November 7, 2024

The impact of the US election

The results of the US presidential election have been made clear, with Donald Trump elected as the President of the United States for the second time. Even before all the votes were counted, the dollar climbed higher against a basket of currencies as it surged to a two-year high, and bitcoin and US bond yields jumped as investors placed their bets on Trump. In Europe, the Euro fell against the Dollar and government bond yields fell sharply in anticipation of Trump's promised trade tariffs. German two-year bond yields also fell.

As the cloud of uncertainty surrounding the outcome of the election begins to lift, we expect market volatility to ease as the dust settles.

What can we expect?

Trump campaigned on low taxes, low regulation, low energy costs and higher trade tariffs.

Potential beneficiaries of his victory according to market participants could include oil majors, financials, prison operators, utilities, and companies with a predominantly domestic focus. While lower taxes and regulation would be welcomed by Wall Street, it remains questionable whether President Trump will be able to further reduce corporate taxes, which were already cut during his previous presidency.

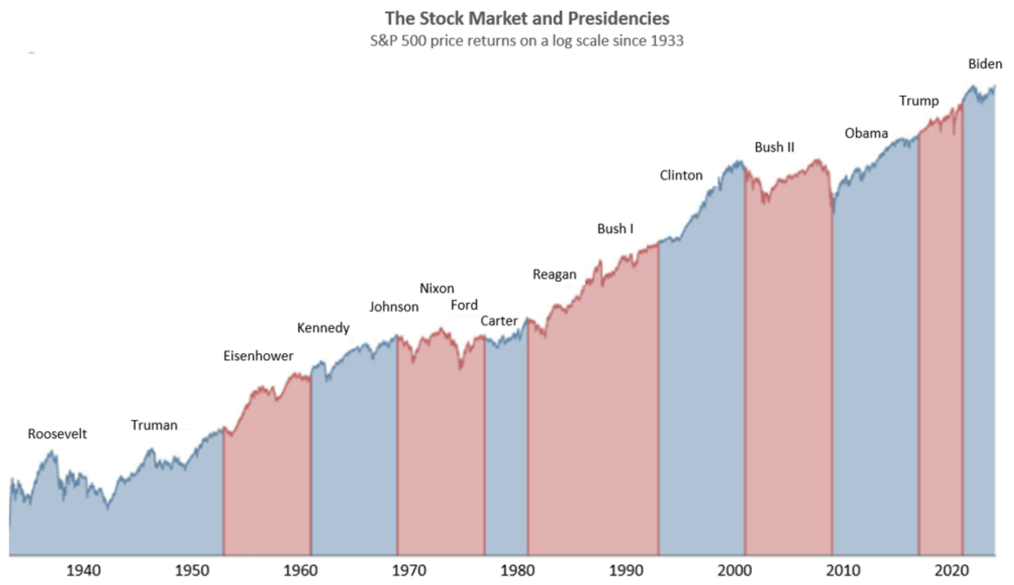
The tax cuts promised in Trump's election campaign could significantly increase the budget deficit. According to the new president, the tax cuts should be offset by major new trade tariffs, but economists are not convinced and instead expect Trump's protectionist policies to boost inflation.

For Europe, the proposed trade tariffs could severely damage international relations and supply chains, as the US accounts for around 20% of EU exports. Germany is particularly vulnerable to the proposed 100% tariff on all cars imported into the US. This could also have a significant impact on exchange rates. The Euro fell against the Dollar on the news of Trump’s victory, as Europe anticipates a harsher trade environment. It remains to be seen, however, when and if the proposed tariffs will be implemented and whether the European Commission will decide to reciprocate with tariffs of its own.

Our approach

While politics can and will create noise in the medium-term, we expect economic fundamentals to be the main market driver in the long-term. Trump's stated policies may impact specific industries or the broader economy, however, the implementation and consequences of these policies will not necessarily be as predicted. We will therefore be cautious in implementing structural changes based on election’s promises.

Across history, the S&P 500 has averaged double-digit gains whether Democrats or Republicans are in the White House, thanks to the powerful force of compounding.



Source: Bloomberg, BIL. Up until Dec 31, 2023.

Past performance is not indicative of future returns. This should not be considered a recommendation to buy or sell any security. Indexes are unmanaged, do not incur management fees, costs and expenses, and cannot be invested in directly.

For now, we are maintaining our allocation, favouring US equities (which benefit from stronger fundamentals), with a bias towards smaller capitalisation companies, which should benefit from more protectionist policies. Our fixed income exposure is concentrated in European government and corporate bonds, with a limited position in US high yield. In the short term, we will monitor the evolution of the USD, which could benefit from the expectation of a more inflationary policy in the US.

Once we have clarity on future measures and their concrete impact on the economy and companies, we will continue to adjust our positioning.

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