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Trump 2.0 – from rhetoric to reality

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As plans expressed prior to the elections are often subject to change or have to be relativised due to necessary compromises, the following thoughts have to be read with a certain degree of caution. While the period before the elections was the time for rhetoric, it is in their aftermath that reality bites. It is then that the White House's new President will be faced with the tough everyday challenges that dictate what is politically possible. And as historical experience has shown, what was planned or promised before the elections can often not be realised as hoped or feared.

In terms of trade policy, the additional trade tariffs planned by the Republicans appear less positive for economic growth in Asia and Europe than for the US (proponents of the “America first” policy send their regards). Should the tariff increases materialise, US companies would likely have a greater chance of potentially increasing their market share. A less well-known fact, which is nevertheless a source of worry in the US, is the 300% spike in illegal border crossings into the US that has been observed under the Biden administration. This is something that the Republicans naturally want to cap, a stance that is understandable from the perspective of American citizens given the “cheap competition” coming in from abroad due to this illegal immigration. Limiting this movement, however, may lead to less available labour in the agricultural and construction sectors and drive up wages in these industries, which may temporarily impact inflation trends.

More importantly, however is the fact that the Republican-dominated Congress under Trump's first presidency significantly reduced both US income and corporate taxes. The corresponding law passed in 2017, which was dubbed the “Tax Cut and Jobs Act”, is set to expire at the end of 2025, but could be extended if a majority is found in favour in the US Congress. If this turns out to be the case or should there even be a further reduction in corporate taxes, this would likely be a positive factor for US equities, as lower taxes contribute to higher corporate profits. What is more, US economic and earnings growth could be pushed upwards by higher consumption among

wealthier Americans, who continue to benefit from low taxes. On the other side of the coin, any tariff increases implemented by Donald Trump would put the brakes on growth, although the severity of any slowdown would depend on the extent of the tariff increase. Here too, the fierce rhetoric observed before the elections could well be followed by a more moderate reality now that the results have come in, with tariff increases being less extreme than suggested. In general, tariff increases can play a role in the relative price performance of regional equity markets. This means that if tariffs are increased, Chinese or other Asian and possibly European firms will find themselves at a disadvantage relative to American firms, especially if they are unable to pass on the impact of the tariff hikes to customers by increasing prices.

“It will be interesting to see whether the rhetoric of the election campaign can subsequently be turned into reality.”

Gérard Piasko, Chief Investment Officer

This could potentially lead to a temporary rise in inflation owing to price increases, which could trigger downward price movements and push yields upwards in the case of some US bonds. An increase in the budget deficit could have a similar effect if lower taxes lead to lower government revenue – unless they are clearly offset by tariff increases or lower government spending. It is important to note here, however, that the US budget deficit under President Biden was far higher than during Donald Trump's first term in office. Depending on the extent of the tax and tariff changes, which are still to be determined, changes in yields on US bonds are therefore conceivable, also because interest rate cuts may turn out to be less marked if inflation falls less sharply. Fewer US interest rate cuts could also be the result of stronger economic growth thanks to lower taxes. This could also influence the greenback in the medium term by increasing the growth and interest rate differential relative to the Eurozone.

Overall, it is therefore quite conceivable that US equities, depending on the details of the forthcoming legislation, could be at a relative advantage over both US government bonds and equities from the Eurozone and Asia under a Donald Trump administration. This would be very much in the sense of the “America first” policy. Depending on changes in foreign policy, which may also take a surprising turn with Trump assuming the role of deal maker as he seeks agreements that are favourable to US interests, diversifying asset classes such as private market investments, gold and other commodities as well as possibly crypto assets like Bitcoin could see higher demand in the future likely accompanied by higher volatility. Within the equity sectors, it is the change in regulation in the US that will be key. Traditionally, as historical experience has shown, especially under Ronald Reagan, Republicans are in favour of less regulation, which in the past has often helped companies in the technology, financial and energy sectors or the defence industry more than companies working in the alternative, non-fossil energy sector.

In addition, if we take a look back at how US equities have fared under Republican and Democratic presidents over history, it can be seen that performance depends less on the governing party than on the issue of whether there was a recession during the respective term of office or not. For the financial markets, the general performance of the economy has in the past ultimately been much more important than the political party leading the US government. The situation on the international financial markets therefore remains extremely gripping.

G rard Piasko

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