Focus on the 2024 United States presidential election

by Group Investment Strategy, UniCredit

INITIAL ASSESSMENT OF THE IMPACT ON THE ECONOMY AND MARKETS

Former President Donald Trump's victory and return to the White House are certain. This means that the deadlock feared by many has not materialized. Markets had already been anticipating a Trump victory yesterday morning. Market indicators sensitive to the outcome of the election, such as the US dollar exchange rate, US Treasury yields and the Bitcoin price have risen noticeably. It is not only the result of the presidential election that is important for the economy and markets, but also the majority in Congress. Here it looks as if the Republicans have turned the Senate in their favor. The result in the House of Representatives is not yet clear, but a Republican majority in this chamber also seems more likely.

There is no doubt that the election results will have a significant impact on the US and the world. Mr. Trump has announced plans to dramatically increase tariffs on US imports (by 10% to 20% on all US goods imports and by 60% on imports from China), cut taxes (by about 2% of GDP per year), deport illegal immigrants and loosen the regulation of fossil fuels such as oil and gas. US foreign policy could become less predictable and is likely to include a significant reduction (or cancellation) of aid to Ukraine. Overall, at a time when the US economy is running out of economic spare capacity, the impact of such a policy could significantly push up inflation in the US, while at the same time providing some stimulus to economic growth in the coming years. However, the latter will largely depend on whether US Congress adopts tax cuts to offset the burden of higher tariffs and a stricter immigration policy. This will be decisively influenced by whether and by what margin the Republicans gain control of the House of Representatives.

The outcome of the election does not mean a significant change in direction for markets, as the so-called Trump trade, i.e. the positive development of assets that are likely to benefit in the short term from another Trump presidency, has already been underway for some time. In this respect, a certain amount should already be priced in, despite some volatility having returned shortly before the elections, and it remains unclear how much will be priced in over the coming weeks and months. In addition to the asset classes already mentioned, such as the US dollar, US government bond yields and the cryptocurrency Bitcoin, banking and health care stocks have also benefited recently, as these sectors should be supported by relaxed regulation, as well fossil fuel companies.

In general, US equities should benefit, as Mr. Trump is in favor of tax cuts that would support corporate profits. Yesterday, the S&P 500 and the Nasdaq were up significantly. In addition to a stronger US dollar, Mr. Trump's orientation towards increasing trade tariffs is also likely to lead to a resurgence in inflation, which has recently cooled significantly, and this should result in rising yields. This has also been reflected in the MOVE index, a highly regarded market indicator of investors' expectations regarding the future volatility of US government bonds, which reached its highest level in more than a year on Monday. Investors should therefore exercise caution here. In a multi-asset context, this could argue more in favor of US equities and less in favor of US government bonds.

Consensus estimates regarding the earnings growth of US companies have been hovering at around 12 – 14% p.a. for 2025 and 2026 for some time. This figure is significantly higher than the corresponding expectations for European companies, which are closer to 8% p.a. However, if these expectations materialize, this would also mean a noticeable acceleration in earnings momentum on this side of the Atlantic. Incidentally, the consensus estimates for the earnings growth of German listed companies are more in line with those of US companies, i.e. above the European average.

Nevertheless, the eurozone is likely to face a more difficult external environment with Mr. Trump as US president. Rising tariffs are weighing on the export power of European companies, and with a weaker euro – as a result of a stronger US dollar – imported inflation could become an issue again. However, the focus remains on European growth, which has been weakening for some time and could slow down again. This should support the gradual normalization of the European Central Bank's (ECB) monetary policy. Both the ECB and the Fed will cut interest rates further in the coming months. However, the US Federal Reserve could slow down the pace of its planned rate cuts, pause earlier and possibly even reverse course (although it cannot be assumed that everything Mr. Trump promised during his campaign will actually be realized). In relative terms, this could make the European bond market more attractive. We still expect the Fed to cut rates by 25 basis points at today's meeting and if the labor market continues to cool gradually (as we expect) it will probably cut again in December. After that, the Fed is likely to take a wait-and-see approach, partly because the timing and extent of Mr. Trump's policy agenda remain highly uncertain. Forward rates are currently pricing in US Fed funds interest rate of 3.75% at the end of 2025.

In terms of asset management, we believe we are well prepared for the challenges that Mr. Trump's election victory will bring. Further positioning will require more details on the specific political agenda of the future US government and the majority in Congress. One thing remains to be said: every seemingly major (political) change also presents opportunities that need to be seized – not only for Europe, but also for us in asset management.

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