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Market Commentary: The Economy and Inflation in a Second Trump Term

November 2024

The US was, by many measures, the most powerful “empire” in history post-WWII. The US used their unparalleled global position to promote peace and democracy by policing the oceans and fostering free trade of not only goods and services, but also ideas. This spurred unprecedented wealth creation and population growth, with the US arguably the winner as demonstrated by its economic dominance, financial influence, military superiority, and cultural leadership.

However, America’s benevolence came at a price. The international community took advantage of America’s free protection and trade to outcompete us in areas like manufacturing. As a result, our factories have been hollowed out and the middle class has suffered. This has fueled a growing narrative of “Make America Great Again.” It is time to reevaluate our current role in the global order, which requires a deep focus on the US/China relationship.

As shown in the chart below, **the UN projects that China’s manufacturing dominance will continue to grow, allowing it to outproduce all other nations combined¹ within the next decade, which would place it at a strategic advantage in an extended world conflict. This fact alone emphasizes why China presents a critical challenge to the vision of Making America Great Again.**

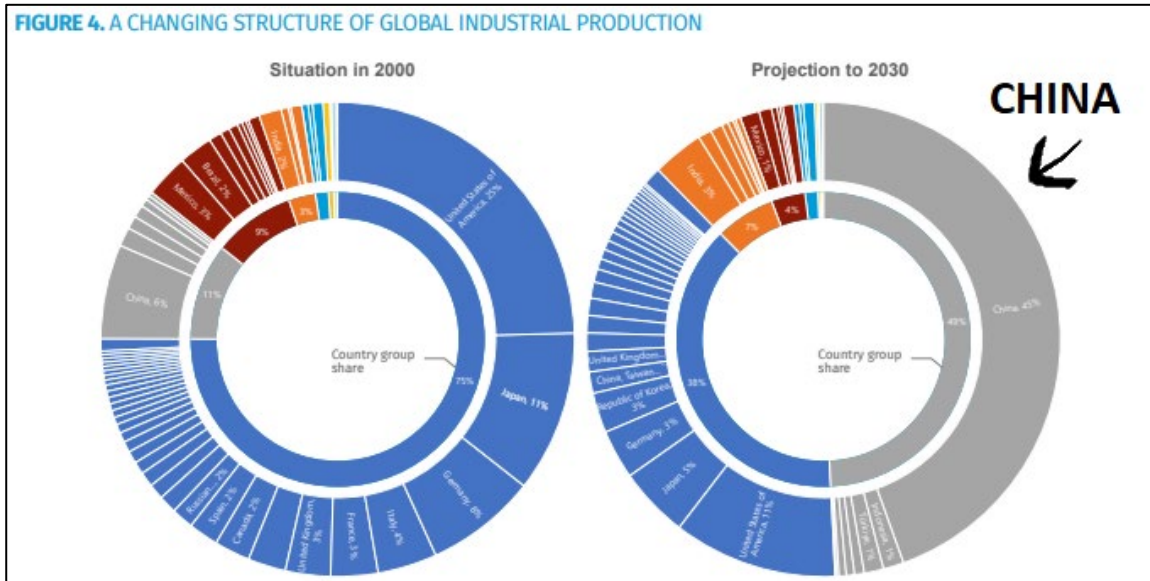
The US had a dominant position in 1945, which it used to support global stability and progress. If China in fact establishes a dominant global manufacturing position, how would it wield such power? Will it seek to incorporate Taiwan, take over other territories it deems theirs and force their form of governance on others? Simply put, building out US industrial production in strategic areas is more than simply lifting a burdened middle-class. It is ensuring the US maintains its global position.²

Tune in to our recent podcast [“Are We Entering a New Golden Age of US Manufacturing?”](#) featuring Chris Semenuk of Tema ETFs.

