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ELECTION

Trump’s victory signals major policy shifts ahead

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The magnitude of U.S. President-elect Donald Trump’s victory on Tuesday brings the strong likelihood he will have a mandate for his economic, market and foreign policy agenda. Winning the Electoral College and popular vote, as well as gaining Republican control of the Senate, means Trump’s key policy issues, such as tax cuts, higher tariffs and immigration curbs may come faster than expected — potentially in the early months of 2025.

Following Election Day, one clear outcome is the removal of political uncertainty, which had been a cloud hanging over the U.S. for more than a year, as many polls predicted a close presidential race. The overwhelming vote totals may account for a remarkable post-election rally in financial markets, since election results will not be challenged.

Feedback

Capital Group’s economist Jared Franz, political economist Matt Miller and senior vice president of government & regulatory affairs Reagan Anderson offer their initial views on the election implications.

Politics

Trump has won decisively, and the U.S. has avoided a political legitimacy crisis. Trump gained not only the support of working class white men, but also many Black and Latino voters, underscoring the importance of inflation, immigration and national security as key issues that swayed voters.

Republicans have regained the Senate, which means the new administration will have momentum to push through its policy initiatives. Trump and a Republican-controlled Senate will have the power to quickly confirm heads of key federal agencies. The organization of Trump's team has advanced substantially since he first took office in 2017.

Regulatory agencies will be directed to roll back Biden-era rules and implement a more business-friendly approach.

Trump will also work with Congress on issues related to housing, domestic energy production and the promotion of digital assets.

Sustainable finance, climate change initiatives and alternative energy projects will come under renewed scrutiny as will existing investments in certain regions, sectors and companies.

Economy

Trump is inheriting a U.S. economy that remains in decent shape, owing to a generally strong consumer, albeit with lower end weakness, and a mostly stable labor market. We expect the President-elect to implement a fiscal package, fueling a pro-growth outlook. Based on such previously proposed initiatives, the U.S. economy could see higher growth, inflation and interest rates. The combination of pro-growth deregulation and public spending will likely offset the drag of higher tariffs and geopolitical uncertainty.

Under a more optimistic scenario, here are some estimates from economist Jared Franz:

- Real GDP in 2025 could reach 3% to 3.5%
- Inflation may be slightly higher — around 2.5% to 3% in 2025
- The federal funds target rate could rise to 4% in 2026, up from 3%
- Trump has signaled tariffs are a policy priority, recently suggesting 10% tariffs on all impor with up to 60% on Chinese-imported goods
- Higher bond yields could accompany wider deficits
- Initiatives introduced by the Biden Administration, such as the Inflation Reduction Act of 2022, are unlikely to be repealed, though we may see some provisions clawed back.

Feedback

Markets

The S&P 500 Index climbed to a record high after election results became more certain. The run-up in U.S. equities appears in part to be a relief rally, given a decisive election has lowered the level of political risk. As the market remains focused on potential tax cuts (both corporate and personal) and deregulation, we could see equities rally further.

U.S. interest rates have quickly priced in the potential for reflation. The 10-year Treasury yield could continue to climb to the 4.5%- to 5%-range, according to Franz's estimates.

Meanwhile, the dollar is likely to maintain its strength against major currencies, given the resilience of the U.S. economy. The shift in relative interest rate expectations in favor of the U.S. will be an important driver, as will the magnitude of the tariff regime.

Within equities, a few themes could emerge with a Republican sweep:

- For banks and financials, weaker regulation and lower capital requirements should help earnings growth of these companies.
- Aerospace/Defense should benefit from potential increases in spending driven by sustained geopolitical tensions.
- Health care companies could be helped by proposed deregulation that promotes competition and efficiency. However, lower prices could affect profits and is one of the reasons that large cap pharmaceutical stocks have declined post the election outcome.
- In oil and gas, domestic drilling and mining will be encouraged and deregulated but could result in a lower price per barrel.
- Industrials may benefit from companies moving manufacturing back to American soil. Assuming tariffs are not onerous, various Japanese and European industrial firms that supply specialized chemicals and niche automation components are well positioned, based on this pro-cyclical stance.
- Small-cap companies can be beneficiaries of a strong U.S. economy, the reshoring of supply chains and a potential cut in the corporate tax rate.
- Multinational companies, especially those that trade with China, could face headwinds from tariffs.

Tariffs and taxes

The administration plans to adopt a more assertive stance on trade, including aggressive tariffs, export controls and investment restrictions on China.

Action on tariffs may move forward once the new administration confirms its commerce and treasury secretaries, as well as the U.S. trade representative.

Congress will also likely move fast to produce a budget that extends the 2017 tax-cut bill. President-elect Trump has also proposed a 15% corporate tax rate, down from 21%.

One key question may be the extent to which policymakers consider balancing tax cuts and tax extension's benefits with how that may impact the fiscal deficit, and ultimately U.S. public debt.

Geopolitics

U.S.-Europe relations could be challenged, with three areas of potential tension: national security and defense, international trade and economic security, and macroeconomic policy.

Though it isn't clear how far the U.S. could distance itself from NATO or Ukraine, there is a risk a new administration will demand much more financial and military support from Europe.

While the candidate Trump vowed to pull back support for Ukraine, it is not clear how quickly he will move on that policy or to what extent.
[Read important disclosures](#)

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Feedback

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