of both producing and purchasing countries.

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