“There was a time when the US was the exemplar of free markets and globalization and I think as of Jan 1 it no longer will be” – Chris Semenuk of Tema ETFs on our podcast, *Investment Wars*, episode 25. Chris and I briefly discuss the recent history of globalization and the realities that have resulted in a **bipartisan move away from China and elements of the global world order** we created in the first place. The incoming Trump administration will continue this shift, possibly aggressively so.

¹ [The Future of Industrialization by UN Industrial Development Organization](#)

² [Manufacturing is a war now - by Noah Smith - Noahpinion](#)



Over the last eight years, the US has gradually recalibrated its global position, most notably in its approach to its relationship with China. The first Trump administration placed tariffs on approximately \$300 Billion of Chinese imports, restricted trade in certain technologies tied to national security, and labeled China a currency manipulator. Toward the end of Donald Trump’s first term, US Secretary of State Mike Pompeo signaled a profound shift in US policy, condemning China’s unfair trade practices, IP theft, human rights abuses and military aggression.

The Biden administration largely upheld these Trump era policies while expanding restrictions on American investments into China. The Biden administration, though, focused on subsidies, exemplified by the CHIPS Act, rather than tariffs. While the approaches have been somewhat different, they highlight the bipartisan belief that China is a threat.⁴

In order to understand how the Trump administration may mold policy over the next four years and how those policies may affect the markets we delve deeper into some of their stated initiatives.

Deep Thought: The Hammer of Witches, AI Edition

The *Malleus Maleficarum*, or *The Hammer of Witches*, first published in 1486, quickly became a best-seller. It is believed to be the second most sold book behind the Bible over the next couple of centuries. This was no *Harry Potter*. It was a do-it-yourself guidebook to exposing and killing witches in subverting a worldwide satanic conspiracy. The author advocated the use of horrific methods of torture and execution based on

³ [The Future of Industrialization by UN Industrial Development Organization](#)

⁴ [Timeline: U.S.-China Relations](#)



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(coerced) confession. Over the following two centuries roughly 50,000 people were executed for using witchcraft.⁵

After decades of harsh military rule, Myanmar began a process of democratization in the early 2010s which led to international aid and investments pouring into the country. This raised hope for the minority Muslim Rohingya population. However, the situation for the Rohingya population became much worse, building through 2017 and culminating in a crisis which led to the killing of upwards of 25,000 civilians, rape or sexual abuse of 20,000 – 60,000 women and men, and the displacement of over 1 million Rohingya.⁶

These terrible events are based on human stories that play on historical tales and lore as well as on the fears and fallacies of humans:

- The dominant information network of *Malleus Maleficarum* was shared via the printing press medium and fueled by a whole witch hunting bureaucracy.
- The Rohingya genocide began with inflammatory anti-Rohingya messages created by humans and supported and exacerbated by Facebook algorithms that proactively amplified and promoted this content. While Facebook's algorithms were designed to increase activity on its platform, not to kill, Facebook employees did not limit the algorithm in any way that incorporated moral or ethical analysis of the impact of their success in increasing activity or even the nature of the activity itself. The algorithm found the most efficient way to increase use of the platform was by inciting fear and hatred, exacerbating or perhaps creating a genocide.⁷

The persecution of “witches” relied on human propaganda and the printing press. The persecution and partial genocide of Rohingya combined human-generated hate with algorithmic amplification. *At what point does AI concoct and promote a story that sets one group of humans against an out group? At what point is the out group all of us humans?*

⁵ [Malleus Maleficarum - The Hammer of Witches Audiobook | Libro.fm](#), Nexus by Yuval Noah Harari

⁶ Nexus by Yuval Noah Harari

⁷ It unfortunately does not say much of us humans but better to be aware of it.





