

PALOS

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The Palos Perspective

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A Macro Market View by Hubert Marleau

Trump's Agenda

A Libertarian Address is an Ode to a New Golden Age:

President Trump kick-started the MAGA agenda on Day 1 with 5 important quotes that set the tone for the next 100 days. These are particularly important because they outline the broad principles by which he intends to govern, appealing to free-marketeers who should benefit from his liberated economy.

1. "The U.S. will once again consider itself a growing nation - one that increases our wealth, expands our territory, builds our cities, raises our expectations and carries our flag into new and beautiful horizons." I suspect the latter refers to Greenland, the Panama Canal, Canada and Mars.
2. "We have a government that has given unlimited funding to the defence of foreign borders but refuses to defend American borders." I suspect this means NATO, NORAD, QUAD, etc.
3. "Instead of taxing our citizens to enrich other countries, we will tariff and tax foreign countries to enrich our citizens." I suspect this means universal tariffs and protection of Corporate America.
4. "We will measure our success not only with the battles we win, but also by the wars that we end - and perhaps most importantly, the wars we never get into." I suspect this indicates isolationism after ending the war in Ukraine and installing the Abraham Accord in the Middle East. Israel and Saudi Arabia will then have to deal with Iran, Europe with Russia, Japan and India with China, and the U.S. with Brazil.

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5. “We will bring prices down, fill our strategic reserves up again right to the top, and export American energy all over the world.” I suspect this means turning the U.S. into an energy giant.

Trump wrapped up his inaugural address by declaring that nothing would stand in America’s way, that the future belonged to the U.S., and that a new golden age had just begun. The first cheering evidence of this was the announcement of a \$100 billion AI infrastructure project, named Stargate, that will swell to \$500 billion, signalling where the future will be built by making sure that America wins the technological race of the 21st Century, free of ideological bias and a social engineering agenda. This was just too crucial to be manipulated by outside actors and/or restricted by legislated regulations. The walls need to be torn down for AI to transform national security, the economy, workplace, productivity, lifestyles and militaries. The second cheering was the promise of the largest tax cuts and the largest deregulation campaign in history. His message to the world of business was simple: come make your product in America and we will give you the lowest taxes of any nation in the world.

The Momentum Will be Hard to Stop:

The S&P 500 reached a record high on Thursday, rising 1.7% in the week ended Friday, even though sentiment indicators have been stubbornly bearish because the crackdown on immigration, the retirement of baby boomers, deportation, and already elevated participation rate will hold the annual increase in the labour supply to less than 0.5%. Thankfully, the annual gain in productivity is expected to run at an annual rate of 2.5%, enough to propel the benchmark to my 6650 target in 2025 or even Yardeni’s 7000 mark. Bullish sentiment turned positive on Thursday, making the aforementioned estimates achievable, because “America First” policies are bound to pump up the US economy and suck even more capital from the rest of the world. Over the past 12 months, private foreigners purchased \$934.5 billion of US bonds and \$236.0 billion of stocks.

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Oh Canada! We Stand on Guard for Thee:

What Trump did first was to cancel legislation that Biden had tried to push through. But over the past few days, he asserted his imperial power with a bunch of executive orders and/or decrees by pulling out of the OECD's global tax deal; designating drug cartels as international terrorists; withdrawing from both the WHO and the Paris Agreement; implementing policies to cut trade deficits and tackle unfair trade practices; and establishing an external revenue service (ERS) to collect tariffs, as a result of which imposing them now on Canadian goods exported to the U.S. should no longer be taken lightly.

Trump has proposed enacting tariffs of 25% on goods imported from Canada. For now, I am suspending judgement on what the macro effect could be, for we do not have any specifics at this time. For a start, however, a few important facts should already be known. These can be found in a study by Dr. Jim Stanford, economist and director of the Centre of Future Work:

1. Canada is an open economy. Canadian trade goods comprise 53% of GDP, compared to only 19% for the U.S.. The U.S. economy exports only 1% of its GDP to Canada compared to 20% from Canada to the U.S.. Thus a 25% tariff could cause Canada's GDP to fall by 3%, which would trigger a serious recession.
2. However, several crucial industries in the U.S. are dependent on a few key sectors like energy, minerals, cars, lumber and agriculture. Canada accounts for 50% of US energy imports alone.
3. There is no evidence that Canada is taking any trading advantages against the U.S.

On a trade balance account basis, Canada has a comparatively small surplus; but on a current account basis, which includes services, it has a deficit. This means that it actually pays for its trade surplus with the US.

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I trust, therefore, that the US administration will use tariffs as a rhetorical stick to straighten up its trading relations with Canada rather than imposing them strictly for the purpose of garnering revenue.

I'm also hopeful that the tariff shock will pressure governments to liberalize the movement of capital, labour and trade, while deregulating business activities, lowering corporate taxes and raising depreciation rates.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.86	0.55%
Palos Equity Income Fund - RRSP	PAL101	\$7.55	0.67%
Palos WP Growth Fund - RRSP	PAL213	\$12.19	3.52%
Palos Global Small-Cap Equity Fund ²	PAL251	\$9.81	0.00%
Palos-Mitchell Alpha Fund ³	PAL300	\$11.63	2.68%
S&P TSX Composite (Total Return with dividends reinvested)			2.35%
S&P 500 (Total Return with dividends reinvested)			2.90%
S&P TSX Venture (Total Return with dividends reinvested)			2.73%
Chart 2: Market Data ¹			Value
US Government 10-Year			4.58%
Canadian Government 10-Year			3.27%
Crude Oil Spot			US \$75.89
Gold Spot			US \$2,759.20
US Gov't10-Year/Moody BAA Corp. Spread			144 bps
USD/CAD Exchange Rate Spot			US \$0.6982

¹ Period ending January 21st, 2025. Data extracted from Bloomberg

² Fund is priced monthly

³ Fund is priced weekly on Tuesdays

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