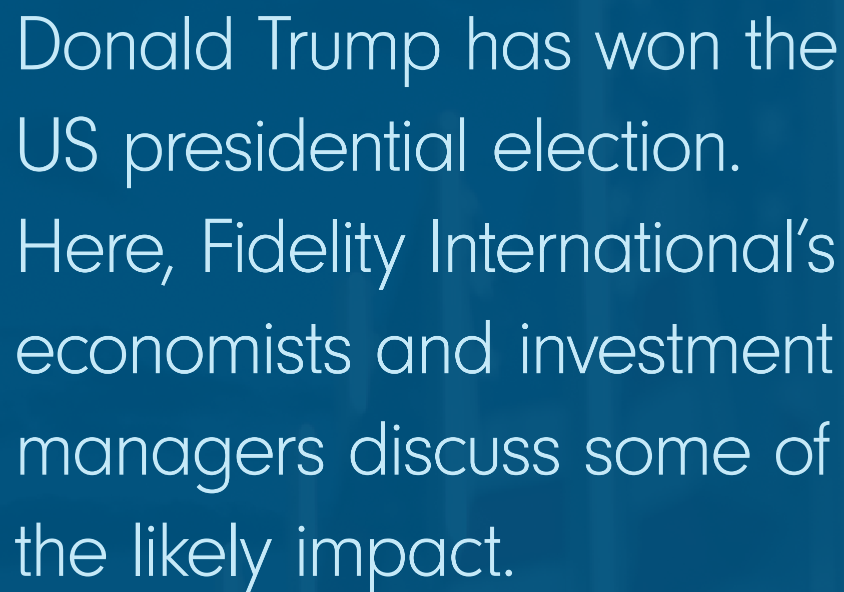
November 2024

Trump wins

Fidelity INTERNATIONAL



Donald Trump has won the US presidential election. Here, Fidelity International's economists and investment managers discuss some of the likely impact.

Salman Ahmed
Global Head of Macro and
Strategic Asset Allocation

US election results overnight show a strong victory for Donald Trump as he is projected to carry all the swing states. Polls heading into the election day were pointing to a dead heat but Trump appears to have done 2-3 percentage points better across all states compared to 2020.

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The return of Trump to office will bring significant changes to US economic policies. The most important and immediate will be his proposals around trade policy, especially the use of tariffs, where the president has significant executive authority.

Taken at face value, 60 per cent tariffs on China and 10 per cent universal tariffs would be much more significant than during the previous Trump administration and could raise the effective tariff rate in the US by nearly six times to its highest since the pre-World War Two period.

This could impact long-run US GDP growth while imposing a one-time shock on core inflation.

We do not expect Trump to follow through on his full trade proposals immediately; rather he will likely use them to set the direction of policy and negotiate better deals and therefore perhaps use a more incremental approach. The appointment of the new treasury secretary will be key here.

We see China, Europe, and Mexico, which run the largest trade deficits with the US, to be the most susceptible. Trump policies are also directed at imposing tighter immigration controls, which could potentially slow labour supply and the disinflation gains of recent quarters. The rhetoric and any subsequent action here will have to be closely watched.

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On fiscal policy, the control of Congress will be more important, and we may have to wait for a few days before we know the result of the House with the Senate already flipping red.

The budget outlook varies significantly under a red sweep compared to a divided Congress, with

the former being considerably more expansionary (worth up to an extra 2 percentage points on the fiscal deficit).

While tariffs are likely to boost customs revenues, to the tune of up to 1.3 per cent of GDP, these fall short of the tax and spending proposals Trump has been campaigning with and could increase the fiscal deficit to over 8 per cent of GDP, once the Tax Cuts and Jobs Act expiration is extended at the end of 2025.

Regardless, fiscal policy is still likely to stimulate growth and keep fiscal deficit levels significantly elevated compared to the 3.8 per cent of GDP average it ran at before the pandemic. Overall, fiscal pragmatism is likely to be largely absent from policy trajectories.

Against this backdrop, we expect the US macroeconomic landscape to see more reflationary risks with an upswing in nominal GDP growth in the near term and the reappearance of increasing inflationary pressures.

