TRUMP RALLY 2.0?

CONCLUSION

At Ulveman Partnership, we do not anticipate a new Trump rally like the one we experienced during 2017, 2018, and 2019, when stocks rose by an average of 13% annually.

We believe that an investment in the S&P 500 over the next 10 years will yield an annual return of about 4-5% after inflation. This expectation is further supported by recent research conducted by Goldman Sachs.

Our reasoning is that, over time, stock performance aligns with the earnings growth of companies. Over the past 10 years, the index has risen by an average of 11.3% per year, approximately 60% faster than the growth in corporate earnings (around 7% per year). This trend is unsustainable.

As a result, the S&P 500 is currently trading at a price-to-earnings (P/E) ratio of 30, which is roughly 30% higher than its 20-year average. Any further increases from this point are likely to rely primarily on earnings growth, which has historically averaged around 6-7%.

In addition to the high valuation of stocks, there is now an alternative in the bond market, which offers an annual yield of 4.6% and is rising. Moreover, we consider it unlikely that the U.S. will be able to lower corporate taxes, as was done in 2017, to boost earnings. In fact, there is considerable discussion about tariffs, which effectively act as a tax increase.

In our assessment, investors are not prepared to accept the lower returns we anticipate over the next 5-10 years, and we, therefore, expect increased market volatility.

CAN THE RALLY CONTINUE?

Since the market bottomed out in 2009, stocks have delivered an impressive average annual return of 12.8%.

This has led many to question whether we are entering a new era where 12-13% annual returns should be the expected norm for investments in the broad U.S. stock market.

Over the past five years, the world has faced significant challenges, including a global pandemic, an inflation crisis, a war in Europe, and a war in the Middle East. Despite these obstacles, the S&P 500 has risen by an average of 12.9% annually during this period. It seems as though nothing can hinder the index's progress.

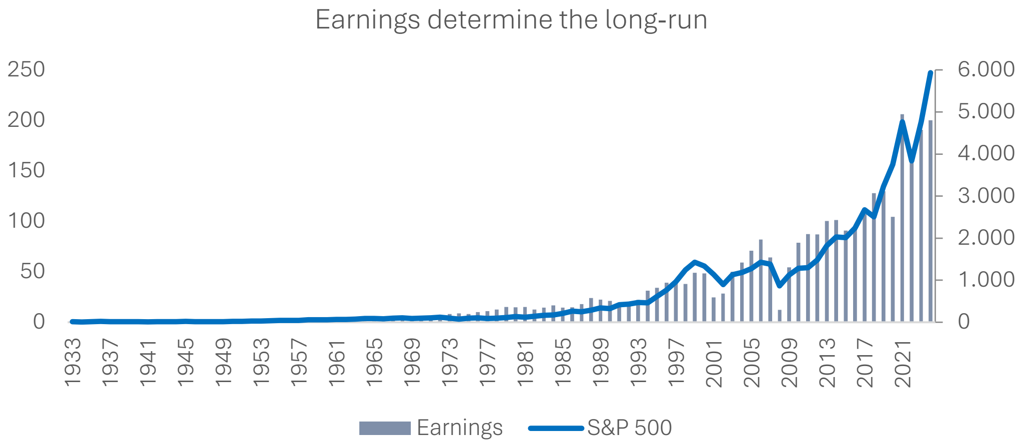
But can this trend continue?

THE BASICS BEHIND YOUR RETURNS

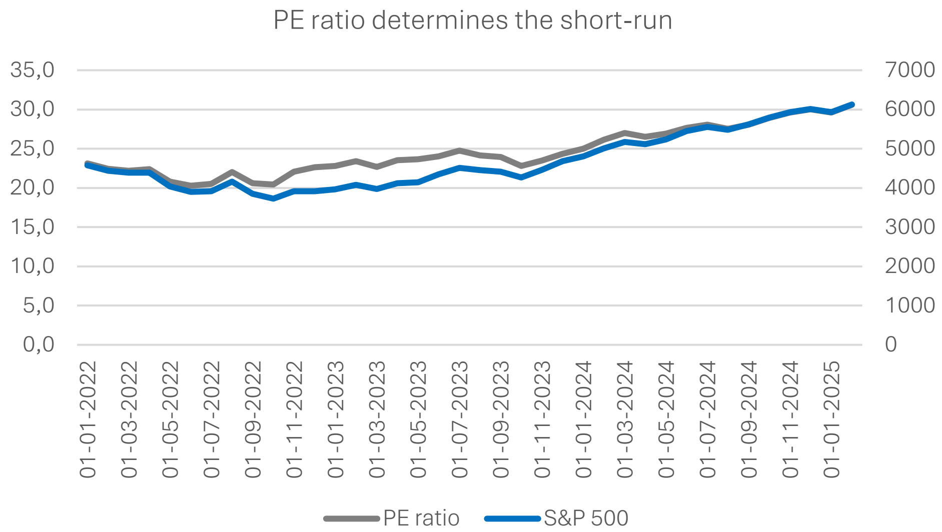
Your return on an investment in an S&P 500 index fund comes from three sources:

1. Growth in the underlying earnings of the companies.
2. Expansion of the multiple people are willing to pay for those earnings (the P/E ratio).
3. Dividends paid out by the companies.

Over the long term, the performance of the index tends to align with the growth in the companies' earnings.



In the short term, however, it is the multiple (PE ratio) that determines a stock's return. This multiple is driven by human emotions, such as optimism and pessimism, and not necessarily by the company's actual performance.



At Ulveman Partnership, we focus on the earnings of the companies we invest in. We do not rely on the hope that someone else will pay a higher price than we did.

For instance, in a hypothetical company where earnings grow by 10% every year, the stock should theoretically rise by 10% per year as well. But, of course, that's rarely the case. Human emotions drive short-term price movements, often causing stocks to rise or fall without any connection to the underlying earnings.

2017 COMPARED TO 2025

Following Trump's election victory in November 2024, the market has surged with renewed momentum, reigniting hopes of a new Trump rally reminiscent of 2017, 2018, and 2019.

However, the starting point in 2017 was very different from today.

Back in 2017, the S&P 500 was trading at a price-to-earnings (PE) ratio of 22, the corporate tax rate was 35%, and a 10-year U.S. Treasury bond, often seen as an alternative to stocks, offered a yield of just 2.2%—a historically low return.

At that time, there was no real alternative to equities. There was room to boost earnings "artificially" by cutting corporate taxes, and there was potential for the PE ratio to expand from 22.

Today, the picture for Trump is quite different. The index now trades at a PE ratio of 30, corporate taxes have already been reduced from 35% to 21%, and a 10-year Treasury bond now offers a yield of 4.6%. This presents a genuine alternative to equities, making the outlook for another Trump rally far less certain.

Trump rally 2.0?	2017	2025
S&P 500 PE	22	30
Corporate Tax Rate	35%	21%
10-Year Treasury Yield	2,2%	4,6%

DISCLAIMER

The content provided in this report is for informational purposes only and should not be considered as financial or investment advice. While efforts have been made to ensure the accuracy of the information presented, no guarantees are made regarding its completeness or reliability.

Any opinions, analyses, or forecasts included are personal views and are subject to change without notice. These do not constitute recommendations to buy, sell, or hold any security or financial instrument.

You should conduct your own research or consult a licensed financial advisor before making any investment decisions. Investing in financial markets involves risks, including the potential loss of principal, and past performance is not indicative of future results.

Neither the author nor Ulveman Partnership A/S accepts any liability for losses or damages resulting from reliance on the content of this report. Always invest responsibly and consider your personal financial situation and objectives.