MARKET COMMENTARY

US elections: Trump and Republicans headed for a clear win

Macro & Market Research Team

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- **As we go to press, D. Trump is almost certain to be the next US President. Republicans have also won the Senate. The House is still tight and undecided; a Republican 'sweep' scenario, in which the party controls the White House and both chambers of the Congress, is our base (but still fragile) assumption. This would allow Trump to implement his policy agenda.**
- **Financial markets have responded to the Trump victory with a rise in US yields, the US dollar and equity markets. EM currencies have sold off, most particularly the MXN, on trade fears. In Europe worries about the negative supply shock coming from US tariffs and political uncertainties have dented short-dated EUR yields, though equities posted gains in early trading this morning, tracking futures of their US peers.**
- **Political uncertainty has vanished for now (no recount, no social unrest, no major political decision before January), which may support the usual post-election risk asset relief rally. Under a Trump victory, the Chinese stimulus package may also prove larger – a tailwind for global growth, partly offsetting the negative supply shock expected from higher tariffs. Treasury yields remain skewed to the upside just now, though we will be looking for buying opportunities this autumn as the market's pricing of the Fed equilibrium is starting to look stretched (5y3m OIS near 3.75%). The US dollar will stay supported, with the risk-on stance however likely to limit the rally.**

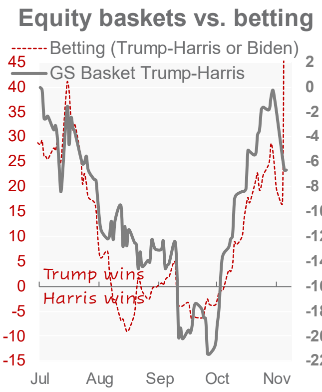
As we go to press, President Trump is almost sure to become the 47th US President. Moreover, he will count on the support of the Senate, where the Republican Party will enjoy a slim majority with 51 out of 100 votes, having flipped two seats from the Democrats. The race for the House of Representatives still looks tight but Republicans are comfortably leading the count as we write with 199 to 188 seats (the majority is 218).

With the full backing of the Congress, President Trump could implement in full his agenda, which includes steep tariffs on Chinese exports (and to a lesser extent from the EU and other main trade partners), a curb on immigration and significant tax cuts for corporations. The Republican program also foresees a boost to domestic gas and oil production, while plans to increase the supply of renewables could be scaled back (though they tend to benefit traditionally Republican states like Texas, which may trigger second thoughts). All these policy changes will have to be legislated over the course of 2025 and will likely take effect no earlier than in the summer. In terms of monetary policy, the control of the Senate allows in principle the President to choose friendly picks for the Fed's FOMC. But only one member will need to be replaced before 2028 (Adriana Kugler, in Jan. 2026), and the choice of who will replace chair Powell at the end of his mandate, in May 2026, will be up to the Committee.

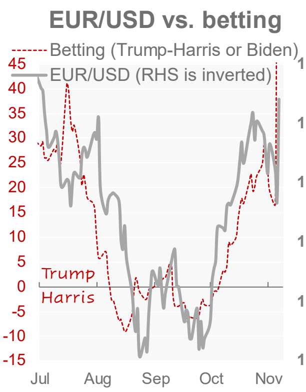
The political events in the US will also be felt in Europe. The major medium-term effect on the euro area is via trade. With Trump, a 10% general tariff on imports would be a gamechanger adding to the fiscal and structural headwinds the EA economy and may shave at least 0.2 pp from our expected 1.0% 2025 GDP growth forecast. Short-term, this adds to the already elevated political uncertainty and concerns about fragile EA recovery hopes, fuelling further ECB key rate cut expectations. That said, medium term the effect on the ECB policy stance is less clear. A stronger greenback and retaliation tariffs by the EU may raise prices in the euro area and could shift the ECB's terminal rate up. Lower growth works in the opposite direction and so does trade diversion from other countries (e.g. China) to the EA via lower import prices. This uncertainty likely induces some volatility regarding ECB implications in 2025. Pressure on Europe towards more military spending will add to fiscal stress, especially for countries that so far have not reached the 2% NATO target. This could also induce additional political stress as the SGP (and potentially national debt brakes as in Germany) will need to be respected too.

China will be particularly worried, with a sharp increase in US tariffs particularly likely now. This is likely to result in a bolder fiscal stimulus package to be announced over the coming days around the meeting of the NPC's Standing Committee.

Financial markets this morning reacted to the mounting evidence of a Trump victory with an extension of the 'Trump trade', with the USD strengthening (e.g. EUR and JPY down almost 2% at some point, with MXN suffering too) and US yields rising (10y UST >4.40% for the first time since July). The transatlantic yield gap has widened, notably at shorter maturities as a ~10bp fall in 2y Bund yields contrasted an opposed move in UST yields. Equity markets rose, with European stocks in early trading tracking the rise in futures for the S&P500. Bitcoin soared amid hopes of lighter crypto regulation under a new Trump administration.