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For those of the belief that “it can’t happen here” or think modern society is too “smart” and “sophisticated,” check out the beliefs and following of [QAnon](#).⁸

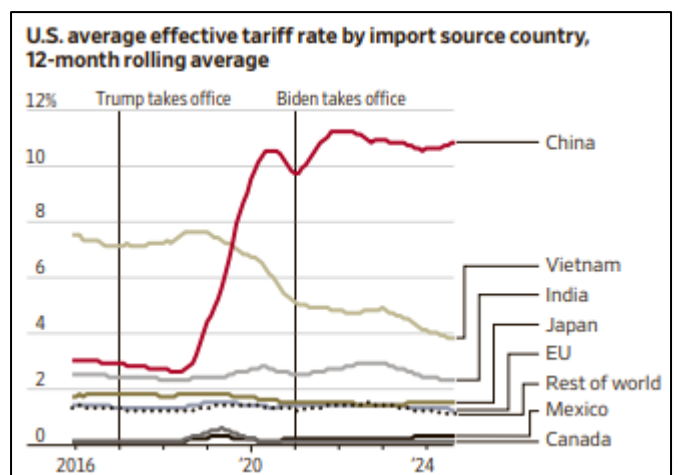
This Deep Thought is inspired by *Nexus* by Yuval Noah Harari which provides a brief history of Information Networks from the Stone Age to AI. It is an incredibly interesting, essential, yet scary read.

Tariffs

President-elect Trump has clearly stated his intention to raise tariffs upon taking office. Financial markets are concerned, given the potential cost to the economy. Who will bear the cost of a 25% tariff on an imported product? Most likely the consumer. Businesses face heightened uncertainty and risk as they assess relocating manufacturing or attempting the complex and costly task of building factories domestically. Tariffs are inherently inflationary. They drive up prices, reduce consumption, and can contribute to increased business volatility. The economic ripple effects of such a policy could be significant, with potential consequences for growth and market stability.

Key points to consider:

- The Biden administration maintained tariffs implemented by the prior Trump administration (note graph). These tariffs were not directly blamed for inflation experienced during Biden’s term.
- During Trump’s first term, the US and China negotiated the “phase one” agreement which eased some tariffs in exchange for commitments by China to purchase additional US goods and enforce IP protections.



⁸ Which borrows liberally from *The Hammer of Witches*, and has a core belief that the world is being controlled by the “Deep State,” a **cabal of satan-worshipping pedophiles**, with President elect Trump the only one who can stop them... - [QAnon | ADL](#)

⁹ WSJ: How U.S. Wields Tariffs Around the Globe by Hannah Miao, Wednesday, December 4, 2024



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President-elect Trump has clearly stated that he will use tariffs to achieve goals of the US beyond simply pulling manufacturing back to our shores, but also as a tool to achieve broader national goals. For example, demands of Mexico in slowing illegal immigration across our shared border.

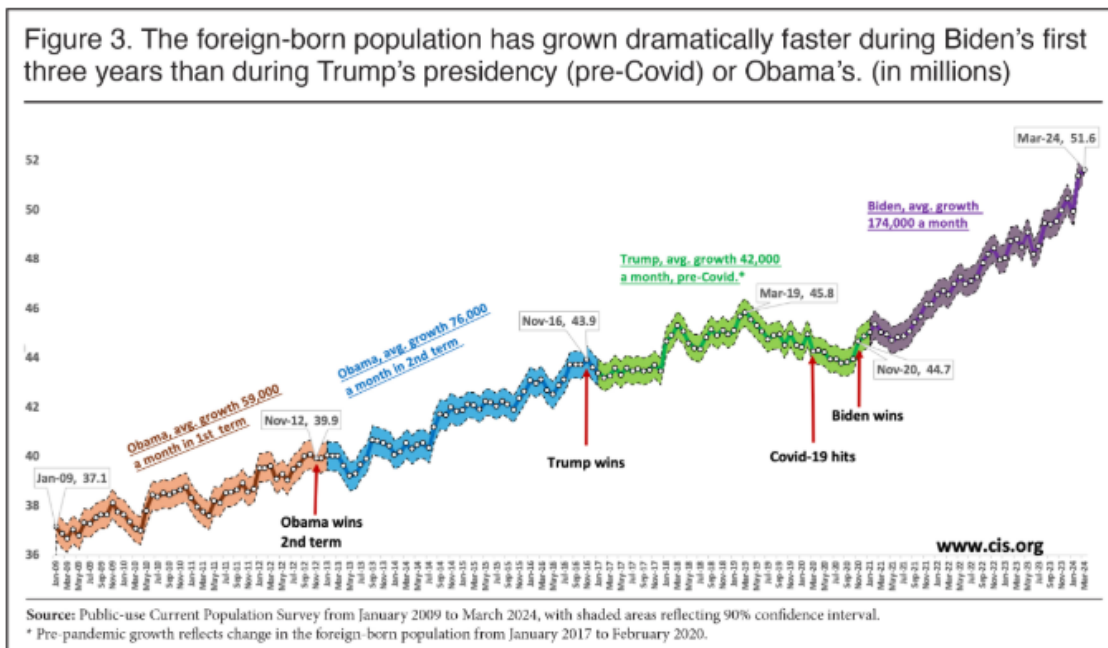
Markets will monitor the incoming Trump administration's use of tariffs in achieving its stated goals which will provide some indications of how long this potentially inflationary cost will drag on our economy.

