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What to do after Trump's win

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Overview

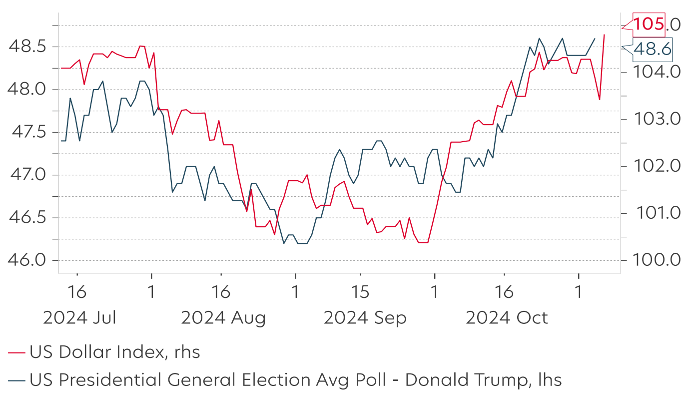
- Trump trade to extend with US market optimism
- US economy is likely to outperform rest of world
- Lower taxes and deregulation can be expected
- Higher corporate profits bode well for US equities
- Rising inflation points to higher US interest rates
- Trade frictions, labour supply shocks are key risks
- Bonds may react negatively to expanding fiscal deficit but outlook depends on state of economy
- Investors should focus on quality US cyclicals

Quick take: What to do after Trump's win

As at writing, Trump looks set to assume a second term in the presidential office, with 267 votes in the bag versus Kamala Harris's 214 votes (3.30pm SGT). The Republicans have already captured the Senate majority. Among the swing states, former President Trump has won Georgia, North Carolina as well as the crucial state of Pennsylvania. Securing a House majority is the most crucial for fiscal policy including the extension of the expiring Trump tax cuts. The prospect of a "red sweep" looks high; this could bring significant shifts in budget policy and legislation.

The "Trump trade" was in full swing through most of October and looks to extend on Trump's imminent victory. US Treasuries sold off and Bitcoin surged. The US equity futures are trading higher alongside the USD (Fig. 1), while high-beta currencies like the AUD and those of the emerging markets have taken a hit. Chinese stocks are in a slump on rising concerns that tariffs of 60% would be imposed on Chinese goods.

Figure 1: USD has climbed with Trump's polling



Source: Bloomberg, UOB Private Bank, RealClearPolitics 2024

What a Trump administration means for markets

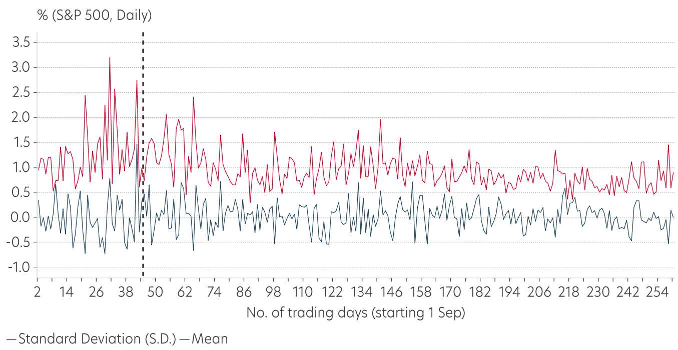
The US is likely to outperform the rest of the world, especially the emerging markets. A second Trump presidency raises the likelihood of a favourable corporate tax regime and lower regulatory burden. This could boost US corporate profits, which would generally bode well for the US equities.

The major risks for Trump's re-election include rising trade tensions and supply-side immigration shocks. Trump's tough stance on immigration could tighten the US labour market. This could weigh on labour-intensive industries as well firms which have high exposure to foreign sales as well as global supply chains. With tariffs and a focus on onshoring, inflation is likely to rise, pointing to higher interest rates.

Market focus likely to shift to the FOMC meeting

The market volatility should ease following the US elections, as it historically has (Fig. 2). While Kamala Harris could contest the outcome, markets are unlikely to give much attention to disputed elections this time, especially in the case of Trump's convincing win. Attention will likely shift to the Fed's upcoming FOMC meeting after the US service sector expanded in October at the quickest pace in over two years.

Figure 2: Volatile market to stabilise post election



Source: Bloomberg, Macrobond, UOB Private Bank

How might various sectors perform post election?

Sectors which may benefit from Trump's win include Communication Services, Financials, and Industrials. Equity investors will likely price in further optimism in deregulation and lower taxes. Higher long-end yields and improving market sentiments will likely bode well for banks' bottom-line. Manufacturing is set to be brought onshore; this augurs well for companies in the infrastructure space and manufacturing industries. Overall, quality cyclicals in the economically sensitive sectors are likely to be the primary beneficiaries.

For the Information Technology (IT) sector, skilled immigration could be a wildcard. Lower investment capex expensing should encourage further R&D in a positive feedback loop that reinforces the dominance of megacap tech. Having said that, the outlook for IT firms is mixed given that long-duration tech stocks could be pressured by higher interest rates.

For the Energy sector, more drilling of oil rigs can be expected; higher volumes produced should bode well for the traditional Oil & Gas (O&G) equities at the margin. On the contrary, a partial repeal of the Inflation Reduction Act (IRA) may negatively impact some areas in renewable energy.

Expanding fiscal deficit a negative for bonds?

Bond markets may react negatively to a Trump victory given a ballooning fiscal deficit based on consensus expectations, especially in the case of a Republican sweep. Less aggressive Fed rate-cut bets can be reasonably expected should the pass-through to higher inflation materialise. Having said that, the outlook for bond markets would depend on the state of the US economy. The extent of US rate adjustment is also likely to be influenced by the policies of the incoming administration.

China to face intense tariff pressures

China will probably face the most intense pressure on the US tariff implementation. Having said that, given the potential inflationary impact of an across-the-board 60% tariffs, a phased-out implementation could be plausible. This may result in a larger stimulus package by the Chinese government to mitigate the deflationary shocks to their economy. Looking ahead, the CNY is likely to face further downward pressure. Investors should focus on companies in the defensive and domestically oriented sectors.

Conclusion

Overall, a "red sweep" spells significant shifts in fiscal policy, currency markets, and sectoral trends.

What is important for investors in the coming months is to focus on actual policy proposals as well as the appointment of key cabinet positions, which will define the US policy going forward.

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