This is all likely to alter the monetary policy trajectory significantly for next year. For now, we expect the US Federal Reserve (Fed) to stick with a rate cut in November but the emergence of more detail around Trump's economic policies and the congressional split will give us more clarity on the central bank's trajectory next year. The question of rate hikes may yet come back to the table.

While the direction of economic policy is clear, the rhetoric over the next few days, including cabinet appointments and the congressional mix, will be important to gauge the magnitude and timings of what lies ahead. The impact on both the domestic and the global economy will be significant.

Niamh Brodie-Machura
Co-Chief Investment Officer, Equities

The economic environment for now is positive and it should provide a solid base for markets. There are no expectations of any serious fiscal retrenchment under Trump, and I would expect the treasury market to continue to absorb the planned debt. That is all beneficial for stocks, even if there are clearly concerns about valuations in some parts of the market.

We are watching two areas closely. One is the part of the global market that is liable to suffer from higher tariffs, so we will have to see what the administration finally delivers. On the other hand, China has yet to deploy a significant fiscal impulse, so there is room for Beijing to take steps to counter the impact of a rise in tariffs on trade and global demand. That could have wide ramifications for a range of assets - from Chinese stocks, to the dollar, to treasuries.

The second is that while reflation of the economy should be good for companies, it is only good as long as it does not run too hot. We saw that in the period after Covid and there is a risk that we could wind up in that space again.

Marty Dropkin
Head of Equities,
Asia Pacific

When we've been debating the outcome of this election from an Asian markets perspective, we always come back to fundamentals: they drive longer-term returns more than temporary shifts in the markets. Therefore, our focus is on those sectors with the greatest organic growth opportunities, those that align with government policy initiatives and have the potential for increasing domestic demand. Healthcare and tech could be interesting examples of this, and the push to build a thriving tech supply chain will bring some benefits to the infrastructure space.

My recent discussions with portfolio managers have centred around domestic policy within China and what levers the government there has to pull, whatever the outcome of the election. Tariffs have been a clear possible scenario, with Trump threatening up to 60 per cent on imports from China, and of course that is an issue. But the Chinese government has a lot of tools it can use, depending on what happens in the US and across other markets. Companies have also dealt with tariffs before, and the possibility is already largely baked into equity prices.

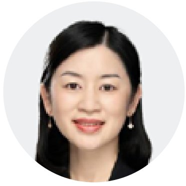
Steve Ellis
Global Chief Investment Officer,
Fixed Income

The outcomes under either administration were likely to be inflationary but the market for some time has obviously read Trump's policy slate as the more expansive and that is likely to produce a more challenging environment for fixed income markets.

Trump has made noises about running a weaker currency and that bears watching. This will be a year of shifting interest rate differentials but also clearly of moves on trade tariffs that may have an impact on flows between economies.

Potential tariffs would also bring with them longer-run risks to growth which brings stagflation scenarios into play as we get further down the road. High tariffs are likely to raise prices at a time when the Fed is cutting interest rates because much of the economy needs the support.

The other question is the outlook for the budget and the volume of bond issuance. The deficit problem is unlikely to be tackled in the short term and that has the potential to unsettle debt markets. While we might not get to the stage where the quality of the US Treasury's credit starts to be questioned, we have already seen markets move sharply in reaction to concerns over supply this year.



Lei Zhu
Head of Fixed Income, Asia

We expect any volatility in Asian investment grade spreads to be short-lived, with the market supported by relatively high total yields and strong technical factors, and any widening providing buying opportunities.

Asian high yield markets are also running at durations of just two years, with average ratings of BB- and credit spreads that are over 500 basis points and above the 20-year average. The Republican victory could also boost sentiment by leading to an increase in stimulus from China and continuous monetary easing.

In the event of a red sweep, the combination of a Republican president and Republican control of Congress could further push US Treasury yields up due to increased government spending and inflation expectations. This would likely strengthen the US dollar and weaken Asian currencies as they adjust to higher US interest rates and potential trade tensions. That said, China's upcoming stimulus package, following the National People's Congress Standing Committee, could help stabilise China and Asian credit markets.