Government / Regulation / Tax

The Trump administration has also signaled plans to make deep cuts to government spending and regulation. On the regulatory front, reduced red tape could offset some of the costs associated with tariffs by lowering business expenses and fostering market growth. Easing regulatory burdens may also provide a boost to overall economic activity, creating opportunities for expansion even in the face of trade-related disruptions.

Illegal Immigration

Legal immigration has been incredibly consistent over the last two decades, averaging roughly one million individuals annually, excluding the Covid-19 period. However, illegal immigration increased materially during the Biden administration, as can be seen in the following chart. (This is one of the reasons widely cited for Kamala Harris's defeat.)



President-elect Trump plans to not only stop illegal immigration but to expel the estimated 14 million undocumented immigrants currently residing in the US. Direct cost estimates are significant, ranging from



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approximately \$350 billion if executed in a single year to \$1 trillion if spread over a decade¹⁰, not to mention the complex nature of this sort of operation.¹¹

The economic implications extend far beyond direct costs. Undocumented immigrants hold approximately 8 million jobs—roughly 5% of the U.S. workforce—and contribute around \$100 billion annually in taxes. Removing this segment of the population would create ripple effects across the economy, particularly in industries heavily reliant on this labor force (such as construction) and in regions with larger proportions of illegal immigrants.

Top Ten Occupations with the Largest Number of Illegal Immigrants					
Occupation	Illegal Immigrants in Occupation	Illegal Share	Legal Immigrant Share	Native Share	Natives in Occupation
Maids And Housekeeping Cleaners	351,434	20%	29%	51%	873,439
Cooks	336,363	13%	16%	71%	1,840,832
Construction Laborers	332,258	17%	18%	65%	1,275,355
Agricultural Workers, Animal Breeders	258,484	28%	23%	49%	451,512
Grounds Maintenance Workers	255,066	17%	17%	66%	1,000,518
Janitors And Building Cleaners	243,608	9%	18%	73%	2,012,226
Driver/Sales Workers And Truck Drivers	191,777	5%	12%	83%	3,009,564
Cashiers	191,306	5%	10%	85%	3,319,122
Carpenters	178,254	14%	14%	72%	926,980
Laborers, Freight, Stock, Material Movers	153,790	6%	9%	85%	2,110,123
Total Labor Force	7,655,428	5%	12%	83%	133,452,383

There Are No Jobs Americans Won't Do, Steven A. Camarota, Jason Richwine, and Karen Zeigler, August 2018, Center for Immigration Studies.
 Figures are based on five-year (2012 to 2016) public-use file of the American Community Survey.
 Total may not equal 100% due to rounding.

