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**The Novelli Group
At Morgan Stanley
Private Wealth Management**



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Regime Changes

Based on my own research, since 1970 this is the 7th time out of 27 opportunities for all three branches of government to be controlled by one party, when considering both national elections for the White House and mid-terms. This opens the door for robust legislative initiatives should the party coalesce around common goals and interests. Over the coming months, we will seek to better understand the legislative agenda and communicate the likely outcomes that will be important to investors and our clients specifically.

Economic Strength

There has been a lot written about President Trump's intentions but what we know with certainty are two barometers of future economic conditions remain solid. First, the US equity market has been strong, with the S&P 500 nearing 6,100 as of the writing of this commentary. We started the year at 4,700. Markets are often leading indicators for economic activity. Adding to this, the US Labor Department reported hiring bounced back with the US adding 227,000 jobs in November. Robust job growth is also an important barometer and signals employers remain confident. It also lends credibility to belief that the Federal Reserve could pause on reducing rates after a likely cut this month.

What's Changing

Looking now, these are just some of the areas where *regime changes* demand research and due diligence:

- **The DOGE:** As reported by the Wall Street Journal, in their self-authored commentary, Elon Musk and Vivek Ramaswamy addressed the President's hopes by outlining plans to organize a 'lean team of small government crusaders' to reduce regulations, pursue reductions in force, relocation of agencies outside of Washington, changes in procurement processes and reductions in waste, fraud and abuses. Shrinking the government in any or all of these ways would have important long-term effects on deficit spending and freeing business owners from burdensome regulatory requirements.ⁱ
- **Tariffs:** President Trump's desire to use tariffs has received a lot of popular press regarding potentially increasing prices for Americans. We appreciated Greg Ip's commentary, also in the Wall Street Journal, which focuses more on the way the United States uses its economic power in foreign policy. There is merit to this thinking because, as he argues, tariffs might prove more effective than sanctions. They also could be more effective in defending the dollar as the world's reserve currency, an idea that has been advanced by Arthur Laffer, an economic advisor to the President.ⁱⁱ
- **Tax Policy:** As we've reported previously in our commentaries, the Tax Cuts and Jobs Act of 2017, key legislation advanced under President Trump's first term, is set to sunset at the end of 2025. How the Republicans negotiate tax policy will be important to monitor.

- **The Border:** A major policy platform advanced during the campaign revolved around US border control. In my own opinion, this will be President Trump's first and top priority. Deporting illegal aliens and closing the borders is good for employment and wages. Fewer immigrants should help protect US workers marginally.
- **US Manufacturing:** JD Vance's life story as described in his memoir *Hillbilly Elegy*, focuses the party on a priority of protecting and growing quality jobs for skilled labor. This comes at a time when opportunities for new advances in technology could bring significant on-shore investment in high tech functions and facilities. In addition to good jobs, these types of facilities and plants require significant energy.
- **US Energy Policy:** Drill Baby Drill! Was a rally cry from the President on the campaign trail. Most in the energy sector have suggested to us that the President is limited on what he can accomplish until prices rise enough to fund capital investment. Could there be a virtuous intersection between improving energy incentives to align with cogeneration of electricity needs through the abundance of natural gas available in the US? Just consider a single AI supercluster facility being built near Austin, Texas will string together 50,000 Nvidia H100 chips that upon ramp up could require 500 Megawatts to operate annually. And this is just one leading technology company's plans for these types of investments. Power and skilled labor are likely to be critical factors as we witness the impact of AI across the US economic future.

These are just some of the things we are focused on as we enter 2025 and will be bringing more detailed commentary from thought leaders within Morgan Stanley and other's opinions we believe are worth noting.

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ⁱ Wall Street Journal 11/20/2024

ⁱⁱ Wall Street Journal 12/5/2024