



Economic Situation and Strategy

14 November 2024

Stormy times: Trump victory, coalition collapse in Berlin

Last week was marked by two important political events that took place on the same day. On Wednesday morning (our time), it was clear that Republican Donald Trump had been re-elected US President with a surprisingly clear majority. According to the current state of the vote count, Donald Trump has 312 electoral votes behind him, while Harris has only 226. Donald Trump is also clearly ahead in the popular vote, i.e. the number of votes cast, with 75.9 million to 72.9 million votes. Alongside the Democratic candidate Kamal Harris, the loser of the election is once again the polls, which had predicted a neck-and-neck race.

“Red wave”: Trump can reign supreme

Contrary to the pre-election polls, the Republicans under Trump have clearly won the US elections. Not only will the next president be a Republican, the party also gained four seats in the Senate and now has a majority of 53 to 47 senators. The electoral success is rounded off by the majority in the House of Representatives, where the Republicans also won a majority of 218 seats (with eight constituencies not yet counted).

In the meantime, Trump has announced a whole series of names for his new cabinet. These include many newcomers, some from the business world (such as Elon Musk), but only a few from the political establishment. Trump is about to fulfill his first campaign promise. There is little doubt that he will also implement the rest of his announcements. This concerns, for example, the reduction of corporate taxes from 21 to 15 percent or the deportation of illegal immigrants. Even if it is not yet entirely

clear which of his campaign promises Trump will implement and how exactly, it is plausible to assume that the US economy, which is already performing well, will receive additional positive impetus.

One of his key economic policy statements was the announcement of tariffs on all goods imported into the USA. He spoke of a general tariff of 10 to 20 percent, and even 60 percent or more on Chinese imports. Trump could turn his former trade representative Robert Lighthizer into a “trade czar”. Lighthizer was one of his most important advisors during Trump's first term in office and helped the president to implement his tariff policy. A “trade czar” (usually the position of the United States Trade Representative, USTR) is not a minister in the traditional sense, but is nonetheless a very important position of power within the U.S. government - especially in the area of trade policy. The power of the USTR can be compared to that of a Secretary of State, but its powers are even more extensive and direct in certain areas.

The USTR has cabinet rank and advises the President directly on trade issues. Access and proximity to the President often gives the office considerable political weight, particularly on high-priority issues such as trade wars, tariffs or international agreements. Unlike many departments, which generally oversee a broad portfolio, the USTR focuses exclusively on trade. This specialization often gives the position a greater influence on trade policy decisions, as the person plays a crucial role in trade negotiations and strategies and can implement them directly.

The USTR has the right to take independent action, e.g. to impose tariffs or sanctions, if trade practices of other

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countries are considered unfair. This authority can be used more quickly and effectively than in other departments where multiple agencies are involved in decisions. The USTR also represents the US in international trade bodies such as the WTO. This role gives the office a global visibility and responsibility that few other departments have. In summary, the USTR has more direct and specific authority over trade policy than other ministers, although it does not have the comprehensive administrative structure of a ministry. However, in his area of specialization, the “Trade Czar” has far-reaching and often very autonomous powers. The USA's trading partners should be prepared for the new USTR to implement Trump's trade policy ideas very quickly.

Chaotic days in Berlin

On the same day as Trump's confirmation as the new US president, there was a collapse of the traffic light coalition in Germany. This was a long-awaited and overdue step by many, as the governing coalition had long and obviously been at odds on the most important political issues. This will – hopefully – spare Germany a political vacuum that would have threatened until September 2025. Chancellor Scholz intends to call a vote of confidence in the Bundestag on December 16. This is the fifth time in German history that a Chancellor has resorted to this instrument. Twice the incumbent chancellor has been given a vote of confidence (February 1982 Helmut Schmidt, November 2001 Gerhard Schröder), three times not (September 1972 Willy Brandt, December 1982 Helmut Kohl, July 2005 Gerhard Schröder).

If Scholz does not receive a majority (367 out of 733 votes), Federal President Steinmeier can and will dissolve the Bundestag, meaning that new elections could be held on February 23, 2025. Even though it is highly likely that Scholz will lose the confidence vote, there is a certain "residual risk" that there are MPs who have no interest in a premature dissolution of parliament. They could vote for Scholz and thus prevent a premature dissolution of the Bundestag. Should such a – admittedly unlikely – scenario occur, political chaos would be inevitable.