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Economic Growth vs Inflation

A bipartisan emphasis on reshoring strategically important industries, combined with a business-friendly administration focused on reducing regulatory and tax burdens, is poised to create a near-term tailwind for economic growth. Policies aimed at strengthening domestic manufacturing and critical supply chains could bolster resilience and competitiveness in key sectors.

However, this potential growth comes with risks. A more volatile approach to global relationships and alliances, coupled with policies centered on tariffs and stricter immigration enforcement, could contribute to inflationary pressures. Tariffs, in particular, may increase costs for businesses and consumers, while labor market disruptions stemming from immigration policy could further drive wage inflation.

¹⁰ [Mass Deportation: Devastating Costs to America, Its Budget and Economy | American Immigration Council](#)

¹¹ Material resources would need to be devoted to ICE and the DOJ among other agencies (which DOGE may be working on cutting). States like Florida and Texas may contribute resources though at the same time hollow out elements of their workforce and taxes while other states, such as California, may become sanctuaries, increasing federal expenses. Low hanging fruit for the Trump administration includes (1) keeping illegal immigrants out via walls and pressure on Mexico and (2) deporting illegal immigrants with a criminal record.

¹² Illegal Immigration and the U.S. Labor Market -

[9.13.23_camarota_testimony_help_subcommittee_hearing_on_open_borders_and_workforce.pdf](#)



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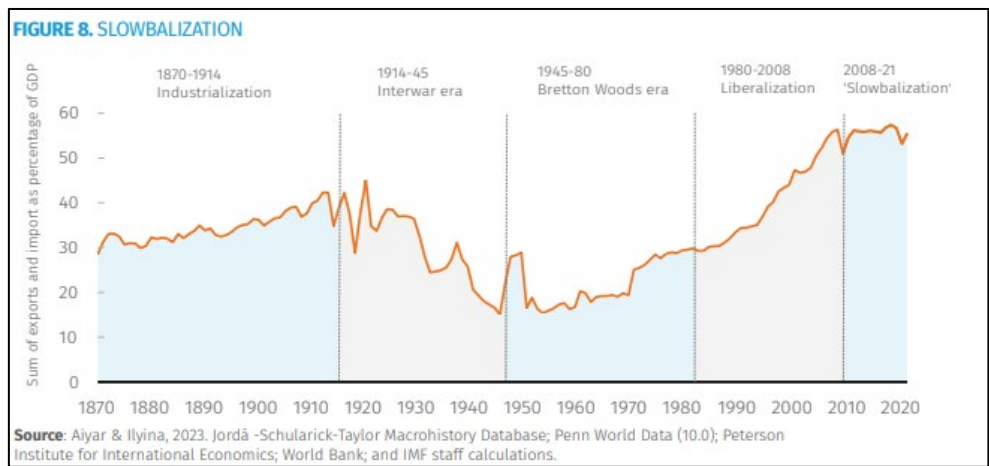
The extent of these inflationary effects will depend significantly on how monetary policy is managed. Adjustments to the money supply, federal funds rates, and the Federal Reserve’s balance sheet could play a critical role in mitigating inflation.

Summary

Whether China’s intentions are good or bad is ultimately irrelevant – its potential capabilities pose a significant risk to the current world order in which America and its allies reign supreme. This should put in perspective the cost of a potential inflationary period as compared to the cost of losing access to Taiwan, which produces the world’s most advanced semiconductors. These semiconductors are critical to AI, advanced weapon systems, and our global technological edge.

Beyond security concerns, local manufacturing enhances risk management in an increasingly stressed global supply chain. Political parties may favor different approaches – for example, the Biden administration’s use of subsidies such as the CHIPS act,¹³ and the Trump administration’s reliance on tariffs – however, the optimal strategy more likely involves a nuanced and dynamic mix of tools to achieve the best outcomes for our citizens.

We have written quite a bit about how the golden age of globalization is over. The following chart highlights the recent stagnation of global economic activity. We would not be surprised to see this activity begin to decline.