Source: RCP, Goldman Sachs, BBG, GenAM



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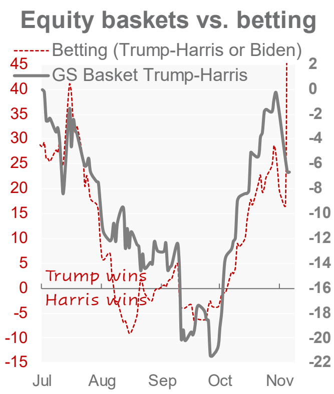

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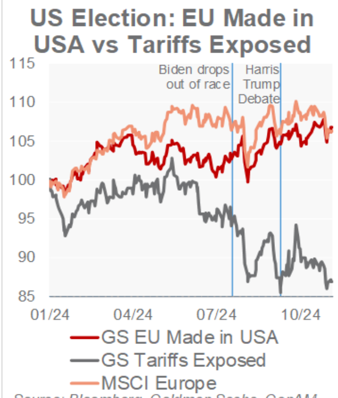


Source: Bloomberg, Goldman Sachs, GenAM

Positioning for the US election outcome had already strongly impacted financial markets over the last weeks. A Harris win was widely interpreted as policy continuity whereas a Trump victory has been seen as much more disruptive to current policies owing to his plans on trade, immigration, taxes, and regulation. These plans are inflationary: higher tariffs would raise US prices on higher import costs and reduced competition. Immigration curbs and would dent labour supply, thereby stoking wage pressure. This would reduce the scope for the Fed to cut rates. Meanwhile, tax cuts would benefit US corporate earnings across the board, while deregulation efforts are likely to benefit most the financial, fossil energy and crypto sector. The Committee for a Responsible Federal Budget, a nonpartisan watchdog, calculated that Trump's proposals would add almost \$8 trillion of debt by 2035, which may push public debt to 143% of GDP. As a result, rising odds of a Trump victory reflected by betting markets over autumn (see charts above) were associated with higher US yields, a stronger USD and a boost to a 'Trump equity basket' (skewed towards banks, energy and steel producers and US onshore producers) while the most recent catch-up of Harris in the polls had partially unwound these moves.

Trump's policies may still prove severely constrained if Republicans fall short of securing a majority in the House (especially fiscal and immigration policies, and to a lower extent tariffs). The scope to further raise budget deficits (a potentially bearish scenario notably for US Treasuries) depends much on whether Trump secures a 'sweep' victory or not. If he does, this morning's moves will likely extend further. Mind however that investors will pay a close attention to Republican talk, late in the campaign, of sweeping spending cuts (not accounted for by the Committee for a Responsible Federal Budget). The \$2tn cut that Musk talked about look unrealistic, but follow-up actions there would surely tame the bearish pressure on Treasuries. In the following, we provide some further takeaways and asset class implications:

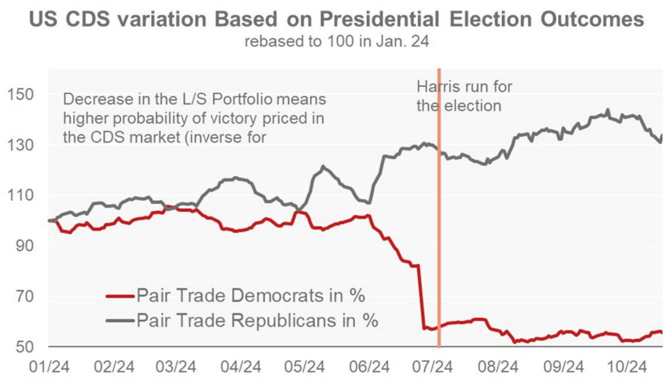
Government Bonds:

- The US yield curve has bear steepened this morning in the face of a possible 'red sweep'.
- The extent to which this rise can continue in the short term will now depend on whether the Republicans can secure a majority in the House of Representatives, like they did in the Senate. In the event of a Republican sweep, Trump will be able to push through the planned fiscal easing, immigration cuts and tariffs hikes more aggressively.

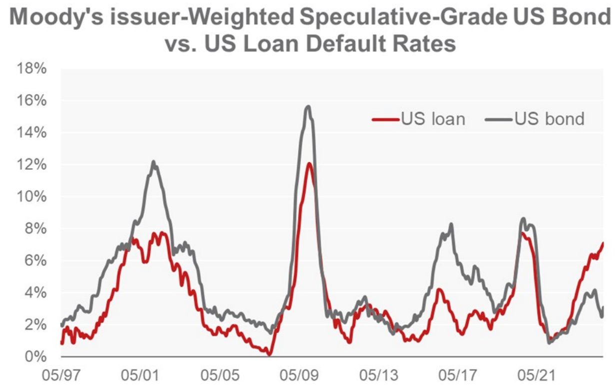
- However, financial markets had largely priced in a Trump victory in recent weeks, limiting any further yield increase. As a result, 10-yr US yields may struggle to return to this year's highs (4.70%) until we get more clarity on policy next year. For now, a rise in the 4.50-4.70% would likely prove to be a buying opportunity.
- The impact on core EA yields is less clear. On the one hand, retaliation on tariffs could have a yield-boosting effect, and the rise in US yields tend to push up EA core yields as well. On the other hand, the negative supply and confidence shocks will tend to depress economic growth and bond yields. In any case, the transatlantic spread looks set to widen further, at least in the short term.
- Given expected US tariff hikes and retaliation by trading partners, we consider inflation-linked bonds rather attractive still, even after their recent strong performance.

