CAPITAL GROUP® | AMERICAN FUNDS®

U.S. EQUITIES

What Trump's win could mean for banks, autos and luxury goods

Carl Kawaja, Irfan Furniturewala, Drew Macklis and Julie Wang Chou

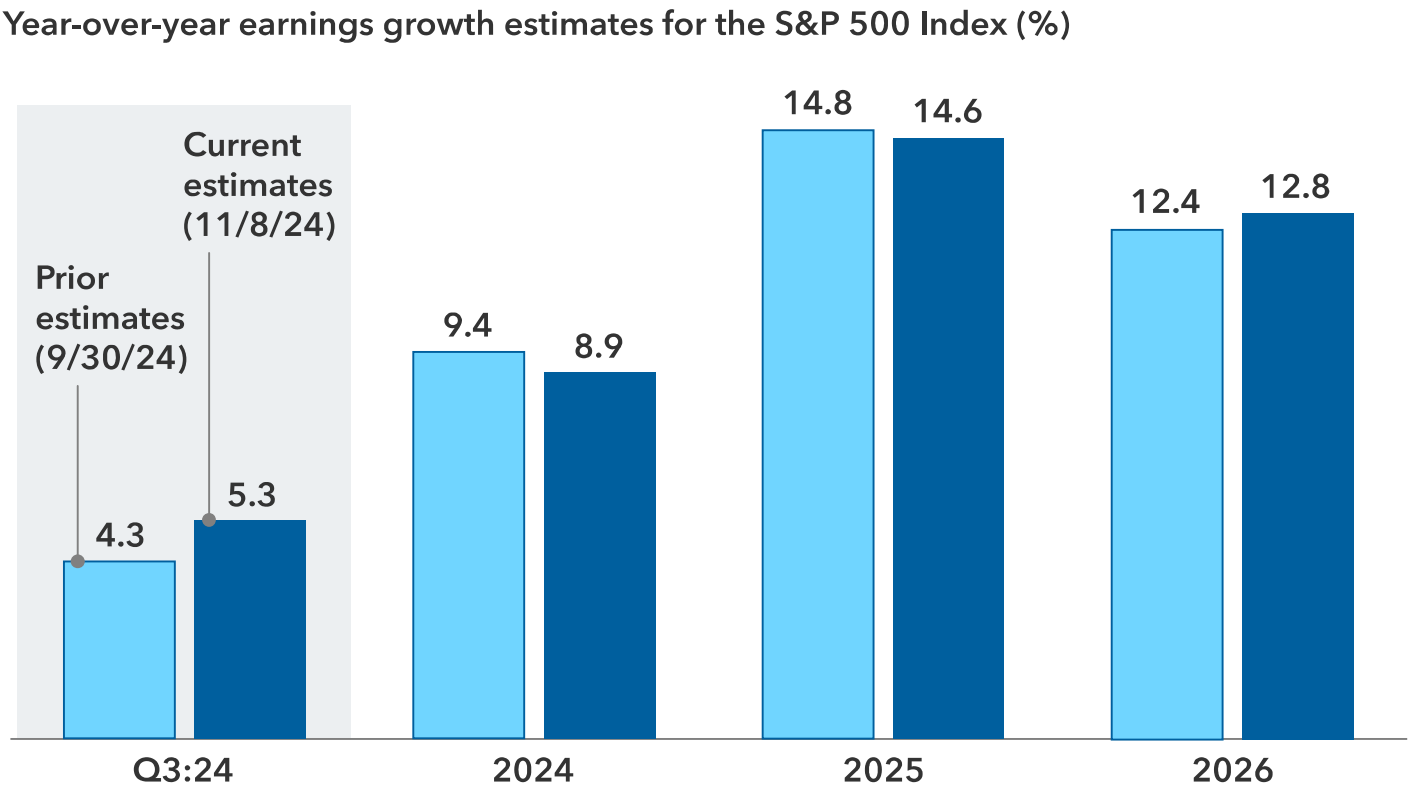
November 14, 2024

President-elect Donald Trump's victory and the potential for a vastly different regulatory environment boosted markets already primed by a broadly solid third-quarter earnings season.

"I view earnings as check-ins to see how a company is doing. An individual earnings report doesn't usually reveal much, but every now and then there's a quarter that shows you something different," says Carl Kawaja, portfolio manager for The Growth Fund of America®.

