TRUMP WORLD

American voters made it very clear. They are unhappy with Democrats, especially on the economy. And they want President Donald Trump – and Republicans – back in power. As the world adjusts to the prospect of a more isolationist, America First President, financial markets showed they agreed with the voters. Global equities closed the week up 3.3%, rising 2.3% post-election. The US outperformed with the S&P 500 rising close to 4%, and the small-cap Russell 2000 rising more than 6% post-election. The mood was cheered further by the Federal Reserve decision on Thursday to continue monetary easing, with a 25 basis point cut in policy rates. US Bond markets also ended the week a little more than half a percentage point higher, despite notable volatility throughout.

A puzzle remains for macro analysts. The US has achieved the soft landing that many thought impossible. Inflation is slowing. Unemployment has remained contained. Job growth is strong and US GDP has outperformed other countries – and pre-Covid projections – since the post-Covid recovery began. So what was not to like? For investors, the answer was very little. Equity markets are up by 60% since President Biden took office.

But, as we have noted before, the one economic indicator that affects everyone – the cost of living – has been relentlessly negative. Prices were almost 20% higher on the eve of the election than in January 2021 when President Biden took office. Voters hate inflation and what it has done to their standard of living. A housing squeeze with stubbornly high prices and higher mortgage rates has added to the pain and strain on family budgets. On top of the hit to real incomes that came from higher prices, particularly for must-pay items such as rent, groceries and gas, was a sense that politicians in Washington and the better-off "elites" did not understand the reality for most American households.

What happened this week in America has happened to incumbent governments all over the world where inflation took off post-Covid, after some decades of price stability. The Conservative party in the UK, President Macron in France, Chancellor Scholz in Germany, the Liberal party government in Canada, and the relatively new government in Australia have been punished by voters in elections or warned in negative polls. Prime Minister Modi also suffered with a less sweeping victory in India's elections this year than had been widely anticipated. The US swing against the incumbent Democratic Administration – as personified by Vice President Kamala Harris – was actually somewhat less than in some other countries. But it was still decisive.

Politicians have to unpack what happened among voters to guide their next moves. Investors need to take stock of its implications for policies.

We see **six key areas** where President-elect Trump's campaign promises will clearly impact the economy. The first two – **tariffs** and **immigration** – have captured most attention. They are both likely to dampen growth in the US economy, if carried out in full. The positive market reaction to the election news is most likely due to expectations of a more business and investor friendly policy in the other four areas: **taxes**, **regulatory policy**, **energy** and **technology** – including AI and crypto. The reduction of uncertainty from the clear election

result and its acceptance by the defeated candidate and the current President also helped sentiment this week.

Some promised policy moves are very likely. Others may be tailored in reaction to financial markets or to actions from other countries. We know that the President-elect is capable of both drastic actions but also changes of heart. He is likely to be driven by long-held beliefs – notably on immigration and trade – but also by the desire to make deals, including with foreign leaders, and to demonstrate success, with the stock market and inflation two key metrics.

An important area of uncertainty is how the incoming President will manage relations with China, the world's second largest economy. His rhetoric, particularly on economics and trade, is harsh. But, at a strategic level, he may be unpersuaded by defense and national security officials who argue for a tough position on Taiwan and the need to isolate China. Might adviser Elon Musk and other CEOs who have important business interests in China have an influence?

TARIFFS

President-elect Trump's campaign promises to raise tariffs on imports from China to 60%, to put up a more general tariff wall of 10% on all imports, and possibly to levy a 25% tariff on imports from Mexico would have a broad and largely negative impact across the economy, pushing up prices and reducing competitive pressures. While aggressive tariff action might help particular industries – steel for example – it is possible that a broadly negative market reaction and the response of trading partners could moderate the President-elect's actions. American businesses potentially hurt by tariffs are likely to lobby to the Department of Commerce for specific exemptions. Their success will depend on whether companies that stand to benefit from the protection win over the incoming Administration.

