On The Mark

FourFront Group

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Trump 2.0: Key Policies & Market Implications

Key Takeaways

- **Higher tariffs, tax cuts, and deregulation are some key Trump** policies; sizing and scope will be **dependent on the Republican majority in the Senate and Congress**.
- We expect Trump 2.0 to result in incrementally **higher economic growth**, **but also incrementally higher inflation**.
- Market reaction to elections may feel dramatic; **markets tend to re-focus on economic fundamentals** over the medium term.

The Red Wave

Donald Trump rode a red wave to become the 47th president of the United States. While the Republicans also took the Senate, the gains are not enough to pass the filibuster measure, limiting the likelihood of major policy changes. Lastly, tight races in the House leave the composition of Congress unknown for now[1].

With the elections behind us, much of the election uncertainty has faded. However, there is still plenty of policy uncertainty.

Trump Key Policy Changes

Tariff & Trade: President-elect Trump will tackle tariff and trade policy well in advance of tax policy, given that he can do those via executive order and does not need congressional approval.

He has also mentioned a 10% tariff on all imports and a 60% tariff on Chinese imports. This might lead to retaliation from those countries, which could impact global trade and supply chains and ultimately increase inflation.

Taxes: President-elect Trump will aim for a full extension of the 2017 Tax Cuts and Jobs Act (TCJA), which would keep a 37% top marginal tax rate and potentially reduce the corporate tax rate from 21% to 15% for domestic manufacturers. Because of budget rules, the only way to permanently extend the tax cuts is to make significant cuts to spending, and it remains to be seen whether Republicans are serious about it.

Additionally, narrow margins in the Senate and House and concerns about the longer-term U.S. debt outlook could limit the scope for tax cuts. The Congressional Budget Office estimates the impact of the full extension could potentially raise the debt to 142% of GDP from 98% today[2].

Regulations: President-elect Trump has argued for broad deregulation. The exact long-term impact is hard to state without knowing greater details. At a top level, technology firms could see mixed results, while banks and energy companies could benefit most from looser regulations. Additionally, the perception of less antitrust enforcement could boost corporate mergers and acquisitions moving forward.

In summary, we expect the Trump 2.0 economy to result in incrementally higher economic growth but also incrementally higher inflation.

What Will It Mean for Markets?

Stocks: U.S. equities reacted sharply upwards on the heels of a Trump win. Prior to the election news, U.S. equity fundamentals were strong. The red wave should further support domestic growth and broadening out of market winners beyond the big-tech companies to other undervalued segments such as value, small- and mid-cap companies. Stocks are fully priced, and risks of higher interest rates weighing on valuation alongside tariff implications could generate volatility ahead.

Bonds: The benchmark 10-year U.S. Treasury yield rose in anticipation of higher economic growth, fiscal deficits, and inflation, causing bond prices to fall. However, for investors, this higher starting yield provides income and potential for diversification in the event of market volatility. Fiscal discipline will be essential to watch.

Taking a step back, AssetMark believes that the medium-term impact of the election may be less significant than it feels today. Markets have fared well under different political leadership. During the last Trump presidency, the S&P 500 gained roughly 80%. Similarly, during the current Biden presidency, the markets have been up roughly 80% to date[3].

Why? Because financial markets care about economic growth, inflation, and the direction of interest rates, and not who is sitting in the Oval Office.

1. Written on November 7, 2024
2. The Fiscal Impact of the Harris and Trump Campaign Plans, Committee for a Responsible Federal Budget
3. FactSet

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