Feedback

Corporate earnings outlook softens, but remains solid



Sources: Capital Group, FactSet. Earnings growth refers to annual change in earnings per share. As of November 8, 2024.

Given the change in U.S. leadership, separating the winners and losers of Trumponomics 2.0 is front and center for many investors. At the macro level, how will geopolitical conflicts and rising tariffs impact global trade and inflation?

At the ground level are questions about how specific industries and companies will fare. There are clues from recent third-quarter earnings reports that could help investors prepare for what's next.

Feedback

1. Banks may benefit, but prospect of higher rates clouds outlook

Banks are expected to benefit under a Trump administration as regulations around capital requirements are likely to loosen, says Irfan Furniturewala, portfolio manager for CGGR – Capital Group Growth ETF.

Mergers are also expected to attract less antitrust scrutiny from officials, which could speed up the time it takes to close transactions. An increase in deal making would be positive for the banking industry since many provide advisory services as well as debt to help with financing.

One recent earnings report showed that big banks are in good shape. Of note, debit and credit card spending rose 6% at JPMorgan, the largest U.S. bank. "Consumers remain strong, and that will likely continue unless we see labor markets weaken," Furniturewala adds.

Concerns about increased government spending and the potential impact to inflation have pushed yields on longer dated Treasuries higher over the past few months. The benchmark 10-year Treasury yielded 4.34% on November 7, 2024, from a level of 3.78% on September 30, 2024.

"It's too early to know how inflationary the new policies could be," says Fergus MacDonald, portfolio manager for The Bond Fund of America® and American Funds Mortgage Fund®. "In my view, the disinflationary impact of significant monetary tightening since early 2022 is still working its way through the economy, and a return to inflationary policies would take some time to gain traction."

Rates are likely to continue to decline over the next year as the Federal Reserve seeks a normalized rate environment, according to MacDonald. Officials in November cut interest rates for the second time in as many meetings by 25 basis points to a range of 4.5% to 4.75%.

2. Leaders emerge amid challenges in the automotive industry

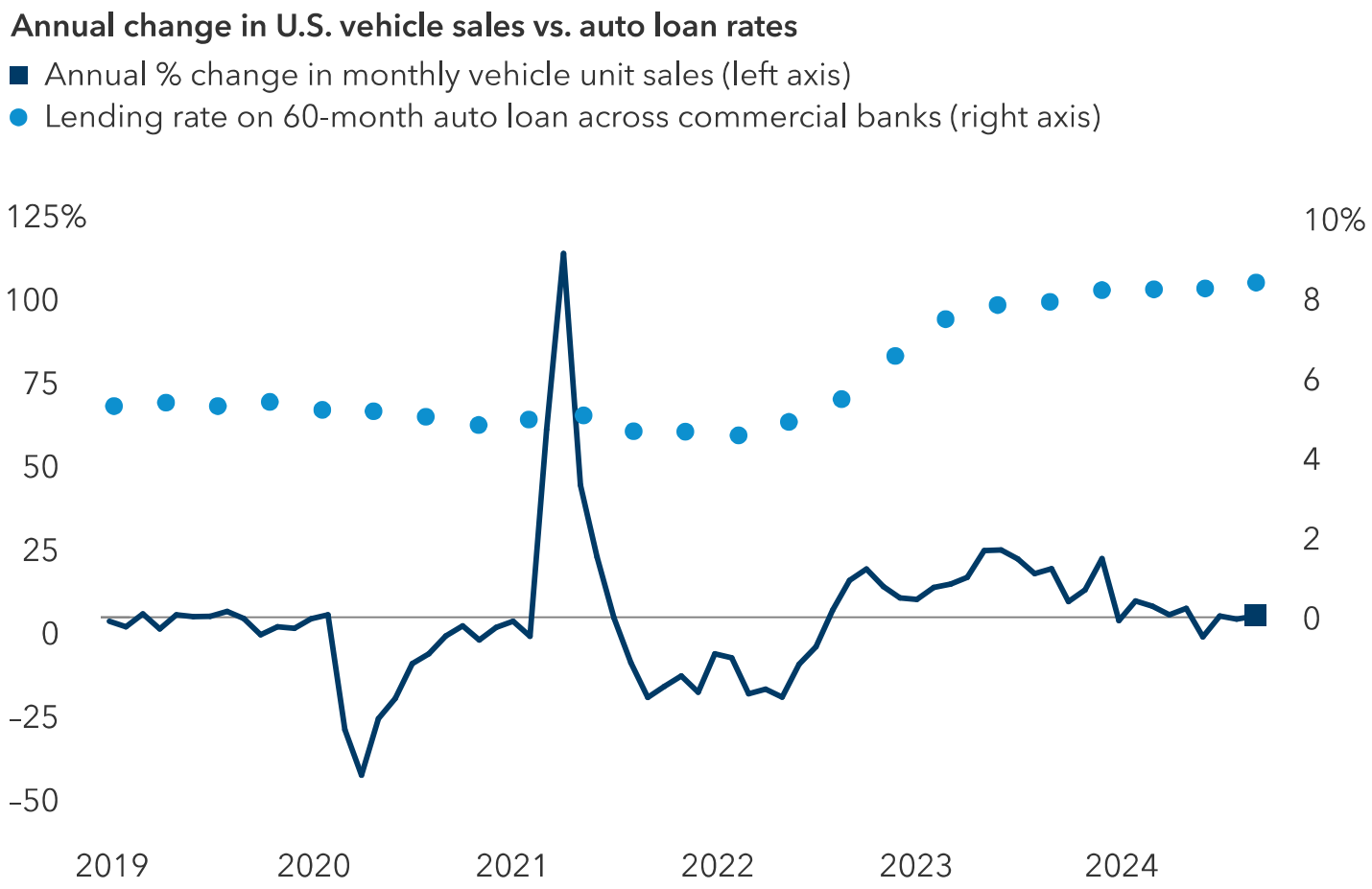
U.S. automakers' stock prices jumped on Trump's victory as investors digested the potential impacts of fewer regulations and looser monetary policy. However, autos are also a prime target for potential tariffs given how globalized their supply chains are, and a trade war with Europe or China could lead to market dislocations.

