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**Hymans Robertson Investment Services (HRIS)**

# The US comes up Trump

**November 2024**

- In a tight race that came down to the 7 battleground states, the Republican Party and Donald Trump ultimately prevailed with an emphatic victory.
- "Trump trades" gathered pace as markets digested the outcome on Wednesday morning; Tax cuts and business friendly policies could be supportive for corporate profits, however, a large fiscal expansion combined with perhaps a more inflationary set of policies may provide headwinds for bonds.
- In initial market reaction the US equity market opened up over 2% to a record high, US treasuries retreated (the yield on 10y US Treasuries was up 18bps on the day) whilst the US$ gained against the £ and euro. **Overall, these market moves have been positive for portfolio performance, especially higher risk portfolios with a larger equity allocation.**

The US election rollercoaster reached its climax on Tuesday 5 November. As we mentioned in our previous article on the US election, in 2024, a year of elections, this was arguably the most globally significant in terms of potential impact on economies and markets. We explore the initial market impact below and what this could mean going forward.

## Trump's economic agenda

A tight race was expected, but in the end it was a fairly emphatic victory for Trump and the Republicans. This matters because when it comes to implementing Trump's policies, much also depends on who controls Congress where things like tax legislation need to get passed. The Republican Party look like achieving the clean "red sweep", winning back the Senate from the Democrats and looking likely to retain control of the House of Representatives. In theory, this "unified" government would provide a clearer footing for the Trump administration to push forward with their political agenda as they see fit. The table below summarises his key policies and their potential economic impact:

| Category | Trump Policy | Potential impacts |
|---|---|---|
| Taxes | Extending corporate and high-income individual "Trump tax cuts" | Large fiscal deficit<br>Higher consumer prices<br>Reduced labour supply |
| Trade | Universal tariffs of at least 10% | |
| Immigration | Restrictive immigration – 'shut down Mexico border' | |
| Energy | "Drill, baby, drill" | |
| Foreign Policy | "America First" narrative – less unconditional support of Nato | |

## Initial market reaction - “Trump Trades”

When we speak of “Trump trades”, we refer to his political and economic agenda and how markets are interpreting their impact on the US economy and markets. The consensus is that this agenda would be inflationary. Reflecting this, “Trump trades” have been priced into markets over the past few weeks as opinion polls and betting markets started to tilt towards Trump. Now the outcome of the Presidency is known, and the red sweep looks very likely, these trades have been amplified (with the following market reaction at time of writing).

**Treasuries (US Government bonds)**

US Treasuries retreated as yields rose (prices fall as yields rise) on Wednesday morning with the US 10y yield 0.18% higher on the day and about 0.45% higher over the month. This aligns to the expectation that the Federal Reserve may keep interest rates higher than they would otherwise should Trump’s policies cause inflation to persist. On top of this, the large fiscal deficits have the potential to increase government borrowing and Treasury issuance placing further upward pressure on bond yields.

**Equities**

Equity markets were the big movers in early Wednesday 6th trading. The US equity market opened over 2% up, to a record high, as Trump’s policy of “America First” is thought to be a boost to American firms. In addition, proposed corporate tax cuts could be an injection in the arm of corporate profits. Perhaps of more interest though is the more granular level reaction which could provide insight into which sectors will be the winners or indeed losers under a Trump administration:

- US banks were up 6-8% on expected deregulation and higher interest rates (increased profit margins).
- Renewable stocks were down as Trump favours the fossil fuel industry.
- US small cap stocks were up around 6% on expected business friendly policies for American small and mid-cap enterprises.
- Tesla rose 13% owing to Elon Musk’s expected influence in the White House. Meanwhile European automakers, like VW, were down as the market digests the impact of potential tariffs on European manufacturing sectors.
- European and UK markets in general were up initially but this faded later in the day, while the Hong Kong market was down 2% overnight, reflecting fears over rising US/China trade tensions.

**Dollar**

The US dollar rallied in early trading rising 1.5% against the pound and around 2% against the euro, its strongest gain since the Brexit referendum in 2016. The expectation of higher medium-term interest rates offered support for the US currency.

Overall, these market moves have been positive for portfolio performance, especially higher risk portfolios with a larger equity allocation. Our lower interest rate exposure has also partially protected the portfolio from some of the recent bond market volatility.

## Are global markets in for a further roller coaster or will they too come up “Trump” going forward?

As we all know, in the investment world, past performance is not a guide to future performance. A look back to the ups and downs of the Trump administration’s first term in office could offer both hope and reservation about what could lie ahead from an investment perspective. Supporters will point to positive equity market performance during those first four years, detractors could highlight certain periods of volatility due to some of the President’s actions and comments. There is still a lot of uncertainty over how much of Trump’s agenda he will push through this time around, and how much was just campaign rhetoric. Even so, we believe the following is a likely outcome following these election results:

- Inflation will be stickier in the US
- Interest rates in the US will fall at a slower pace than previously expected
- Earnings momentum for US companies is likely to be stronger; however this should be seen in the context of an expensive US equity market. We could see weaker earnings momentum for European firms that are dependent on exports to the US
- Market volatility could persist as Trump’s policies become clearer, other countries respond e.g. with tariffs of their own, and markets price in all this news.

Whilst it is easy to continue to get caught up in ‘election fever’ given its domination of newswires, when it comes to markets, the impact tends to be fleeting with wider macroeconomic drivers being more important over the long-term. What is key is having a long-term, strategically focussed, well diversified portfolio capable of navigating short-term election cycles to deliver over the longer-term investment cycles.

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**Risk warning**

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