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Over the next four years we will be focusing on how tariffs are used, a focus on regionalization and localization of manufacturing, policy towards illegal immigrants in our country, and how relaxed regulation and perhaps taxes will spur both growth and inflation.

¹³ [CHIPS for America Act & FABS Act - Semiconductor Industry Association](#)

¹⁴ [MIPF - Conference Paper - Draft 1 BACKUP](#)



Talking Points: November 2024

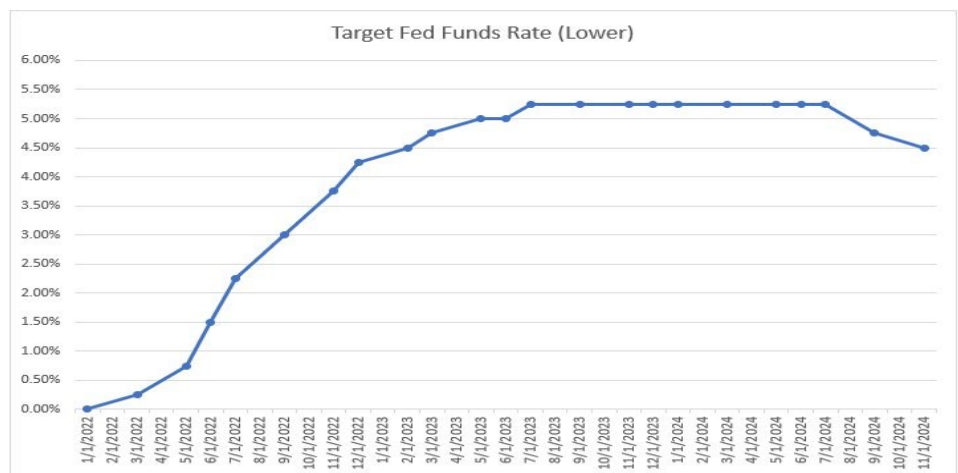
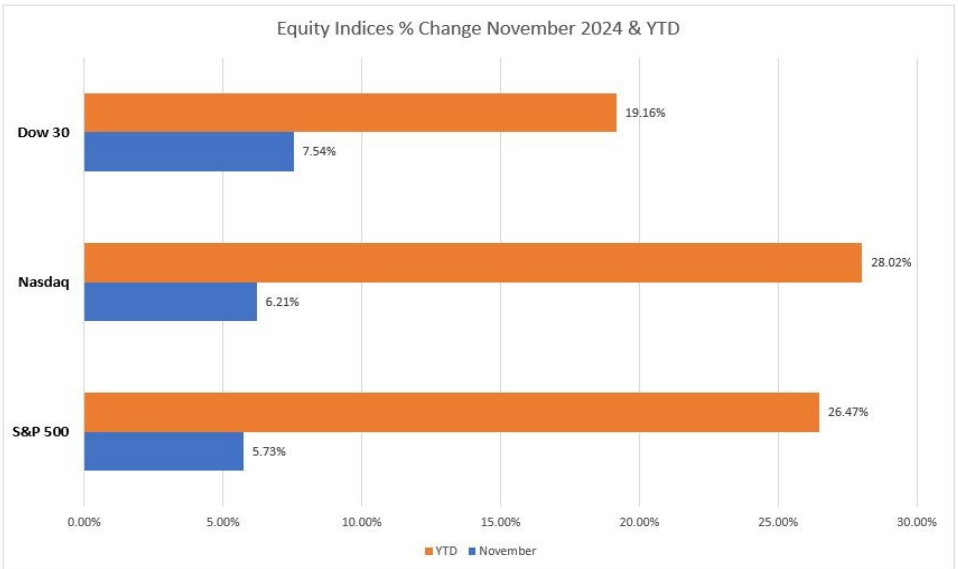
Monthly Market Recap

US equity markets rallied following a Republican sweep in the elections, while intermediate and longer-term yields experienced a slight decline.