However, even in the event of a general election on February 23, Germany and Europe will be in a precarious situation. Trump will take office on January 20, 2025, i.e. at a time when the two largest economies in the Eurozone, Germany and France, do not have a government capable of taking action. How will they react if the USA introduces tariffs or other trade barriers? Realistically, we

have to assume that there will be a new federal government at the beginning of May at the earliest. However, if the election result leads to difficult coalition negotiations (similar to the 2017 federal elections), it could take until the summer to form a new government.

Against this backdrop, most economic forecasts for 2025 are likely to prove too optimistic. The German Council of Economic Experts is forecasting economic growth of 0.4% for the coming year, while the average of the almost 30 forecasts by Consensus Economics is 0.6%. As the trade surplus with the USA alone accounts for 1.5% of nominal GDP, a decline in exports to the USA could have a significant impact on German GDP growth. In particular, vehicles, pharmaceuticals and machinery are exported from Germany to the USA. If China exports more cheap goods to Germany in the coming year because the USA intensifies its trade war with the Middle Kingdom, there is a risk of a significantly negative contribution to growth from foreign trade.

A lack of competitiveness exacerbates the weakness of Germany as an industrial location. High production costs (energy prices, unit labor costs) and low productivity mean that German companies invest too little domestically; at the same time, Germany is unattractive for foreign direct investment.

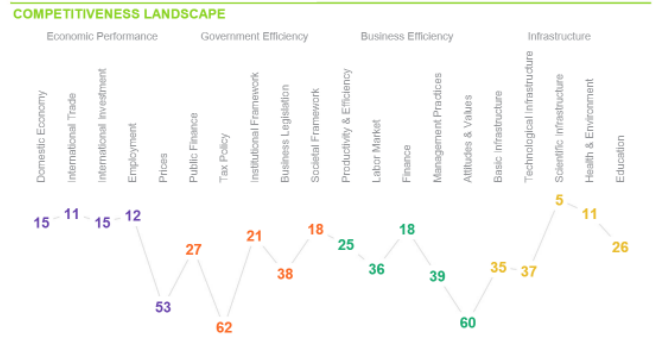
In the annual *World Competitiveness Ranking* of the IMD (International Institute for Management Development), Germany was most recently ranked 24th out of 67 nations. According to Statista, Germany's competitiveness was only worse in 2006, when it was ranked 25th. It measures how well countries use their economic resources and skills to create long-term prosperity. A country's competitiveness is assessed through a combination of economic performance, government efficiency, business efficiency and infrastructure. The ranking is based on a variety of quantitative data (such as economic growth, unemployment, export volumes) as well as qualitative assessments (from surveys of managers in the respective countries).



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In total, the ranking takes into account more than 300 criteria in four main categories: 1. Economic performance: Refers to the country's current economic situation, including GDP, inflation and labor market indicators. 2. Government efficiency: assesses how efficiently the government implements economic policies, handles regulations and manages public finances. 3. Business efficiency: Measures a country's ability to create a business-friendly environment, e.g. innovation capacity, corporate culture and management practices. 4. Infrastructure: examines the quality of physical and technological infrastructure, education systems and healthcare to enable long-term economic growth.

A look at the details of the evaluation shows that not only the state is responsible for Germany's poor performance, but also the factor of business efficiency. Germany only came 39th in the management practices category, which assesses how well companies and organizations are managed in a country and how these practices affect productivity, innovation and general economic development. The factors assessed include leadership skills, organizational structures, corporate culture and values, talent management and corporate governance. Here too, Germany's rating has deteriorated significantly in recent years, which shows that the companies themselves also have a part to play in the current poor situation.



Source: <https://www.imd.org/entity-profile/germany-wcr/>

The situation is even worse when it comes to Attitudes & Values. This is about the attitudes and values of a society, which have an influence on the competitiveness of a country. Typical aspects that are assessed here are, for example, how strongly entrepreneurship is anchored in society. Does the culture promote innovation, risk-taking and initiative? How well can people and companies adapt to changing conditions? Is society open to change and new ideas? How committed and motivated are people to do their work efficiently and productively? How open is society to diversity, new technologies and global trade? This openness influences the ability to attract talent and benefit from globalization. Overall, the attitudes and values item therefore measures the social and cultural factors that influence the dynamism and adaptability of an economy and can therefore strengthen or hinder its competitiveness. Germany is only in 60th place here in 2024, almost at the bottom of the overall ranking. This makes it clear that all of us as a society in Germany have a great need for reform and rethinking in order to bring our country forward again.

