State of Play

Markets under Trump

14 November 2024

As the dust settles on the recent US presidential election, the financial world is alive with speculation about what a Trump presidency could mean for markets. With Donald Trump securing the presidency, and the Republicans potentially maintaining control of both the Senate and the House of Representatives, the US finds itself at a pivotal moment that could shape economic policies and market dynamics for years to come. Santander Asset Management discusses what the election outcome could mean for markets in this week's State of Play.

For those of you who prefer to listen, this topic is discussed in a recently released Market Views episode. Click the link below to go to our Spotify page and remember to subscribe for future podcasts updates:

The red sweep

If the Republicans hold onto the House of Representatives, we could witness a so-called 'Red Sweep,' where the party controls the presidency, the Senate, and the House. This scenario would grant them significant legislative power, allowing for a more streamlined approach to implementing policies. Historically, such control has led to substantial shifts in economic policy, and this time may be no different.

Key expectations from a Trump presidency

Drawing from Trump's previous term and his campaign promises, we can outline several key expectations:

Tax cuts and economic stimulus
One of Trump's primary promises is to cut taxes further. The tax cuts implemented in 2017 are set to expire soon, and there is a strong likelihood that he will push for their extension or even deeper cuts. This could stimulate consumer spending and corporate investment in the short term, potentially driving market growth.

Trade policies and tariffs
Trump's approach to trade has been aggressive, with a focus on imposing tariffs. While this could protect certain domestic industries, it may also lead to retaliatory measures from other countries, creating volatility in global markets.

Inflationary pressures
A Trump presidency is likely to be inflationary, particularly if aggressive fiscal policies are enacted. While this could spur short-term growth, the long-term implications of rising inflation could lead to increased interest rates, which would affect borrowing costs and market valuations.

Market reaction

Since the announcement of the election results, markets have experienced a notable reaction, reflecting both optimism and caution among investors.

In the immediate aftermath of the election results, major stock indices, including the S&P 500 and the Dow Jones Industrial Average, saw a significant uptick. This surge can be attributed to investor optimism regarding potential tax cuts and fiscal stimulus measures promised by the Trump administration. The prospect of a unified Republican government, which could facilitate the passage of pro-business policies, led to a wave of buying across various sectors.

The financial sector has been one of the biggest beneficiaries of the election outcome. Banks and financial institutions rallied on expectations of deregulation and potential interest rate hikes, which could enhance their profitability. The anticipation of tax reforms that favour corporations further fuelled this sector's growth.

Companies in the industrial sector also experienced gains, driven by hopes of increased infrastructure spending and a focus on domestic manufacturing. The promise of revitalizing American industry resonated well with investors, leading to a bullish sentiment in this space.

The technology sector, while initially buoyed by the overall market rally, has shown signs of volatility. Concerns over potential regulatory scrutiny and trade tensions, particularly with China, have led to mixed reactions among tech stocks. Some investors remain cautious, weighing the benefits of tax cuts against the risks of increased tariffs.

Retail and consumer discretionary stocks have seen a positive response as well, with expectations of increased consumer spending driven by tax cuts. However, the long-term outlook remains uncertain, particularly if inflationary pressures begin to impact consumer purchasing power.

In the bond markets, yields have risen in response to expectations of increased government spending and potential inflation. The yield on the 10-year Treasury note has seen upward pressure, reflecting investor sentiment that the Federal Reserve may need to adjust its monetary policy in response to a more inflationary environment.

Potential for volatility

Given the potential policy shifts, future market reactions could be mixed. The uncertainty surrounding trade policies and potential inflationary pressures could lead to increased volatility. Investors may need to navigate a landscape where geopolitical tensions rise and economic indicators fluctuate. Certain sectors may benefit more than others. For instance, companies in the energy sector could thrive under a pro-fossil fuel agenda, while those reliant on global supply chains may face challenges due to tariffs and trade restrictions.

A complex landscape

While the prospect of a unified Republican government may present opportunities for growth, the potential for increased volatility and uncertainty cannot be overlooked. The US election results herald a new chapter in American politics, with the possibility for significant implications for markets. By understanding the potential policy directions and their impacts, we can better navigate the complexities of this new era.

The value of seeking guidance and advice

It is important to seek advice and guidance from a professional financial adviser who can help to explain how to build an appropriate financial plan to match your time horizons, financial ambitions and risk comfort. If you already have a plan in place or have already invested, it is important to allocate time to review this to ensure this remains on track and appropriate for your needs.

Learn more!

Investing can feel complex and overwhelming, but our educational insights can help you cut through the noise. Learn more about the Principles of Investing here.

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