The backdrop heading into the election was already challenging for automakers as demand has chilled. "Consumer sentiment is a major driver of U.S. auto sales, and it remains roughly 25% below pre-COVID levels based on the data we track," says equity analyst Drew Macklis. Weak sentiment is largely due to high interest rates and elevated prices, which have pushed the average monthly payment on a new vehicle in the United States to around $730.

Feedback

Within the big three Detroit automakers — Ford, General Motors and Stellantis (formerly Chrysler) — the most recent quarter revealed diverging prospects. General Motors' operational rigor allowed them to better navigate the soft demand environment. Notes Macklis, "GM has been disciplined about controlling their cost structure, keeping price discounts smaller than those of peers in key segments like large pickup trucks, and rigorous about capital allocation." In their latest earnings release, GM raised their full-year profit guidance and now expects to sustain that higher profitability in 2025.

Auto sales softened as interest rates jumped



Sources: Capital Group, Federal Reserve Bank of St. Louis. As of September 30, 2024.

Structural change is also brewing beneath the surface in the automotive market. While electric vehicle (EV) growth has stalled recently and the fate of regulatory incentives for EV adoption is uncertain under the next administration, carmakers are still making headway on improving their EV model lineups. Tesla, for example, plans to launch new models in 2025, including a more affordable vehicle, and legacy carmakers are hoping to dramatically improve the unit economic of their EVs in the years ahead. "On first principles, an EV lends itself to a cheaper build cost compared to combustion vehicles, since the EV has roughly 90% fewer moving parts. Unlocking that at scale, however, requires deep engineering and manufacturing expertise, and most OEMs are still early in that learning curve," Macklis explains. In parallel, autonomous robo taxis from Alphabet-owned Waymo — which have gone mainstream in cities such as San Francisco and Los Angeles — continue to grow their customer base as they expand operations to additional cities like Austin and Atlanta.

3. Luxury slowdown could continue before recovering

American shoppers may be more willing to buy high-end brands now that the election is over, says equity analyst Julie Wang Chou. "We still need to get through the transition of power and have additional clarity on the new administration's policy, but I think that U.S. luxury spending has

Feedback

bottomed. However, the growth rate going forward may be substantially slower than during COVID-19."