Matt Quaife
Global Head of Multi-Asset Investment Management

The fundamental backdrop is still strong, and with the US election uncertainty now behind us and the US Federal Reserve cutting rates, the prevailing environment should be supportive for risk assets. We are currently positioned overweight in equities, with a particular preference for the US, and neutral in both government bonds and credit.

Election results often matter less for financial markets than many believe, and we prefer to look through the noise to focus on long-term fundamentals. That said, we are looking for tactical opportunities that may arise from any potential new Republican policies. The proposed tariffs on US imports should support the dollar, especially against the Mexican peso, the Chinese yuan, and several other Asian currencies. The possibility of lower taxes could provide an immediate boost to US equities but could also lead to greater expectations of fiscal pressure down the line. Neither party had expressed much interest in controlling the fiscal deficit, and we believe US curve steepeners could perform well due to higher policy rates as a result of import tariffs and fiscal policy risks. We also prefer Eurozone and UK government bonds over US treasuries. Within equities, we believe mid-caps are an attractive area of the market in the US, as well as in Europe and Japan.

In equity sectors, we think that the Republican party's bias towards lower regulations and taxes, and the possibility of higher rates, should support the US financial sector. We also believe that energy infrastructure should benefit from deregulation. Finally, healthcare equities could stage a relief rally due to the decreased risk of price control on drug prices.

On a broader scale, one outcome of the election result is that the most important tail risk in markets has likely switched from the possibility of a recession to the possibility of a return of inflation. This means that we will be looking at parts of the market that could offer a hedge to such a scenario, such as gold producers and inflation breakevens. We will continue to monitor policy developments in the US very closely as they unfold over the coming weeks and the new administration takes shape.

Rick Patel
Portfolio Manager,
Fixed Income

The central theme here for fixed income markets will be tariffs and a loosening fiscal backdrop. Broad tariffs, and any ensuing retaliation or trade war, will potentially have both inflationary and negative growth implications. Stricter immigration policies will also feed into the ongoing labour market uncertainty. This will challenge the Fed's dual mandate to manage both growth and inflation, with ongoing volatility in rates markets likely as the data plays out. The longer end of the yield curve will be particularly vulnerable to a sell-off as the market prices longer term fiscal largesse.

On the currency side, the dollar is likely to continue to benefit, particularly against the Mexican peso, euro, and Canadian dollar given trade related factors. Looking at credit markets, the recent strong demand for yield should continue to be supportive overall, however spreads will likely be more vulnerable to the shifting growth, trade, and geopolitical concerns.

Financials, energy, and defence sectors will be in a position to benefit from any regulatory relaxation. Utilities may face challenges from withdrawal of support for the Inflation Reduction Act and clean energy policies implemented by the Biden administration, whilst consumer and autos sectors will face headwinds from tariffs. Looking to international implications, European growth is fragile and corporate fundamentals have not remained as strong as in the US, leaving markets vulnerable. The struggling European autos sector is likely to continue to underperform with trade tensions being the primary concern, whilst cyclical sectors will also struggle.