The clear outcome of the elections provided relief to markets, which abhor uncertainty. President-elect Trump is widely viewed as a positive force for the economy and financial markets due to his pro-growth agenda, including an anti-regulation and low-tax approach. However, as noted in the commentary, concerns remain about the inflationary risks posed by his reliance on tariffs as a key policy tool.

This narrative of optimism tempered by inflationary fears drove market movements—plain and simple.

The Federal Reserve's decision to cut rates by 25 basis points at its November meeting was widely anticipated by the market and came as no surprise. The rate cut aligned with recent signals from Fed officials and the prevailing economic data, which indicated a slowdown in inflation and moderate growth. While there was initial speculation in October about the possibility of a second consecutive 50bps cut, those discussions gradually lost momentum as the meeting approached, with most observers expecting a more measured approach.





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Probability of Upcoming Fed Interest Rate Decisions							
	Hike	Hold	Cut	Hike 25bps	Cut 25bps	Cut 50bps	Cut 75bps
11/8/2024 December	0.00%	35.10%	64.90%	0.00%	64.90%	0.00%	0.00%
11/15/2024 December	0.00%	40.10%	59.90%	0.00%	59.90%	0.00%	0.00%
11/22/2024 December	0.00%	47.30%	52.70%	0.00%	52.70%	0.00%	0.00%
11/29/2024 December	0.00%	34.00%	66.00%	0.00%	66.00%	0.00%	0.00%

Highlights/Notes

Highlight: President-elect Trump winning the election was the main driver of performance in November with no major surprises coming from economic data, earnings report or international events.

FAM Sentiment Summary

2024	January	February	March	April	May	June	July	August	September	October	November
Fed	MILDLY BEARISH	MILDLY BEARISH	MILDLY BULLISH	BEARISH	MILDLY BEARISH	NEUTRAL	MILDLY BULLISH	MILDLY BULLISH	BULLISH	MILDLY BULLISH	BULLISH
Interest Rate Decisions	NEUTRAL	n/a	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	BULLISH	NEUTRAL	BULLISH
Commentary	BEARISH	MILDLY BEARISH	BULLISH	BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BULLISH	BULLISH	BULLISH	MILDLY BULLISH	MILDLY BULLISH
Economic Data	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	MILDLY BULLISH	MILDLY BULLISH	NEUTRAL	MILDLY BEARISH	MILDLY BULLISH	NEUTRAL
Inflation	NEUTRAL	MILDLY BEARISH	BEARISH	BEARISH	NEUTRAL	BULLISH	BULLISH	BULLISH	MILDLY BULLISH	NEUTRAL	NEUTRAL
Employment/Labor Market	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	BULLISH	NEUTRAL	MILDLY BULLISH	BEARISH	BEARISH	BULLISH	NEUTRAL
Housing/Real Estate	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BULLISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BULLISH
GDP	BULLISH	n/a	NEUTRAL	BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
Consumer Spending	MILDLY BEARISH	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BULLISH	MILDLY BULLISH	NEUTRAL	MILDLY BULLISH	NEUTRAL	NEUTRAL	MILDLY BEARISH
Consumer Sentiment	MILDLY BULLISH	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
Global Events/News	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH
China	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BULLISH	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	BULLISH	MILDLY BEARISH	MILDLY BEARISH
Europe	NEUTRAL	NEUTRAL	MILDLY BULLISH	MILDLY BULLISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BULLISH	NEUTRAL	MILDLY BULLISH	MILDLY BEARISH
Russia Ukraine War	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BEARISH
Israel Hamas War	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	BEARISH	BEARISH	BEARISH	BEARISH	MILDLY BEARISH
US Politics	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	BULLISH
2024 Election	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	BULLISH
Budget Negotiations	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
Earnings	NEUTRAL	MILDLY BULLISH	MILDLY BEARISH	NEUTRAL	BULLISH	MILDLY BULLISH	MILDLY BULLISH	NEUTRAL	NEUTRAL	MILDLY BULLISH	NEUTRAL
Banking Turmoil	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	MILDLY BEARISH	NEUTRAL	MILDLY BEARISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL
Crypto	BULLISH	BULLISH	BULLISH	NEUTRAL	MILDLY BULLISH	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	NEUTRAL	BULLISH

