US Re-elect Trump – Market Update

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Donald Trump, the Republican candidate, has been re-elected as President of the United States, the first time in well over a century that someone has been elected for two non-consecutive Presidential terms. Despite polls saying the race was too close to call, his victory is decisive, winning both the popular and electoral votes. Republicans have also taken control of the Senate and look likely at the time of writing to win the House of Representatives too. If the Republicans do win all three, this provides Trump a significant mandate and ability to enact his own agenda. He has made strong statements about his intended economic actions, framed in the narrative of 'America First', but as ever with politics the devil will be in the detail of the execution. He is expected to focus on lowering taxes on US businesses whilst hiking tariffs for imported goods, as well as reducing immigration and altering US involvement in overseas wars.

What then does this mean for markets?

It is likely to be inflationary, at least within the US, as higher barriers to trade and a reduced supply of labour raise costs for businesses that will likely be passed on to consumers. Inflation rates have largely retraced the post pandemic spikes experienced over the last three years but are not yet at long term targets. Outside of the US, forecasting the inflation impact is more difficult. Higher barriers to trade with the US may weigh on global economic activity in a way that offsets price pressures, as will Trump's commitment to increase US oil supply. That means that whilst interest rates will likely be higher in the US under a Trump presidency than was previously forecast, they could be lower elsewhere. This is negative for US bond markets and commodities, whilst the US dollar will gain against other currencies if there are prolonged interest rate differentials. If retaliatory tariffs are introduced in other countries, we could see inflation and even stagflation across global markets.

We expect a Trump presidency to be positive for US equity markets- Trump is pro markets and his protectionist vision with lower corporate taxes and less regulation is helpful for many American smaller companies. By contrast we would expect to see pressure on markets that are large exporters to the US, particularly more emerging markets. Other effects are quite sector specific- car manufacturers globally look vulnerable to increased US tariffs, whilst renewable energy producers should also suffer if Trump follows through on his commitment. Defence stocks may benefit from increased European spending as Trump reduces the US contribution to NATO but also may be impacted if Trump forces Ukraine to negotiate peace with Russia and concede territory.

There remains uncertainty as to what Trump will actually do as president. He has a reputation for headline-grabbing rhetoric that, in his first presidential term at least, he did not necessarily follow through on. He appears to have a stronger mandate this time, has been given a pass by the Supreme Court and will not be able to run for election again in 2028. This raises the risk that he might take extreme actions. One possible risk is to the independence of the US central bank, with Trump previously suggesting he wants to control US monetary policy. This could trigger panic in global markets if it were to become a reality, given the potential risks it presents to economic stability.