Rosanna Burcheri
Portfolio Manager,
Equities

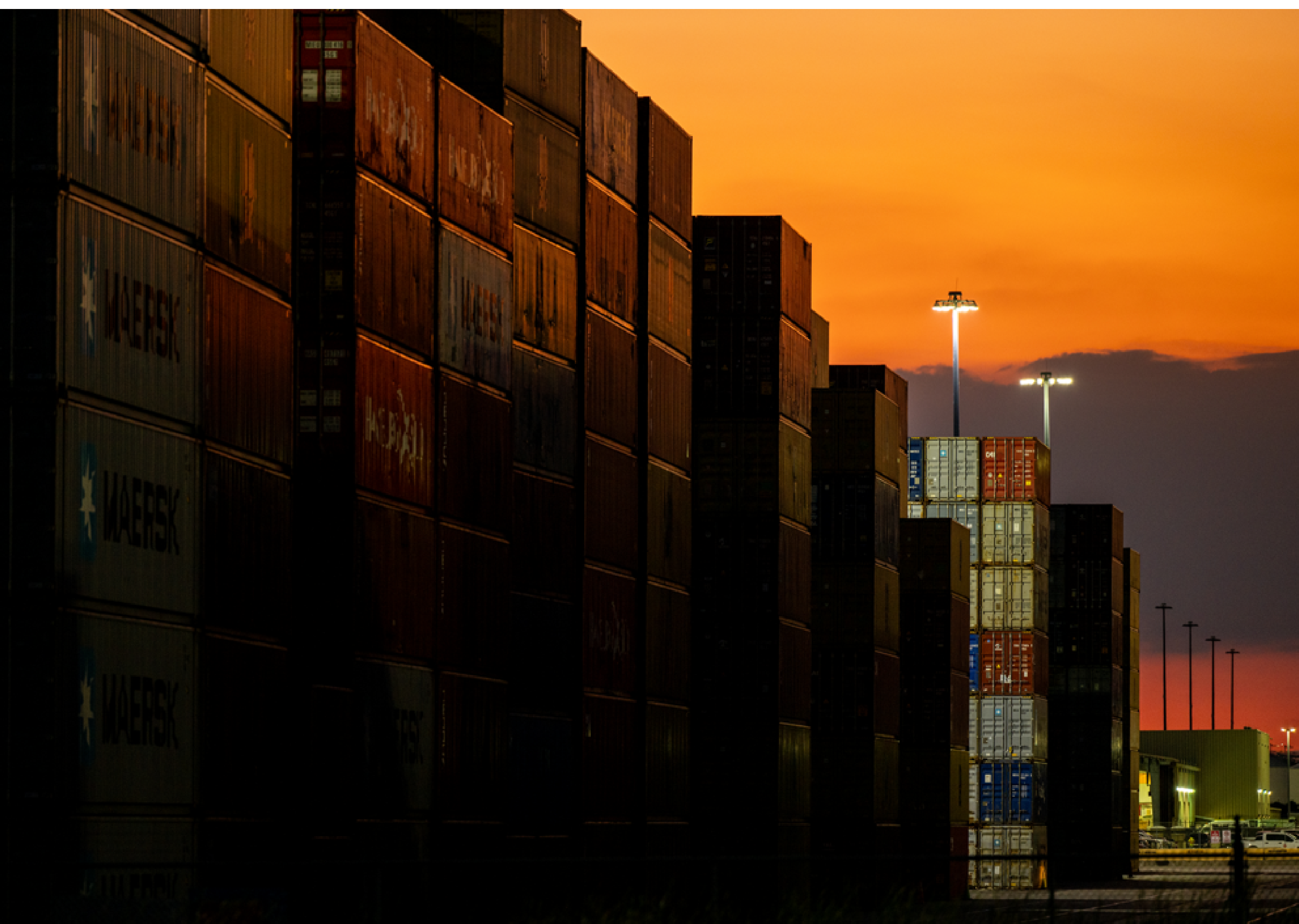
While it's widely expected that a Republican win may repeal some areas of the Inflation Reduction Act including electric vehicle credits, manufacturing incentives should be more protected given a significant proportion of investments are located in Republican-held districts. The onshoring trend has also already gathered momentum and has bipartisan support. We estimate up to 2-3 percentage points could be added annually to

the base growth rate of US fixed asset investment over the coming years, providing a range of investment options across the value chain. We are seeing manufacturing activity driving growth and investment opportunities in middle-America.

The regulatory landscape was a key battleground for the opposing parties and Trump's election will add to a trend towards deregulation that is already underway following the Supreme Court's ruling in June to end the 'Chevron deference'. We expect certain industries including financials, energy, and technology to benefit over the coming years.

As we await the final numbers for the Senate and the House of Representatives, we would highlight that of the five broad key policy areas in play during this election - corporate tax rates, regulation, the fiscal deficit, tariffs, and immigration - the first three require agreement from the president and both houses of Congress. By contrast, the president has a lot of room to manoeuvre on tariffs and immigration with short term policies, regardless of Congress approval.

It's important to monitor companies and remain disciplined with valuations. We have a watch list of ideas and a clear understanding of what price represents good value on a medium- to long-term view. We look for supportive underlying trends and businesses trading below their intrinsic value. In volatile markets, bouts of volatility can create investment opportunities for stock pickers.



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