CBH | Investment Management

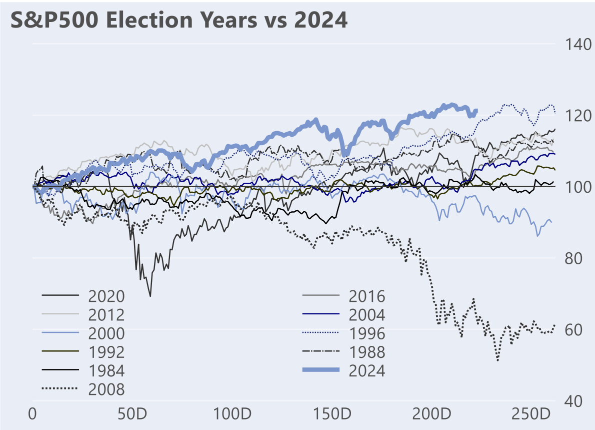
What a red sweep means for financial markets

November 6th, 2024

CREATIVITY WITHIN EXCELLENCE

What a red sweep means for financial markets

As of 12 p.m. Geneva time, Donald Trump has won the U.S. presidential election while the Republican Party is expected to secure majorities in both the House of Representatives and the Senate (the U.S. Senate has already been called for the Republican Party).



Source: LSEG Datastream/ CBH Investment Management

1) Short term expectations

Bond and equity volatility is likely to remain elevated. Until the results regarding the composition of Congress are finalized, markets will navigate on the available information and extrapolate from the news.

U.S. equity markets are reacting favorably. During the election campaign, Trump promised to cut taxes and loosen regulations, particularly for financial and energy companies. In this context, investors are pricing in the benefits of deregulation and tax cuts from a Trump victory. We see strong investor appetite for mid-caps, especially regional banks. The clean energy industry is under pressure due to increased policy uncertainty around clean energy provision under the IRA, although a full repeal of the program is unlikely. According to JP Morgan, as of August 2024, 60% of the announced projects and 71% of the estimated job growth are in Republican congressional districts. In addition, Trump's tariff policy proposals could be positive for domestic solar manufacturers in the short term. Under a Trump-led administration, the consumer-related sector could suffer from higher prices, with consumer staples being the most affected. Higher tariffs increase the cost of foreign goods for U.S. consumers.

In contrast, equities from the rest of the world (especially Europe and Asia) could weaken. Donald Trump's trade proposals are likely to increase protectionism and geopolitical fragmentation. However, Mexico could benefit from supply chain shifts as a result of friendshoring and nearshoring moves.

Bond markets could also be rattled. Donald Trump's proposals[1] would likely push up public debt and inflation, leading to higher interest rates. In this context, it opens the door to monetary policy divergence after several years of a relatively synchronized global policy cycle. The Fed is likely to adopt a more hawkish stance in 2025, while other advanced market central banks—notably the ECB—are expected to adopt a more dovish approach.

The impact on the US dollar remains uncertain, fuelling volatility: higher interest rates and rising protectionism should support the US currency while renewed inflation and an escalation in public debt could weaken the dollar. In addition, markets may be pricing in threats to the independence of the Fed and the credibility of monetary policy, thereby increasing global economic uncertainty. Such expectations would likely support the value of gold.

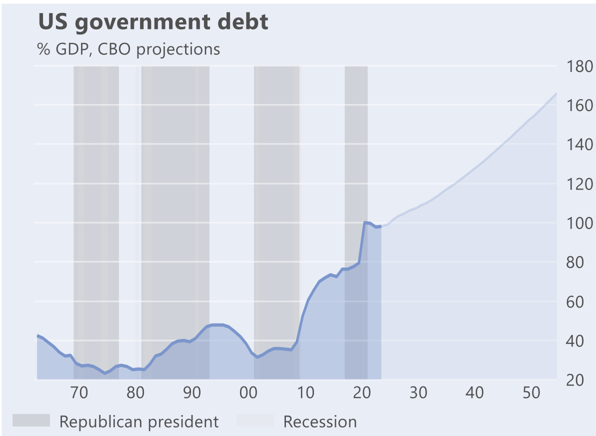
Finally, energy prices are expected to fall. Donald Trump is known for pro-energy policies that would likely support oil and gas production in the United States. A divergence in foreign policy is also expected. The newly elected president has an 'America First' agenda. Some observers expect him to strike a deal with Vladimir Putin to end Russia's war in Ukraine. All in all, investors could expect energy prices to fall following Donald Trump's return to the White House.

2) Long term impact

Over the long term, the party in power seems to have little impact on equity performance. Investors should keep this in mind and stay invested. Sector shifts may occur, but they are likely to take time to materialize.

With the exception of Donald Trump's promised tariffs, which would immediately push up prices if imposed, it's important to remember that future policy changes will primarily affect long-term trends and take time to be reflected in earnings.

What seems likely, however, is that U.S. public debt will continue to rise. Its sustainability has not yet been called into question, but a growing number of investors are becoming concerned and are starting to diversify their portfolios away from U.S. Treasuries. This trend, among others, may explain some of the increased appetite for gold.



Source: LSEG Datastream/ CBH Investment Management

[1] *We invite you to read our analysis of the potential economic impacts of the two candidates' programs, published in September: https://lnkd.in/ecCtuZ87*

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