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Market View
Markets, policies and Trump

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At a glance

- Economic shifts and market reactions: Trump inherits a strong economy, although inflation remains elevated, and the budget deficit is significant; post-election market movements reflect expectations of deregulation and protectionist policies.

- Key policy impacts: Proposals such as tariffs, tax cuts, and deregulation signal potential opportunities for small businesses and financials but pose risks to renewable energy. The picture is mixed for the tech sector.
- Focus on active strategies: With globalisation waning and geopolitical volatility rising, navigating winners and losers across sectors highlights the need for active money management.

Trump's initial days as president-elect were marked by his trademark characteristics. His unorthodox cabinet picks show he favours loyalty. He also ruled out re-appointing two senior figures from his first administration, former UN ambassador Nikki Haley and ex-secretary of state Mike Pompeo.

As this is not the first time we've been here, we do expect certain similarities between Trump's first term and second term. Whilst Trump is in many ways a known entity, a lot has changed in the past eight years, and he is now inheriting a very different economy with robust growth and US dominance, although inflation remains elevated, and the budget deficit is substantial. The Wall Street Journal recently used the headline "The Next President Inherits a Remarkable Economy."[1] Looking at the way his cabinet is taking shape, we do expect this time will be very different from his first term.

The post-election market reaction has been as expected. Equities and the dollar rallied following Trump's win, while Treasuries sold off on expectations of higher deficits and tariffs, which will likely result in higher inflation. While renewable energy companies and German carmakers' shares sold off, financials, bitcoin and mid-to-small-sized companies performed strongly on expected deregulation.

Ultimately it is earnings that have been driving markets. The third quarter earnings season in the US showed that domestic companies grew their earnings from a year ago. So strong performance in recent weeks can be attributed to a solid earnings season rather than just the election result.

We will not only continue to monitor earnings announcements, but will also assess how Trump's policies may impact different companies, segments, sectors and geographies. His protectionist policies – a trend we are witnessing around the world – indicate globalisation may be waning. This will result in big winners and big losers across companies and sectors, making an active approach to managing money crucial for years to come.

We outline some of Trump's main policy proposals below.

Tariffs

One of Trump's key protectionist trade proposals was to impose a universal tariff of 10% to 20% on all imports and raise tariffs on Chinese goods to as much as 60%.[2] Our view is that a 60% tariff on China is as unlikely as dropping tariffs to zero. We expect Trump to start off with a 10% hike, and then hope China comes to the negotiating table with a view to reaching a deal. He believes higher tariffs will protect American jobs and industries, incentivise domestic production and reduce reliance on imports. However, historically, such tariffs are often passed onto the consumers, which stokes inflation. Some economic institutions (like the Peterson Institute for International Economics) forecast Trump's win could send the inflation rate to between 6% and 9.3% by 2026, compared to a baseline rate of around 1.9% without his policies.[3]

Tax cuts

Trump's signature tax cuts from his first term are set to expire in 2025, and he is expected to bring back all the tax cuts he introduced in 2017, while also further reducing taxes for individuals and corporations. Trump's plans include eliminating taxes on tips and Social Security benefits and lowering the corporate tax rate to 15% from 21%. The post-election congressional setup means that he should be able to deliver on his promise on some and possibly all of these tax policies. This approach should help growth especially as we are aware that the US is a consumption-led economy, with personal consumption expenditures representing nearly two-thirds of the US economy.[4]

Lighter regulation or deregulation

In addition to lower taxes, expectations of deregulation have sent shares up, particularly in US small-cap stocks and financials, some of which have seen double-digit gains since Trump's victory on promises of lighter regulation. President Joe Biden imposed stricter requirements on how much capital banks had to hold to reduce risk, but Trump is widely expected to step back these capital requirements. Defence and fossil fuel sectors appear set to benefit from less regulation and lower taxes as well. Under the Biden administration, companies were unable to take advantage of the lower tax regime, which Trump implemented during his first term, as tighter regulation proved to be a burden.

Technology is another sector worth keeping a close eye on. On the one hand, technology could benefit from the anticipated loosening of antitrust regulation that weighed on large mergers being completed, an attempt to rein in the power of Google, Apple and Amazon.

On the flipside, Trump's tariffs and other restrictions on trade could weigh on chip makers, namely Nvidia, a company that's experienced exponential growth. It is also possible Trump may roll back Biden's efforts to boost US semiconductor production.[5]

A combination of deregulation and industrial reshoring should help spur activity in small businesses and be positive for US growth.

Energy and environmental policies

The impact of a Trump administration on sustainable development is mostly centred around climate-related industries, where the president-elect has made his unwavering support for fossil fuels very clear. Subsidies for renewable energy are widely expected to end as soon as Trump enters the White House. During his first term, we witnessed how swiftly the administration canned several green projects. It is therefore no surprise renewables have sold off following Trump's win. At the same time, we have seen mining company share prices fall, as markets perceive metal demand associated with building a new green infrastructure may not be strong. However, if Trump's policies are pro-growth, metal demand should grow.

This push towards oil and gas is likely, but we do not believe this marks a complete U-turn on the progressive climate policies implemented under the Biden administration, primarily because the success of such policies—including substantial job creation—is found in lower-income regions and Republican states, making broad based repeal highly unpopular with many Democrats and Republicans alike.

Conclusion

It is worth keeping in mind that the above is speculation, and implementing these policies will take time. The true impact on the economy and markets will depend on which fiscal policies are implemented and how long they take to deliver. We have also learnt through experience that while Trump's policies may seem market-friendly, history tells us his unpredictable behaviour can cause volatility.

This year has been an extraordinary year for elections globally, with half of the world's population voting. But it is ultimately businesses and their ability to grow earnings that matter. We continue to monitor geopolitical risk when constructing portfolios, focused on quality companies well positioned to withstand political turbulence.

[1] WSJ, https://www.wsj.com/economy/the-next-president-inherits-a-remarkable-economy-7be2d059

[2] BBC, https://www.bbc.com/news/articles/c0qdz1jne91o

[3] Time, Peterson Institute for International Economics, https://www.piie.com/research/piie-charts/2024/trumps-economic-policies-could-stoke-inflation-and-hurt-us-economy

[4] The White House, https://www.whitehouse.gov/cea/written-materials/2023/10/30/as-the-u-s-consumer-goes-so-goes-the-u-s-economy/

[5] PBS, https://www.pbs.org/newshour/economy/how-wall-street-is-reacting-to-a-second-trump-term-in-8-different-sectors