In the near-term, if tariffs are raised, an inflationary push would come from a direct impact on the prices of imported consumer goods and, in today's intertwined production processes, rising costs for many US producers. Likely retaliatory action from trading partners could in turn threaten to damage US exporters. Perhaps the most vulnerable would be farmers – always a big constituency for trade. A rebound in inflation, which is still running at a rate just above the Fed's 2% goal of price stability, could halt the gradual monetary easing now underway.

President-elect Trump and many of his advisers see trade as a zero-sum game. They argue that the trade deficit that the US traditionally runs is hurting the US economy. Most analysts disagree. Open markets spur competition. America's generally low barriers to trade have promoted productivity growth and innovation and supported the development of globally successful firms. Capital flows into the US, spurred by US investment and spending, fund imports that help to keep down costs in America. Some economists would argue China has taken advantage of free trade subsidizing exports both historically and today with EV cars and thus attempting to kill real competition globally.

IMMIGRATION

There is less research on the economic impact of immigration. And this issue – one that has animated the President-elect for a long time – has important cultural elements. For many people those may outweigh economic considerations. There are two aspects to the immigration changes that Trump has called for. The first – increasing security at the southern border and making it more difficult to enter the US illegally – is less controversial. The second – mass deportation of the millions of undocumented migrants living and working in America – would have a large and disruptive impact on communities, individual families and businesses.

Legal immigration in 2023 provided an outlet for high labor demand. An estimated three million immigrants joining the labor force helped to boost US GDP while tamping down the risk of a wage-price spiral after the pandemic-related Great Resignation. Large scale immigration can unsettle small communities and put pressure on housing and public services that relied on immigrant labor. But there is also evidence that when immigrants settle in a community, and are absorbed over time, their presence provides a boost to local businesses and jobs, including for those born in America.

There are reports that preparations are already underway to build detention camps and organize for deportations. But, again, pressures from local businesses and politicians may moderate the Administration's plans. An initial focus on finding undocumented people with criminal records is one option that would be more agreeable to all sides.

TAXES

This is one area where policy changes are very likely and where markets are likely to approve – certainly initially.

In his first term, then-President Trump supported large tax cuts for higher income groups and corporations. New legislation is needed to extend these cuts which were initially set to expire, to keep down the estimated impact on the budget deficit. With Republicans in control of Congress as well as the White House, early legislation to extend and build on these tax cuts is likely.

Long end of the bond market has reacted to the election results. Over time, it is possible that bond markets will reflect concerns about a yawning budget deficit, pushing up interest rates (discussed in more detail in the fixed income section) and tempering support for tax cuts. This happened under President Reagan – but only after some years.

REGULATORY POLICY

As is usual with a Republican administration, regulatory agencies are expected to be more hands-off and business-friendly. The contrast with the current Administration may be particularly stark. Regulators such as FTC Chair Lina Khan have been particularly disliked. Financial institutions were at the forefront of the post-election jump in stock prices (more below in equities). Small and medium size businesses also have been impacted negatively by regulators.The push under Chair Khan to move away from the standard of consumer harm and towards a "big is bad" test for anti-trust action has likely curtailed M&A activity. Expect a shift under a new Trump-nominated chair. Ruchir Sharma's book What Went Wrong With Capitalism notes the negative impact of regulation over the last few years.

ENERGY

On the campaign trail, Trump made clear that he favored more production of oil and gas, and an easing of environmental constraints on fossil fuel production and consumption. Already, US energy production has supported lower gas prices. Ironically the US oil and gas production peaked in 2023 under President Biden. The global impact could be lessened if a new Administration were to move to reimpose sanctions on Iran. But economic and price implications may again moderate policy.

Policy towards "green technology" is unclear and will be important to watch. Business interests on both sides of the aisle in the energy transition and the use of related subsidies under the Inflation Reduction Act (IRA) are likely to remain, even if some in Congress oppose. Some of the largest investments in energy transition have been in Texas and are expected to continue.

