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Market Update- Post Election Impact 11/8/2024

With a change in Presidential administration combined with a likely unified Congress, new policy will be enacted. The magnitude of U.S. President-elect Trump's victory brings a strong likelihood that he will have a mandate for his economic agenda which should have meaningful repercussions to asset markets.

There is often a major difference between rhetoric on the campaign trail compared to what policy is enacted. In addition, the House of Representatives has not yet been decided. But we can assess the broad outlines of what that policy might entail and its market effects.

In the very short term is the removal of political uncertainty, which had been a cloud hanging over the US for more than a year. Uncertainty over tax and regulatory structure caused many companies to delay making major decisions. Given the outlines of that policy, over the short and medium run, the Trump agenda is likely to be pro-growth with an expected pick-up in inflation.

The pro-growth economic agenda is centered around lower corporate taxes and deregulation. Taxes changes can be enacted more quickly while deregulation could have more impact over the medium term. The combined effect of both of these factors could also cause "animal spirits" to rise providing a further tailwind to economic growth. Moreover, reshoring to the US should also pickup adding even more to growth.

The US economy is currently performing well. With the addition of pro-growth policies, inflation is also likely to pick up. Moreover, higher tariffs (assuming 10% tariffs on all imports, with up to 60% on Chinese-imported goods) will also raise inflation. With immigration curtailed and a greater need for labor, wages should rise which is also inflationary. With a unified government, there is also less likelihood of fiscal restraint which is stimulatory to economic growth but also inflationary. **As a result, the U.S. economy is likely see higher growth, inflation and interest rates ahead.**

Broadly, we think asset markets will be impacted as follows:

- US equities- in the short to medium term, very positive based on higher earnings and better sentiment. The economic landscape should favor a broadening out of the equity rally—value stocks should benefit, particularly industrials, materials and financials. Midcap and small cap companies that are more tethered to the domestic economy should particularly benefit.

- Developed Market equities- negative based on the effects of tariffs and likely weaker currencies vs. the US dollar. Europe particularly should be more negatively affected.
- EM equities- India should remain positive due to strong internal dynamics, but China could face larger headwinds due to higher tariffs.
- Core bonds- rates will likely be higher for longer due to higher inflation. Moreover, with higher debt/GDP an increased term premium might be required as well.
- Leveraged credit- should be positive for both high yield bonds and loans. Higher economic growth is supportive of credit.
- Real Assets- positive for infrastructure and commodities. Higher economic activity should continue to use more infrastructure and commodities. Energy equities is mixed—more supply is negative for oil prices but higher demand is supportive.
- Private equity should benefit from a regulatory regime that supports increased M&A.
- Hedge funds might benefit from higher volatility.

We will continue to assess the impacts to the economy and markets as more policy detail is provided.