Credit:

- The Trump trade in credit markets has been in place for some time and we do not expect a major long-term market reaction, especially as the overall impact of the Republican victory has both positive and negative components. However, the lack of uncertainty around the result is being priced in by markets this morning, with CDS tightening sharply in both the US and Europe.



Source: Bloomberg, GenAM own calculations



Source: Moody's, GenAM

- Regulation: US banks would benefit from strong deregulation in a Rep sweep. Healthcare worse off on price reforms (likely in Rep. sweep, lower risk in case of split outcome).
- Tariffs are riskier for Equities than Credit. Aggressive trade policies favour US High Yield (higher domestic US exposure) over US IG (more global) and US over Europe (more global). However, aerospace & defence, building materials and retail are the most exposed US sectors.
- Fiscal: Large benefits from corporate tax cuts in a Republican sweep, but higher interest rates in the US could reignite financial stability risks, especially as loan defaults are historically very high relative to bond defaults. In Europe, where upside risks to interest rates are much more limited, demand for euro credit should remain strong, especially in IG given the longer duration.

FX:

- This morning's USD rally (up 1.5-2% vs. EUR and JPY) may have further legs if a 'red sweep' is confirmed.
- Inflationary pressures from tariffs will make the Fed more cautious in proceeding with rate cuts next year, keeping the yield gap wide vs. major peers. Global policy uncertainties and rising political tensions (risk of a tit-for-tat trade war) next year may raise safe-haven USD demand. Tax cuts and political onshoring pressures may raise FDI inflows into the US.
- Trump may still use his tariff threat as a mere bargaining chip to enforce more favourable trade conditions for US exporters. But punitive tariffs specifically on China are very likely. A weaker CNY may be welcome for China to partially offset the economic headwinds. Yet fast depreciation runs the risk of accelerating capital outflows, which China will aim to avoid by cushioning its tightly managed CNY.

- Europe and its car industry is another likely key target. The EUR/USD will remain burdened for now and may fall into the 1.00-1.05 range on fears of a trade war jeopardizing the euro area recovery, with manufacturers already struggling with lost competitiveness, sluggish global demand, and disadvantages from high energy cost.

Equities:

- Assuming a Republican sweep, the big “asymmetry”, i.e. the relative positive momentum of both the Trump basket vs Democratic one (rel. perf. of +15% since mid-September) and SPX vs EU, could extend further, albeit limitedly given that this scenario had become increasingly likely over the past 1.5 month. As we go to press, US futures are up ~2%, SX5E +0.8% and China down 2%.
- The Trump basket is skewed towards US value-cyclicals such as energy, financials, and domestic industrials plus small caps, which tend to outperform during Rep. presidencies. US Banks, Industrials, Transportation and Energy should benefit from de-regulation. Instead, US Tech and Communications are exposed to trade tariffs and higher rates.
- EU net exporters (US tariff-exposed: Auto, Beverage, Electronic equipment) are down 13.5% YTD and we see no appeal for them and Luxury, renewables/green energy/ESG names. Our trade fear indicator also points to continued risk for EU cyclicals vs. Defensives. Among EU cyclicals, banks could benefit from their domestic nature and positive correlation with global yields.
- The relative valuation premium of the US over the EMU could also persist as investors await concrete tariff measures, deregulation and expect US tax cuts. Meanwhile, EU stocks are pressured by domestic political uncertainty and lower expected long-term earnings growth.
- Historically, equities tend to gain post-election as uncertainty falls. The near-term outlook is thus bullish, though the elevated US valuation and rising real yields could cap the rally. We see positive 3m and 12m total return for both the US and EU, driven by macro fundamentals, central banks easing and a continuing rotation out of Tech. EMU has a higher risk profile, could underperform initially, but has a higher 12m TR potential given the relative undervaluation, stabilising growth and possible Trump-induced ceasefire in the Russia-Ukraine conflict.

Oil:

- Oil prices fell on the news, as the new administration is set to step up US supply. In principle an increased support to Israel might lead to an intensification of the tensions with Iran, with higher risks of an incident harming supply from the Gulf. Yet the strong interest Trump showed in keeping oil prices low will probably lead to strong diplomacy to avoid a flare up in risks to global supply. Saudi Arabia has shown a diminishing appetite for production cuts, and the supply outlook implies a bearish bias for prices.

CEE region:

- The CEE currencies will remain under pressure at least until EUR/USD stabilizes (EUR firms).
- Weaker CEE FX may slow process of monetary policy interest rate cuts in the CEE (e.g.: Hungary, the Czech Rep.).
- The CEE government bond yields will feel upward pressure due to sentiment in global debt markets and weaker CEE currencies.
- The Trump’s victory may elevate equity risk premia for CEE equities amid heightened geopolitical risks, as US support for Ukraine is likely to diminish.
- Universal tariff will exert downward pressure on CEE stocks' top line via reduced exports to Germany, a key trading partner, feeding through to lower EPS.