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US Election 2024

FOR FINANCIAL ADVISERS AND THEIR RETAIL CLIENTS

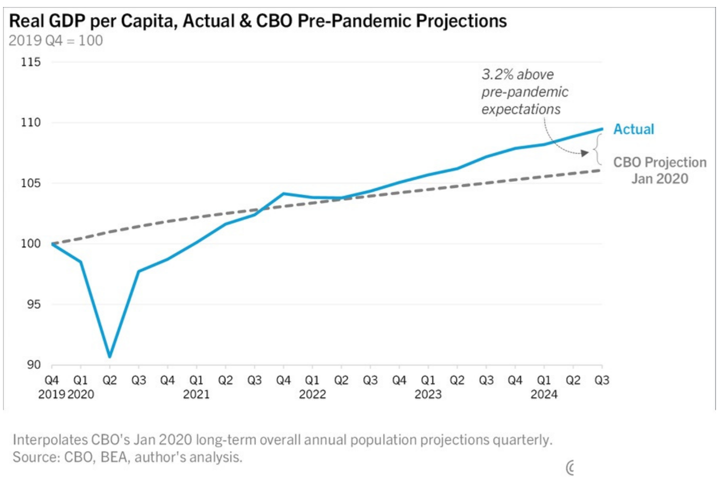
Introduction

Donald J Trump has been re-elected as the 47th President of the United States in a decisive victory. In addition to the presidential victory, the Republican Party won a majority in the Senate and appears poised to secure the House of Representatives. This is a significant comeback, considering Trump's controversial departure from office, the incitement of attacks on the US Capitol, and the criminal charges he faced during President Joe Biden's presidency.

The markets are reacting positively to this news. Trump’s political comeback has far-reaching implications for both the US and the global economy, given the US President’s influence on a multitude of geopolitical issues. Before delving into current market dynamics, let’s review Biden's tenure and anticipate potential changes over the next four years.

Review of the Democrats' Tenure

Despite the challenges posed by a global pandemic, the last four years under Biden have been favourable for the US economy. At the time of the election, Americans had a robust economy with an annual GDP growth rate of 2.7%, an unemployment rate of 4.1%, and inflation at 2.4%. Achieving a low-inflation economy operating near full employment is an ideal scenario for any government, particularly in the challenging environment of the past four years. While the UK and the Eurozone have struggled to achieve meaningful growth, the US has outpaced its pre-COVID trend.



Source: Ernie Tedeschi, October 2024

Stock market performance has also been impressive, with an annualised return of 12.6% since Biden took office in 2021. In comparison, Trump oversaw annualised returns of 16.3% during his first term. Although there are numerous caveats, such as the continuation of quantitative easing and the impact of the COVID-19 crash, Biden had to manage the aftermath of the pandemic.

Some critics point to the high levels of government spending sanctioned by the Biden administration to achieve these results. While policies like the Chips and Science Act and the Inflation Reduction Act have boosted productivity, the current fiscal deficit—standing at 6.1% for 2023 and projected to grow in 2024—requires attention. The lagged impact of reshoring industries, such as chip manufacturing, could lead to growth outpacing rising debt payments. However, there is a consensus that a period of austerity may be necessary to stabilise the fiscal deficit. Though this consensus thinking does not seem to be in Trump's plans.

Expectations from Trump's Administration

Predicting the next four years under Trump is challenging due to his unscripted and enthusiastic rhetoric about economic plans – these plans often get watered down. However, some key themes are emerging.

Tariffs are under review, with Trump proposing a 10% tariff on all US imports and a 60% tariff on Chinese-made products. While tariffs on China are not new, the proposed rates are significantly higher than the 7.5%-25% levied during his first term, which would impact US-China trade. An additional 10% tariff on all other US imports would affect the entire economy, with consumers ultimately bearing the cost through higher prices or businesses through lower profits. This could also trigger a response in kind from other countries leading to lower global trade.

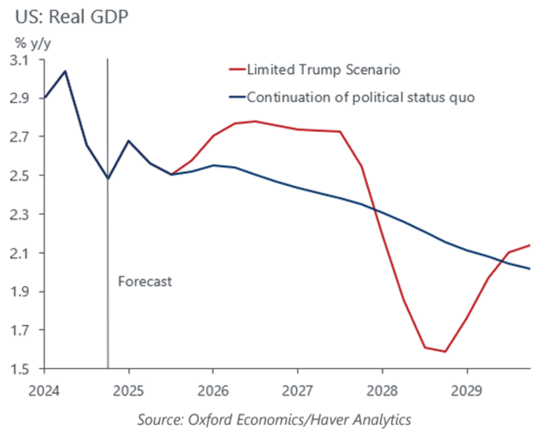
Trump is likely to extend the Tax Cuts & Jobs Act, currently set to expire at the end of 2025, and has pledged to lower taxes for the wealthy and corporations. With control of the Senate and House, he should be able to push these measures through quickly. While this news has buoyed the stock market, lower tax receipts for a government already running a significant deficit could lead to future financial challenges.

Immigration policy is another critical area, with Trump planning to deport millions of undocumented immigrants. This move could ignite inflation and potentially dampen growth by reducing the workforce. Also consider costs associated with execution of these plans at scale.

Trump is often seen as favourable for the economy. This sentiment and lower tax environment could boost short-term spending. However, the longer-term implications of his policies appear inflationary and could lead to higher borrowing costs if the deficit is not addressed.

Market Impact

The market impact of Trump's re-election remains uncertain due to the unpredictability of his plans. Oxford Economics has already upgraded its growth forecast for the US economy by 0.3% for 2026, considering the short-term effects of fiscal and trade policies. However, when forecasting to 2028, the impact of immigration cuts, tariffs, and fading fiscal support is expected to result in GDP growth falling 0.6% below current projections.



Equity markets have initially responded positively, with the S&P 500 soaring 2% to a new record high and the Nasdaq jumping 2.1%. Markets generally dislike uncertainty, so the perceived direction of travel has contributed to this lift. The "Trump trade" is also a significant factor, further evidenced by the increased strength of the US dollar, with the dollar index rising 1.7% on the day. While this is positive for the US, it casts a shadow over the rest of the world due to the potential for a trade war. European markets have declined, and both the pound and the euro have fallen against the dollar. The possible inflationary effects of Trump's policies have not gone unnoticed, with the US 10-year government bond yield increasing by 0.13% to 4.435%.

Given the uncertainty over the finer details of Trump's plans, diversification remains crucial for investors.