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Donald Trump poised for White House return

With all signs pointing to a Donald Trump win, we expect many of his populist policies to cause ripples, even though markets were largely priced for this outcome. How might investors navigate the election result?



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Key takeaways

- Donald Trump's focus on lower corporate taxes and further de-regulation should favour US companies, particularly smaller businesses with attractive equity market valuations.
- While Republicans have likely won the Senate, a red sweep of Congress would enable him to push through tax cuts and higher spending – increasing the chances that credit markets are unsettled by unfunded fiscal largesse.
- We think a Trump victory could carry more geopolitical risk than a Kamala Harris win because his geopolitical strategy involves an unpredictable approach to both his allies and foes. Expect higher trade tariffs with China and potentially some European nations.
- Mr Trump's likely tough stance on a range of issues ranging from trade to immigration may potentially boost the US dollar and gold. The impact on bond markets is more difficult to predict and we anticipate some volatility in equities until the results are finalised. If a Trump win is confirmed quickly, we can anticipate volatility to move lower as uncertainty is removed.

With final results still coming in, it looks like Donald Trump has won the 2024 US presidential race. His victory follows a fiercely contested campaign in which the candidates were polling neck and neck for much of the time. The results of key congressional races could take longer to decide, with the first indications favouring a Republican sweep. Historically, markets have tended to perform best under a so-called divided government where no one party controls the presidency and both chambers of Congress – the House of Representatives and the Senate.

Although we expect some volatility to linger until the final result is known, the margin of the win suggests risk-on sentiment may begin to take hold. We also expect some flight-to-safety response in the meantime. This would likely favour perceived safe havens such as the US dollar on expectations of a stronger economy, fiscal support and taxes leading to more inflation, while gold could continue to be favoured as a way of hedging geopolitical risk.

The response of bond markets is more difficult to predict, considering a strong rise in yields since mid-September, but in the event of a red “sweep” we would expect further consolidation in the bond market. In equities, we think smaller-cap equities are attractively valued and we maintain some open option positions in our portfolios for now in case of volatility.

With a still-robust US economy, investors may consider using any pullback in markets as a tactical opportunity to diversify or add to risk, especially as markets usually do well post elections and end of year months are usually supportive.

What the result could mean

Our analysis of Mr Trump’s plans explores the potential market implications across various key policy areas:

Fiscal plans: tax cuts extended?

- Mr Trump is promising lavish spending, big tax cuts and deregulation. His proposals could boost near-term growth as well as US company earnings, particularly US small caps and the energy and financial sectors. These plans could also raise US government debt by USD 7.5 trillion by 2035, according to the Committee for a Responsible Federal Budget at a time when US national debt-to-GDP is already more than 120%.
- We see potential for credit markets taking fright at unfunded fiscal plans if Republicans gain control of Congress (a red sweep). We think the dollar’s status as a funding and trade currency offers the US some protection from any negative market reaction to fiscal stimulus.

- Fiscal largesse – together with higher tariffs, tougher immigration policy and looser regulations – tends to be inflationary. In response, the US Federal Reserve may moderate its easing cycle, potentially supporting the dollar.

Tariffs and trade policy: negotiating tactic or reality?

- Mr Trump has pledged to impose a 20% blanket levy on all US imports, plus a 60-100% tax on Chinese products. If the tariff hikes materialise, they could trigger retaliation by other economies, leading to a trade war, which in a worst-case scenario could push the US into a recession.
- We foresee more regional nearshoring and onshoring as companies diversify their manufacturing bases and supply chains – a move that could strain balance sheets.
- Higher tariffs could hit European and emerging market stocks, particularly those reliant on the US market, such as makers of luxury goods, cars, aircraft producers and steel companies. Value stocks within oil, finance and potentially infrastructure could benefit in such a scenario. Navigating potentially wide disparities in performance between winners and losers within sectors and themes and between regions will require active investment management.

Geopolitics: return of the “dealmaker”

- The geopolitical backdrop is likely to shift markedly under Mr Trump. As well as a more aggressive approach to China, we anticipate a higher probability of a military confrontation with Iran and a potential escalation in the Middle East conflict.
- In contrast, there may be a quicker end to the Ukraine war if Mr Trump pushes for a deal with Russian president Vladimir Putin. An end to that conflict could lead to lower commodity prices if Russia officially re-enters the market. Europe would have to beef up its military spending, leading to higher debt and less productive fiscal expenditure.
- We also expect more tensions with some European countries, with potential tax increases on imports which could weigh on European growth.

Monetary policy: staying independent?

- We see the potential for market anxiety if Mr Trump seeks to undermine the independence of the US central bank even simply in the form of comments. Any sustained attack on the Fed could accelerate the de-dollarisation trend. The US risk premium could also increase as the supply of new US Treasury issuance sold internationally starts coming under pressure.
- Safe havens such as gold and traditionally defensive currencies, including the Swiss franc and Japanese yen, could profit.
- For US Treasuries, we think the impact may be felt more on short-term rates than long-term rates. A narrower spread between US yields and the rest of the world could dampen the US dollar, while equities and commodities may benefit from the prospect of monetary stimulus.

Climate policy: commitments diluted?

- Any slowing in the US commitment to climate change mitigation under a Trump presidency may boost China's drive to become a global leader in climate technologies. Stock markets are also pricing in a dilution of President Biden's flagship Inflation Reduction Act, which included sizeable investments in clean energy.
- With many Republican states also profiting from this spending, we expect only moderate impact and consider a repeal of the act as only likely in the case of a red sweep. Any reversal of the act could harm the renewables sector, including international companies exposed to the US renewables market.

Focus on potential market opportunities through the volatility

Already buoyed in recent months by the taming of inflation and the increasing likelihood of a soft landing for the US economy, markets will want to see a swift election outcome. The S&P 500 usually rises after US election risks pass in the absence of a recession – and we anticipate a similar trend this time.

In the current environment, we see several opportunities to consider:

- We see scope for broader participation in the Magnificent Seven's recent stellar run if the US economy achieves a soft landing. US equity market concentration has been at its highest level for decades and an equal-weighted investment approach – giving the same importance to each stock in a portfolio regardless of its market capitalisation – can offer diversification and rewards if positive earnings lead to a convergence in valuations. A Trump presidency with a more laissez-faire approach could boost the M&A market, benefiting smaller cap technology stocks.
- After powering to new heights over the past year, we think gold prices may have further to run, supported by strong buying from retail and emerging market central bank demand in an environment of elevated geopolitical risk. A ratcheting of tariffs – raising the risk of a trade war – could also be supportive for gold.
- We are more cautious on fixed income compared to previous months as we foresee US growth being supported by further fiscal expansion. Larger fiscal deficits ahead would present upside risks for term premia in longer-dated bonds, favouring a bear steepening of the US yield curve, although the increased risk of higher tariffs could also see the market price a less dovish Fed policy stance ahead. The US dollar would also likely strengthen in this scenario. Bond market volatility may well remain elevated in the near term as the market digests the make-up of the new Congress, so we think tactically trading duration would be wise.
- Outside the US, we see value in the UK where election risk has passed, favouring UK Gilts for their high-quality duration. We have become more constructive on emerging market hard currency bonds.
- Finally, if the independence of the Fed is undermined under a Trump presidency in a way that spooks investors, they may favour other safe-haven currencies like the Japanese yen and the Swiss franc over the US dollar.

Some investors stay on the sidelines during elections. However, now that the results are known, markets are likely to return their focus to the economy and the path of interest rates. This means for most investors the important thing is to look through any volatility and stay invested and diversified, rebalancing where appropriate.

US ELECTION: RESULTS UPDATE

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