Notable Changes from Month Prior

- Fed Interest Rate Decisions - Neutral to Bullish



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- The Fed did not have a meeting in October and therefore made no interest rate decisions. This month however, they elected to cut rates by 25bps which is what the market was expecting/wanting.
- Employment/Labor Market - Bullish to Neutral
 - Contrary to last month, there was not much of a reaction by the market to any economic data released. This is because most of the results were expected and in line with recent data.
- Russia Ukraine War - Neutral to Mildly Bearish
 - Tensions escalated this month as the US allowed Ukraine to launch US missiles into Russia. It was not enough to flip to completely bearish, but it got the markets attention.
- US Politics - Neutral to Bullish
 - Markets welcomed the election results as there was no uncertainty over who won and President-elect Trump is viewed as pro-business with his focus on lowering regulation, maintaining low taxes and bringing business back to the US.
- Crypto - Neutral to Bullish
 - Bitcoin and other crypto currencies rallied after Trump won because of his "pro-crypto" stance during the campaign.

Key Topics/Items

- **BEARISH**
- **MILDLY BEARISH**
 - Chinese government not providing confident follow-up on the recently announced \$1.4 trillion package designed to help support local governments clean up their balance sheets.
 - Rise in intermediate and longer-term bond yields post Fed cutting rates in September and post-election.
 - Retail sales data from October coming in higher than expected for the second straight month.
 - Commentary from Powell after the release of PPI that morning, and CPI the day prior, in which he stated that the current economic data "suggests that the Fed doesn't need to be in a rush to cut interest rates."
 - Economic data from China released mid-month that ended up being a "mixed bag".
 - Ukraine launching US missiles into Russia prompting Putin to sign a "revised and expanded" nuclear doctrine.
 - Eurozone PMI data pointing to their economic activity contracting (causing the Euro to depreciate relative to the US dollar).
 - PCE and Core PCE for the month of October coming in line with expectations (but not surprising to the downside).
 - Trump stating that he would impose a 25% tariff on imports from Mexico/Canada and an additional 10% on imports from China.
- **NEUTRAL**



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- Confidence in the corporate bond market hitting levels not seen in 25 years.
- Invesco agreeing to pay the SEC a \$17 million settlement over misleading investors over ESG investing within their strategies.
- October CPI and Core CPI coming in line with expectations.
- October PPI data which showed an increase over the month and year prior.
- Trump nominating RFK Jr. to lead the Department of Health and Human Services.
- Nvidia earnings beating expectations once again (as well as promising commentary).
- Mixed earnings results from retailers Walmart and Target which gave conflicting views into the state of consumer demand (Walmart strong results/commentary, Target disappointed).
- Housing data which showed that housing starts for the month came in well below expectations (due to recent hurricanes).
- The release of the Fed's last meeting minutes (where they decided to cut by 25bps) which showed that members support potentially slowing down the pace of cuts moving forward if it feels as though progress on inflation has "stalled out".
- **MILDLY BULLISH**
 - Commentary from Powell in which he made sure to let markets know that they will be flexible when it comes to future interest rate decisions.
 - Sales of existing homes for the month of October showing a year over year increase for the first time since back in 2021.
 - Better than expected PMI data which pointed to US economic activity growing at the fastest pace since the beginning of 2022.
 - President-elect Trump selecting Scott Bessent for Treasury secretary who is viewed as more of a "moderate figure" who could be a voice of reason when dealing with Trump's economic initiatives.
- **BULLISH**
 - Trump winning the election without there being any uncertainty over the results.
 - Fed announcing that it would be cutting rates by 25bps this month.
 - The post-election rally in bitcoin (peaking above 99k).

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