TECHNOLOGY

Senior executives at America's big tech companies were largely opposed to President-elect Trump during his first Administration. This time is different. Many have already reached out to the campaign and hope that the influence of AI expert and technology billionaire Elon Musk will promote a shift in policy from President Biden's desire to curb the market power of big technology. There are still some in President-elect Trump's orbit who see these companies as leaning too much to the left. However, a more favorable regulatory environment is likely for crypto, where President-elect Trump's son Barron is among those who have persuaded him to reverse his previous opposition.

FIXED INCOME

Longer dated interest rates in the US rose on November 6th as news of a GOP victory caused markets to reprice the probability that increased tariffs, large fiscal deficits, and tax cuts could spark a rebound in inflationary pressures. For months now investors, market pundits, and even corporate CEOs have cautioned that such policies could not only raise inflationary pressures, but simultaneously hamper the demand for US Government debt, driving up funding costs, and further exacerbating an upward rise in longer dated interest rates.

Indeed, the initial 20 basis point move in the ten-year yield was dramatic, and maturities from seven to 30 years closed the session roughly 15 basis points higher. Thursday, however, was a different story as ten-year yields retraced about half of the prior day's move as traders further digested the election results and the Fed cut its policy rate by 25 basis points (as discussed above). Longer dated rates were relatively unchanged following the move reflecting the market's belief that the FOMC will remain reactive to the data, and that the current path to target inflation is well trodden.

With the Fed likely to remain data dependent, and the reality that it will take some time for any tariffs or other inflationary policy effects to flow through to the hard data, one would not expect to see a significant back-up in rates while the Fed remains accommodative. Should the most impactful potential policies come to pass, and inflation re-accelerate meaningfully, many fixed income investors believe the worst outcome would be the Fed settling at a higher than currently expected neutral rate. The latest long-term expectations from the Fed point to a median expected policy rate of between 2.5 and 3.0%. As a demonstration of the Fed's commitment to independent monetary policy, Chair Powell replied twice with a terse "No!" to questions about whether he would choose to resign or be legally required to if asked by the President-elect. He also rejected the possibility that Vice Chair Barr – who has come under fire from some conservatives for tougher supervision proposals – could be forced to resign.

What does the policy rate mean for longer dated yields and the trajectory of longer term rates will be an important topic to watch.

EQUITIES

The equity market's positive reception to Tuesday's election results was unmistakable with all major indexes hitting record highs. The Dow and S&P 500 rose approximately 4% from their election day close to end the week. The market is reflecting greater odds of deregulation and tax cuts with an 'America first' theme owing to the prospects of greater trade tariffs.

Among the biggest market movers were US banks now expected to face less regulatory scrutiny and able to benefit from higher Treasury yields. Strength was exhibited across the spectrum with industry leaders Bank of America, JPMorgan Chase, Wells Fargo, and Citigroup all posting solid gains and smaller regional and community banks gaining as well. The Nasdaq US Small Cap Banks Index ended 13% higher on Wednesday. Returns from European banks were more muted as those with larger presences in the US tended to do better.

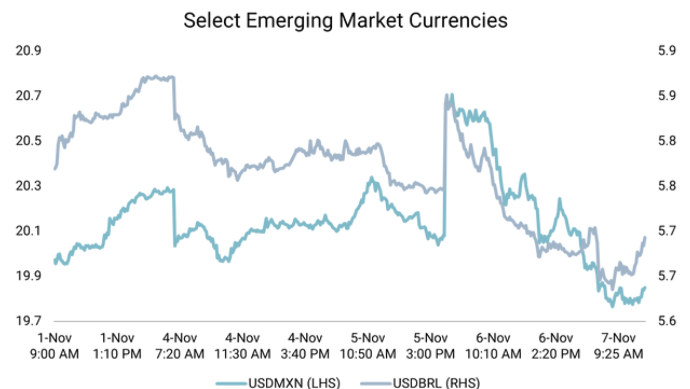
Small-caps helped lead the way with the Russell 2000 Index gaining +6.2%. Although small companies don't tend to find themselves in regulators' crosshairs as often as their larger peers, their lack of scale and resources can nonetheless make them disproportionately impacted by regulatory burdens. They also stand to benefit unequivocally from corporate tax cuts. On the other hand, the biggest losers appear to be consumer goods companies with manufacturing overseas. Footwear manufacturers like Nike, Crocs, and Skechers as well as other apparel and home goods sellers have sold off since the election.

