

# US Election & Fed update

8 November 2024



- Trump wins the Presidential race
- Likely "Republican Sweep"
- Fed cuts rates as expected



## Key points

1. Trump will return to the White House after a polarising electoral race.
2. Likely "Republican Sweep" means a Republican controlled White House, Senate and House of Representative gives Trump significant power.
3. The US Central Bank - the Federal Reserve ("Fed") cut rates by 25bps in line with expectations.

A decisive win for a divisive President

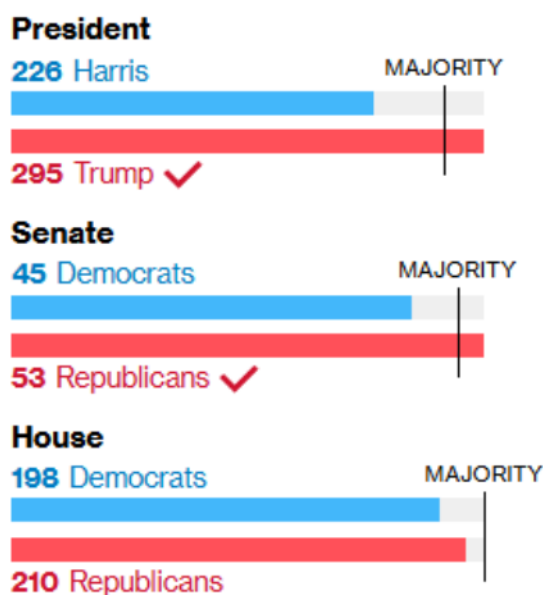
Relief rally - with sector dispersion

## Top Line

Trump has won the US Presidential Election. A Republican "sweep" looks likely giving him significant power to legislate. Key economic drivers - economic growth, inflation and interest rates - and corporate earnings have greater impact on equity and bond markets than political views and noise. Whilst a divisive figure for many, the impact of a Trump Presidency should also be seen through the perspective of those key drivers. Separately, the Fed cut US policy rates a further 25bps to a target range of 4.5-4.75% on the same day that the Bank of England cut policy rates a further 25bps to 4.75%.

## Trump win and possible "trifecta"

Trump won the US Presidential Election with 295 electoral votes (270 required to win) and 50.7% of the votes compared to 226 electoral votes and 47.7% of the vote share, according to Associated Press. Results will be finalised in coming days and then certified and Trump will be sworn in on 20 January 2025. In addition to a Republican President, it looks likely that the Republicans will win a "Sweep" or "trifecta" where the party is in control not only of the Presidency but of both upper (Senate) and lower (House of Representatives) chambers of the legislature (Congress). This will make it easier for Trump to push through the legislation he wants: immigration control, tax cuts, deregulation, traditional energy and defence. He will continue to use the threat of tariffs against countries that don't align to his views on trade.



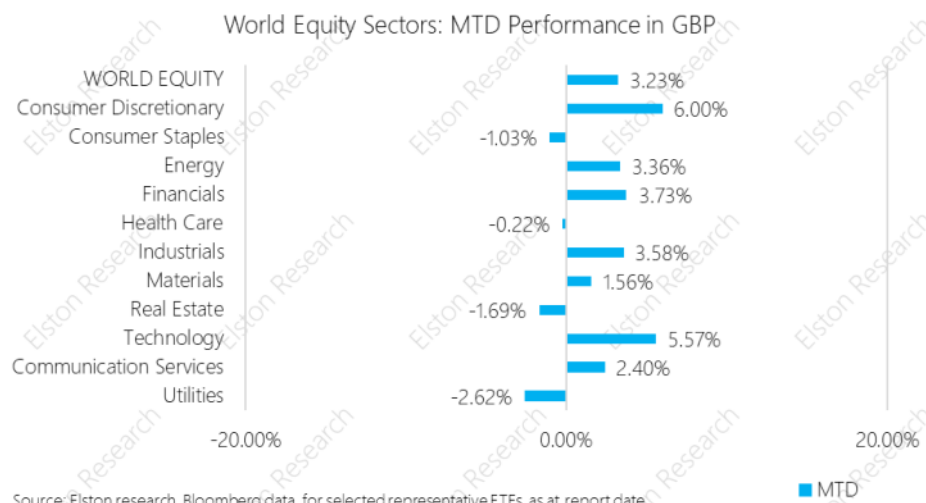
Source: [Bloomberg.com](https://www.bloomberg.com) as at 8th November 2024

## What it means for US Equities

US Equities are a key part of Global Equities and so the US equity market has a large impact on overall global equity performance. The removal of political uncertainty (and the risk of a contested result) has supported a "relief rally" in equities. Trump's tax cuts and deregulation agenda is positive for US equities.

At a more granular level, Financials, Energy and Industrials are the sectors that have rallied hardest since the election result. These "Trump trade" sectors are because Trump is pro-deregulation (Financials), pro-oil (Energy) and pro-defence (Industrials).

**Fig.1. World Equity Sector Performance MTD**



Focus remains on fiscal outlook. Fed continues its path.

### What it means for US Bonds, US Rates and the Dollar

US Bond Yields have spiked up on concerns on Trump's tax cut and spending plans that could increase the deficit. Under either a Harris or Trump win, markets were concerned around the level of US indebtedness. Higher bond yields indicates that bond investors are apprehensive around the fiscal and inflationary impact of Trump's policies. US Bonds make up a large proportion of global aggregate bond indices.

The election result does not alter near-term policy rate decision-making. At the Fed's policy meeting on 7 November, interest rates were cut 25bp to a target range of 4.50-4.75%. The Dollar has strengthened following the Trump result owing to the higher relative growth outlook for the US and his protectionist "America First" world view. Separately, the Bank of England also cut policy rates the same day by 25bp to 4.75%.

Policy rates in the US and UK are expected to decline gradually but the differential "relative rate" between the two has now narrowed means there is less potential upside to Sterling in a "Strong Dollar" environment and whilst there is no longer a positive differential between UK and US rates.

### What it means for Alternatives

Gold touched record highs in the run-up to the Elections. Gold was seen as the "safe haven" asset in the event of genuine fears of civil unrest in a contested result. It is also seen as a "real asset" store of value when concerns around the supply of US Treasuries increases.

Gold has weakened slightly since the decisive Trump win. This is in part because the result was - thankfully - not contested and there was no civil unrest as some feared. Trump's scepticism on clean energy and support for traditional energy meant that Clean Energy companies were clear losers from the Trump win. Listed property and infrastructure securities are more a function of economic growth and interest rates than politics.

Political risk now lower for Gold, higher for Clean Energy

## Bottom line

Trump may be a divisive figure, but he has achieved a decisive win. Markets' focus will shift back to the main drivers of the US (and hence world) equity market: economic growth, interest rates, inflation and corporate earnings. For the UK bond market, the focus will remain as ever on the fiscal outlook, interest rate path and inflation expectations.

## Getting in touch

If you would like to find out more or discuss any of the above, please contact your financial adviser.

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