The US *Has Voted*

Trump returns to the White House

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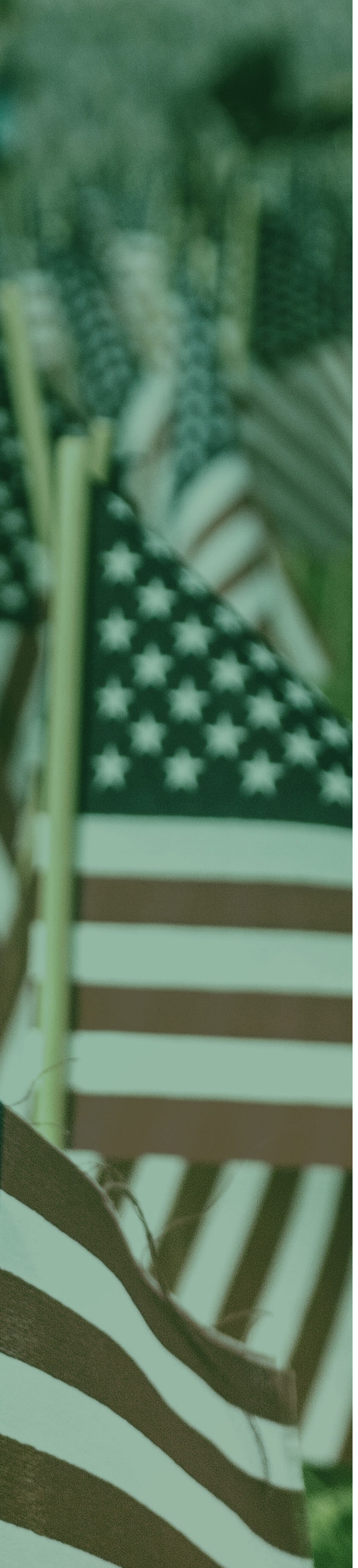
The 2024 US presidential election proved to be one of the most closely contested races in recent history, but the result has surprised many in terms of the margin of victory, percentage of popular vote won, and the speed of the deciding-vote outcome.



Republican party outperforms all expectations

Trump has won the US presidential race to the White House, gaining at time of writing a total of 277 Electoral College votes, and tipping over the 270 needed for majority.

In addition, Trump has also led the popular vote as well. As regards the all-important US swing states, Trump has performed strongly, including winning the crucial battle-ground state of Pennsylvania. The results cap a huge political comeback for Trump, who becomes only the second president in US history to serve non-consecutive terms, and the first for well over a hundred years.

As well as the US presidency, Congress is also being elected, but Republican chances of unified control here look possible. Republicans have already won back control of the Senate overnight, but crucially they are currently leading in the race to keep their hold on control of the House of Representatives.

Separately, alongside the existing Republican majority of justices on the US Supreme Court, if we get a unified Republican hold of all these key institutions, as well as Trump's prior presidential term's political experience, according to some commentators this could arguably make him one of the most powerful presidents to take office in modern US political history.

Now that the dust has settled and the winner declared, the implications for markets will be a focal point for investors and analysts alike. Here's a look at what could happen

What could this mean for markets?

With Donald Trump the winner of the 2024 US presidential election, several market impacts can be anticipated:

Impact of deregulation and tax cuts

Historically, Trump's policies have favoured deregulation and tax cuts, which could lead to short-term equity market gains, particularly in sectors like financials, energy, and defence. However, these policies could potentially increase the federal budget deficit, especially if the Tax Cuts and Jobs Act of 2017 is extended and augmented.

Inflation risks from trade policies

Trump's approach to global trade, including potential and campaign-promised tariff increases, could affect markets and supply chains worldwide. This could likely include higher tariffs on Chinese goods and other imports which might lead to increased costs for consumers and businesses for those goods not easily substitutable, potentially driving inflation.

Energy policies and opposition

Trump's policies may favour increased domestic drilling and fossil fuel production, which could benefit traditional energy sectors but face opposition from environmental groups, and potentially challenge hitherto investor enthusiasm for alternative renewable energy.

Market volatility from communication

Trump's direct communication style and willingness to criticise companies could bring market reaction and unwelcome volatility. Investors will be watching his administration's appointments and their implications.

Does the tech sector have more impact?

Historically speaking, after US elections, equity markets tend to do reasonably well, but it is too soon to speculate.

For context, while there were some investor concerns in 2016 when Trump won, subsequent expectations of massive tax cuts and financial deregulation kickstarted a stock rally the US market. Equity markets have also done well since Biden has been president.

Given the latest investor euphoria around generative Artificial Intelligence, what happens in Silicon Valley's megacap technology sector, given its relatively large market capitalisation weight in US equity indices could have a greater impact on the US (and indeed global) market than the US political environment.

The growing US debt problem

A key concern to keep in mind regarding the US, is the rising debt levels and the cost of servicing that debt. Some policies of an incoming Republican administration could increase inflation, limiting the US Federal Reserve's ability to cut rates significantly.

This could lead to a situation where interest rates can't be lowered if inflation stays high. This challenging scenario is one that that we are keeping in mind, in particular for bond investors.

This is a key reason why we have been positioned with a shorter-than-benchmark duration exposure in our fixed income allocations – balancing the attraction of yields available against limiting the sensitivity to changes around expectations for the interest rate and inflation outlook ahead.

Looking ahead

A Republican win of the Presidency and Congress, if it happens, is good for equities in the short-term as it speaks to the narrative of stronger economic growth.

It could also buoy smaller and mid-sized companies, in particular, given their domestic sensitivity and to which we increased our investment earlier this year. If better and broader economic growth materialises, with a Republican Presidency, there could be the risk of renewed inflationary pressures, and for government bonds that could put a floor under yields which we are seeing in markets overnight.

Investors' attention will now turn to the US Federal Reserve (Fed), which is due to release tomorrow its latest decision on interest rates. The Bank of England's rate decision due tomorrow as well. Given the US election results, the conclusion of tomorrow's Fed meeting could be very interesting, capturing the US central bank's latest views on their outlook for economic growth, inflation, and interest rates.

In this dynamic environment, seeking advice and speaking with your adviser is important. They can advise on how to maintain a diversified portfolio, which can help mitigate risks and capitalise on potential growth across various sectors, ensuring a balanced approach as the political and economic landscape evolves.

Important information

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