With all of these larger macro factors driving the market, we anticipate a choppy period. In some cases, hype might be getting ahead of the fundamentals. For instance, while banks do indeed stand to benefit from improved net interest margins, it remains unlikely loan growth will accelerate unless interest rates come down significantly. The timeline and extent of any deregulation within the banking sector is also unknown.

Interestingly, emerging markets have had a dispersed and choppy reaction to the election result thus far. In the immediate wake of the results these markets sold off as one would expect, led by the usual suspects under a potential tariff war scenario - Mexico and China. Another country that was initially impacted but posted a swift recovery was Brazil (more on the currency moves below). This volatility, like that in other geographies and sectors, is driven by the uncertainty around the eventual shape of the new administration's policies. The US is Brazil's number one source of FDI and higher tariffs would hamper this equation both from a flow of new capital and BRL depreciation perspective. On the agricultural front, the new tariffs could actually prove to be a net benefit for Brazilian exporters, not unlike the first time this happened in 2018. This is because the Chinese could increasingly look to buy soy, corn, and other agricultural commodities from Brazil at the expense of US farmers. Conversely, blanket tariffs would likely subdue overall global GDP growth, hurting the rest of the Brazilian economy to an even larger degree.

CURRENCIES

The last two weeks in foreign exchange markets have been dominated by broad dollar strength. Following Donald Trump's victory, the greenback strengthened against almost all developed market peers, as well as several large emerging market currencies. Most notably, the Mexican peso and Brazilian real plunged as results came in owing to the potential for further re-shoring from lower cost-of-production countries, as well as broad dollar strength that weighed on their commodity exports coupled with the threat of agricultural tariffs (as discussed above). However, prices for these two currencies quickly recovered and are now trading above levels immediately prior to the election.

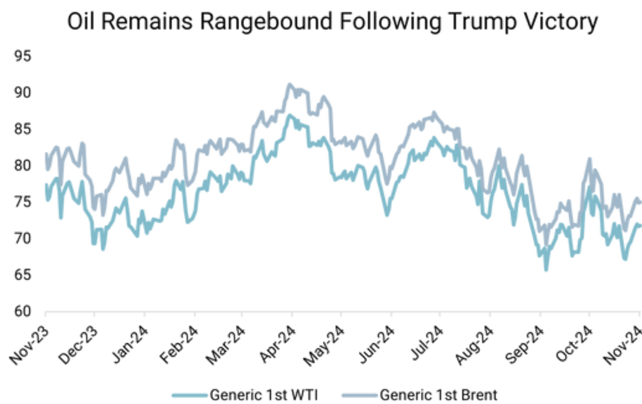


Developed markets have also experienced notable currency moves in recent weeks. In Scandinavia, central bank policies continue to diverge, as the Swedish Riksbank cut rates by a further 50 basis points to 2.75% while their oil-rich northern neighbor in Norway kept rates unchanged at 4.5%, relatively in-line with other commodity-driven economies. In the UK, the Bank of England cut rates on Thursday by 25 basis points, spurring further volatility in the British pound. In Asia, the Japanese yen continues to slide against the dollar, hitting levels last seen in early August. Should the yen decline further, another intervention from the Ministry of Finance, or even another rate hike from the Bank of Japan is possible as an attempt to

mitigate inflationary pressures stemming from a weaker currency.

COMMODITIES

Oil has been range bound, well below its highs set earlier this year. Crude has been hamstrung by a broadly stronger dollar and the potential for increased supply amidst President-elect Trump's endorsement of greater domestic fossil fuel production.



Other cyclical commodities have also been volatile, perhaps none more so than iron ore. The President of China Mineral Resources Group (CMRC) – widely acknowledged as China's state-owned iron ore purchaser – commented that current prices are still too high given demand – despite having fallen for much of the year. Additionally, a suite of tariffs that the incoming Trump administration may impose on China could further constrain growth, serving as an additional headwind to prices in anticipation of lower steel demand.