Despite a potential turnaround of sales in the U.S., investors will likely remain on edge about the near-term earnings potential for luxury companies, according to Chou. That's because Chinese buyers, who typically purchase around 33% of luxury goods sold globally, are spending less. It will likely take time for consumer confidence in China – which underpins spending habits – to return given wage declines, travel restrictions and steep losses in property values.

A renewed trade war could mean higher tariffs at a time when luxury brands have hit a temporary wall in pricing power, she adds. In the past, companies passed on tariffs to consumers via price increases. But given slower macro conditions globally, brands cannot increase prices as aggressively this time.

A spending slump in China spells uncertainty for luxury goods

Sources: Capital Group, China Statistics Bureau, MSCI, Standard & Poor's. Relative return represented by the difference in annualized cumulative total return between the S&P Global Luxury Index and the MSCI All Country World Index (ACWI) starting January 31, 2019. As of September 30, 2024.

Lackluster style innovation has also hurt sales for some luxury goods companies. "Niche brands like Miu Miu, owned by Prada, are taking risks with their products, but that hasn't yet translated to the industry overall," explains Chou. Additionally, brands like Chanel and Louis Vuitton, once exclusive, are now so common that customers may not be as eager to purchase their products.

"I believe brands continue to have value, and luxury will make a comeback," she notes. "But I expect a slow recovery rather than a quick, hockey stick recovery."

Trump 2.0 holds promise and pitfalls

Stocks and other assets have soared on hopes a business-friendly approach from Washington could lead to lower taxes and higher profits. But that outcome is not a foregone conclusion.

"There are a lot of moving pieces right now and certain things are just unclear. Sometimes you must be comfortable with not knowing exactly what you're going to do as an investor. I'm trying to sort things out before I make any decisions," Kawaja says. "There will be winners and losers under the Trump economy, but there are also opportunities that stretch beyond administrations."
Read important disclosures

Carl Kawaja *is an equity portfolio manager with 36 years of investment industry experience (as of 12/31/2023). He is chair of Capital Research and Management Company. He holds an MBA from Columbia and a bachelor's degree from Brown.*

Irfan Furniturewala *is an equity portfolio manager with 24 years of industry experience (as of 12/31/2023). He earned an MBA from Wharton, a master's in electrical engineering from Iowa State University and a bachelor's in electronics engineering from Bombay University.*

Drew Macklis *is an equity investment analyst with seven years of industry experience (as of 12/31/2023). He holds an MBA from Harvard and a bachelor's degree in economics and global affairs from Yale.*

Julie Wang Chou *is an equity investment analyst who covers European luxury goods and telecoms. She has 19 years of investment industry experience. She holds an MBA from Stanford and bachelor's degrees in business administration and mass communication from the University of California, Berkeley.*

Feedback

Past results are not predictive of results in future periods.

OEM refers to original equipment manufacturer.

A hockey stick recovery occurs when a short period of stable or sluggish growth is followed by a sharp, rapid increase.

China's Consumer Confidence Index measures the consumers' degree of satisfaction about the current and expected economic situation.

MSCI All Country World Index (ACWI) is a free float-adjusted market capitalization-weighted index that is designed to measure equity market results in the global developed and emerging markets, consisting of more than 40 developed and emerging market country indexes.

S&P 500 Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

S&P Global Luxury Index comprises 80 of the largest publicly-traded companies engaged in the production or distribution of luxury goods or the provision of luxury services that meet specific investibility requirements.

MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

S&P 500 Indexes are products of S&P Dow Jones Indices LLC and/or its affiliates and have been licensed for use by Capital Group. Copyright © 2024 S&P Dow Jones Indices LLC, a division of S&P Global, and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part is prohibited without written permission of S&P Dow Jones Indices LLC.

Feedback

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

Statements attributed to an individual represent the opinions of that individual as of the date published and do not necessarily reflect the opinions of Capital Group or its affiliates. This information is intended to highlight issues and should not be considered advice, an endorsement or a recommendation.

All Capital Group trademarks mentioned are owned by The Capital Group Companies, Inc., an affiliated company or fund. All other company and product names mentioned are the property of their respective companies.

Use of this website is intended for U.S. residents only. Use of this website and materials is also subject to approval by your home office.

Capital Client Group, Inc.

This content, developed by Capital Group, home of American Funds, should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice.

Feedback