Carsten Klude

Market data

Stock markets	As of	Change versus				
	15.11.2024 10:21	08.11.2024 -1 week	14.10.2024 -1 month	14.08.2024 -3 months	14.11.2023 -1 year	29.12.2023 YTD
Dow Jones	43751	-0,5%	1,6%	9,4%	25,6%	16,1%
S&P 500	5941	-0,9%	1,4%	8,9%	32,2%	24,6%
Nasdaq	19108	-0,9%	3,3%	11,1%	35,6%	27,3%
DAX	19227	0,1%	-1,4%	7,5%	23,1%	14,8%
MDAX	26477	-0,4%	-1,6%	7,9%	0,9%	-2,4%
TecDAX	3365	-0,5%	-1,5%	2,2%	9,6%	0,8%
EuroStoxx 50	4819	0,3%	-4,4%	1,9%	12,3%	6,6%
Stoxx 50	4285	0,0%	-5,1%	-2,3%	9,4%	4,7%
SMI (Swiss Market Index)	11695	-0,9%	-4,6%	-3,1%	9,1%	5,0%
Nikkei 225	38643	-2,2%	-2,4%	6,0%	18,2%	15,5%
Brasilien BOVESPA	127792	21172,1%	20916,9%	-4,1%	3,8%	21163,1%
Indien BSE 30	77580	6720,5%	6720,5%	-1,9%	19,5%	7060,3%
China CSI 300	3969	65,4%	76,5%	19,9%	10,8%	95,8%
MSCI Welt	3753	-1,0%	0,0%	6,5%	26,6%	18,4%
MSCI Emerging Markets	1084	-4,5%	-6,5%	0,7%	13,1%	5,9%
Bond markets						
Bund-Future	132,14	3665	3667	-295	126	3598
Bobl-Future	118,60	-1348	-1454	34	189	-1862
Schatz-Future	106,81	-1165	-1210	43	170	-1247
3 Monats Euribor	3,02	208	208	-64	-97	210
3M Euribor Future, Dec 2024	2,78	-9237	-9237	-18	-28	-9163
3 Monats \$ Libor	3,17	0	-25	-219	-249	-72
Fed Funds Future, Dec 2024	4,51	169	159	3	11	221
10 year US Treasuries	4,45	15	34	62	-1	58
10 year Bunds	2,35	-1	8	24	-21	35
10 year JGB	1,07	7	15	25	22	45
10 year Swiss Government	0,38	-680	-671	-2	-65	-672
US Treas 10Y Performance	563,97	0,2%	-0,4%	-8,7%	-1,2%	-0,2%
Bund 10Y Performance	106,85	0,1%	0,1%	-81,2%	-80,2%	0,3%
REX Performance Index	450,90	-95,2%	-95,3%	-0,1%	4,1%	-94,7%
IBOXX AA, €	3,00	-4	-4	-14	-76	-7
IBOXX BBB, €	3,47	-4	-8	-20	-108	-29
ML US High Yield	7,43	5	8	-29	-129	-36
Commodities						
MG Base Metal Index	406,40	-5,0%	-6,6%	1,1%	8,1%	4,0%
Crude oil Brent	71,68	-2,7%	-7,6%	-10,7%	-13,2%	-7,7%
Gold	2566,15	-4,5%	-3,1%	4,7%	30,3%	24,2%
Silver	3379,84	-2,1%	2,9%	12194,8%	14518,7%	13,6%
Aluminium	30,54	-2,3%	-2,0%	-98,7%	-98,6%	25,9%
Copper	2489,74	-3,6%	-2,6%	-71,9%	-69,4%	6,1%
Iron ore	102,22	-77,3%	-77,4%	3,0%	-20,6%	-77,2%
Freight rates Baltic Dry Index	1692	13,2%	-6,7%	-2,1%	1,8%	-19,2%
Currencies						
EUR/ USD	1,0575	#DIV/0!	#DIV/0!	-4,0%	-1,4%	#DIV/0!
EUR/ GBP	0,8345	-22,5%	-23,5%	-2,8%	-4,1%	-24,5%
EUR/ JPY	164,59	19713,4%	19589,0%	1,6%	1,2%	18893,7%
EUR/ CHF	0,9385	-99,4%	-99,4%	-1,4%	-2,9%	-99,4%
USD/ CNY	7,2267	-93,0%	-93,3%	1,2%	-0,4%	-94,7%
USD/ JPY	156,26	2,4%	4,3%	6,1%	3,9%	10,8%
USD/ GBP	0,79	637227,5%	654618,1%	1,5%	-1,7%	610451,1%

Source: Refinitiv Datastream

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