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Research Note

Research Note | A Trump win has mixed outcomes for US and Asia markets

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- A Trump presidency is still far from certain, most investors adopting “wait and see”
- However, markets are already assessing the key macro-economic impact
- A number of strategies are emerging to hedge against the Trump factor

On 5 November 2024, US voters will elect their 60th president. Former President Donald Trump won a majority of delegates at the 2024 Republican National Convention last week, and is therefore the official presidential nominee for the Republican Party.

In polls throughout the year, Former President Trump and President Biden have been statistically tied in the presidential race, and according to a Reuters/Ipsos poll, the recent assassination attempt on Trump has not caused this to change. While some other polls suggest a small boost for Trump, they warn that this could be temporary.

Meanwhile, President Biden has announced that he is withdrawing from the presidential race and his replacement will not be confirmed until the Democratic Convention next month. The election results therefore remain too close to call.

What is a “Trump Trade”?

That said, Trump’s chances of victory appear to have improved and there has been renewed interest in the “Trump Trade” i.e., the likely market impact of policies that could emerge during a Trump presidency. This has become even more compelling because analysts are able to draw on what happened during his previous term as president.

In general, markets believe that Former President Trump supports the following:

- **Greater protectionism**

It is widely believed that a Trump Presidency will bring about more trade tariffs, with 60 percent tariff hikes proposed for China and 10 percent hikes on all imports. There are also expectations that existing trade agreements, such as the USMCA (United States - Mexico – Canada Agreement), will be renegotiated.

Impact: These tariff increases will potentially boost revenues by US$60 – 180 billion, i.e. 0.2 – 0.6 percent of GDP. The higher prices will cause inflation to rise by an estimated 0.3 percent. Global trade and companies reliant on international imports/exports will also be affected. Some domestic retailers could see margin squeezes as tariff costs are passed on to consumers.

- **Lower tax regime**

Former President Trump is expected to further ease taxes on individuals and businesses. Having signed the Tax Cuts and Job Act (TCJA) in 2017, he is expected to extend several key provisions that are due to expire in 2025. This would mean a continuation of widespread tax breaks. He is also said to favour lowering corporate taxes from 21 to 20 percent.

Impact: Taken together, these tax cuts are estimated to reduce government revenues by US$400 billion per year, or about 1.3 percent of annual GDP, further increasing the US budget deficit. More fiscal stimulus threatens to add to inflationary pressures, but Trump and his allies believe such measures will improve sentiment and promote economic growth in the long run.

- **More immigration curbs**

Immigration is said to be one of the top issues of concern for American voters. Former President Trump and his allies have long taken a hard line on immigration. JD Vance, Trump's running mate in the elections, recently reiterated the party's commitment to not only stem the flow but also deport undocumented immigrants.

Impact: The non-partisan US Congressional Budget Office (CBO) forecasted earlier this year that over the next 10 years, an estimated 5.2 million increase in net migration would help lower inflation, add US$7 trillion to economic output and boost tax revenues by US$1 trillion. Trump's immigration curbs could lower this workforce growth rate, thereby impacting both growth and inflation.

- **Clean energy reversals**

In his address to his party's National Convention last week, Trump promised to end the "green new scam" policies directed at combating climate change and transitioning to new low-carbon energy sources. This includes reversing tax credits for electric vehicles. He said that he will focus instead on building "roads and bridges" and revitalising the oil and gas industries.

Impact: Aside from worsening the US's current carbon emissions, these reversals threaten clean energy infrastructure investments, projected to be worth around US$1 trillion over the next 25 years. Companies that are receiving tax incentives for developing or using renewable energy technologies will be most affected in the short term.

What are the investment takeaways?

As mentioned earlier, the odds of a Trump win remain finely balanced, and even if he wins, it is impossible to predict which and how quickly these policies will be enacted. As such, most investors currently have a wait-and-see approach. However, here are a few strategies to consider over the medium to long term:

1. Hedge against inflation

Most market watchers expect inflation to rise if Trump becomes president. Inflation-hedging instruments such as gold can be expected to perform well. Gold prices have risen steadily over the past five years, so with or without a Trump win, and amid ongoing geo-political uncertainties, gold is a useful addition to any portfolio.

2. Risks of higher long term rates

Despite increased revenues from higher tariffs, we project that the budget deficit under a Trump administration could widen from the current US$1.7 trillion to US$2.2 trillion over the next 10 years. This could cause the US Treasury to sell more longer-term bonds, driving up their yields, and also potentially weakening the US dollar.

3. Be selective on Asian stocks and bonds

Higher tariffs have the potential to affect export-dependent markets in Asia, although the impact will be different across companies. While China, but also Taiwan and Japan, could be adversely affected, companies with a strong competitive advantage will likely continue to thrive. ASEAN companies could benefit from a broadening of the China plus one trend.

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