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Market View

Market response: Trump secures the White House

Date 8 November 2024

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At a glance

- Donald Trump wins the presidency, becoming the first in over 120 years to serve non-consecutive terms. Republicans also took control of the Senate and are on track to remain in control of the House.

- US equities, especially the Russell 2000 Index, surged after Trump's victory. The dollar strengthened, impacting global currencies and equities, while Treasuries sold off due to expectations of higher deficits and tariffs.
- Trump's win may lead to changes in US foreign policy, including potential increases in tariffs and stricter immigration controls. Central banks have recently adjusted rates, and future policies could introduce new uncertainties.

What started as an evening of cautious optimism ended in unbridled joy for Republicans as Donald Trump won convincingly to become the 47th president of the United States, four years after he was defeated by Joe Biden. He becomes the first president in more than 120 years to serve non-consecutive terms. The Republicans won the Senate and appear on track to remain in control of the House. Trump's promises of sealing the borders, implementing tariffs and fixing economic policies clearly resonated with the electorate.

Clean sweep

A clean sweep for the Republicans would give them a governing trifecta in Washington, allowing them unrestrained access to pass much of their agenda, which includes deregulation, tariffs, corporate tax and restricting immigration. In his speech Wednesday morning, Trump vowed to 'fix the border and pledged to make the country safe and prosperous'. His historic victory represents an astonishing political comeback for a man who survived a criminal conviction, indictments, two assassination attempts and a switch of his opponent late in the race. Up until Tuesday, polls showed the race between Trump and Kamala Harris was in a deadlock, but early momentum towards Trump never faded, and once he won some crucial swing states, including Pennsylvania, Georgia and North Carolina, his path to the White House was all but certain.

Market movements

Risk assets in developed markets, particularly US equities, surged following the news of Trump's victory. The S&P 500 and the Dow Jones rose on Wednesday, both finishing the week up 5% as of Friday morning. But the biggest moves came from the small-cap Russell 2000 Index, which rose as much as 6% early Wednesday morning. At the time of writing on Friday, it was up 7% this week.

The dollar meanwhile strengthened, leading to a sell-off in the pound, euro and yen. The yen sell-off sent Japanese equities up, but Hong Kong and Chinese equities fell as fears of tariffs mounted, although have since recovered on Chinese stimulus optimism. Tariff worries also weighed on European automotive manufactures following the election, although these too have bounced back.

Outside of equities Treasuries sold off, as the Republican stronghold may result in bigger deficits and higher tariffs. This will push inflation higher and make it harder for the Federal Reserve (Fed) to reduce rates. Before the election results came in, strong US data – including the ISM services index, which measures services and employment—came in above expectations, which weighed on bonds, sending 10-year Treasury yields up to 4.4% on Wednesday.



What does Trump's victory mean for the rest of the world?

From a geopolitical standpoint, the new government's foreign policy, specifically on China, the Middle East and Russia/Ukraine, could well usher in a new era of uncertainty. A Trump White House will likely transform relationships with both allies and adversaries.

Trump has promised to become more isolationist, introduce more tariffs, make it harder for immigrants to enter the US and become less engaged on issues such as climate change. China faces higher tariffs that were started under Trump's first term and continued during Biden's term. Japan and South Korea may face pressure into paying more to have American troops based there. Some caution China's pressure on Taiwan may intensify.

The future looks even more uncertain for Ukraine, as Trump has promised to end the war on day one, which could mean Trump would force Ukrainians into a deal with Putin by cutting off American military support. Uncertainty remains in the Middle East as well, as the ongoing conflict shows little sign of ending, although some have said Trump is eager to force deals, which could be a new way forward.

Central banks

The Fed cut rates yesterday by 0.25%, their second cut of the year and the most recent sign that members believe they have inflation under control. During the meeting, Fed Chairman Jerome Powell said officials would be watching economic data closely before deciding whether to reduce rates one more time this year. He also emphasised the central bank's immediate path would not be driven by Trump's victory and policy plans. "We don't guess, we don't speculate, and we don't assume," Powell said.¹

The Bank of England also met yesterday and lowered rates by 0.25%, as widely expected. During the meeting, it was noted that while last week's budget will initially boost economic growth and reduce unemployment, inflation will likely remain higher for longer. This makes the future path to cutting rates more difficult. Governor Andrew Bailey said rates would likely "continue to fall gradually from here", but he cautioned that they could not be cut "too quickly or by too much."²

What next?

The true impact of this pivotal political moment will ultimately depend on which fiscal policies are implemented, and how long they will take to deliver. We believe it is important to take this morning's market response with a degree of caution. Whilst Trump's policies appear market-friendly, history tells us that his unpredictable behaviour can fuel market volatility.

Looking closer at our underlying portfolios, our position in US small caps will benefit from the recent rally in the Russell 2000, as will our exposure in Japan. As always, we continue to monitor geopolitical risks when constructing portfolios, with a focus on quality companies able to withstand political turbulence.

[1] FT, <https://www.ft.com/content/faa73998-92c4-4b58-8c6d-02a3c9ae812d>

[2] BBC, <https://www.bbc.com/news/articles/cgq8ydy8e79o>

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