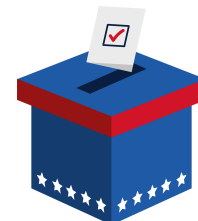


# US Election

## A view from the ground

**Donald Trump returns to the White House, after a hotly contested election. Trump becomes the first Republican candidate to win the popular vote since 2004 and will become the 47th President of the United States. We spoke to three of our US equity fund managers and the Omnis Investment Team their views of the election outcome.**



### KEY HIGHLIGHTS

- Trump's large victory has given him a strong mandate to pursue policy changes in a whole range of areas such as trade, immigration and spending.
- The US stock market has reacted positively to the news, particularly smaller companies.
- US bonds have reacted more negatively to the news as Trump's policies have the potential to be inflationary, which is bad for bond prices.
- Looking forward, questions will likely be raised on the continued pace and magnitude of interest rate cuts should the economy see rising inflation or significant growth as a result of new policies.

### WHAT ARE THE POTENTIAL IMPLICATIONS OF A TRUMP PRESIDENCY?

**STATE STREET GLOBAL ADVISORS** "It is clear that the second Trump administration will come into office with a very strong mandate given wide margins of victory in both the electoral college and the popular vote. This would suggest a determined pursuit of policy changes in a whole range of areas, with investors particularly focused on trade, immigration, and fiscal policy. Campaign proposals on all these fronts are, without a doubt, directionally inflationary. Tariffs, deportations, and further tax cuts at a time when the budget deficit is already projected to consistently exceed 5% of GDP even with current policies, all speak to the same outcome: higher inflation."

### WHAT HAS BEEN THE INITIAL MARKET REACTION TO THE RESULTS?

**T.RowePrice®** INVEST WITH CONFIDENCE "Trump's previous tenure showcased his unpredictable nature, suggesting that the political landscape may experience unexpected developments. His substantial electoral victory grants him a mandate to pursue bolder policies, which has already led to notable market reactions, particularly in U.S. small-cap stocks and companies like Tesla. The anticipation of a more favourable regulatory environment has spurred gains in sectors such as financials and cryptocurrencies."

### WHY HAVE SMALLER COMPANIES OUTPERFORMED?

**Janus Henderson** INVESTORS "US domestic smaller company stocks stand to benefit from tax cuts, fiscal stimulus, tariff-induced near shoring of supply chains and deregulation. The market has already gone some way to reacting to this with the Russell 2000 (US smaller companies index) rising 8.5% month to date, while the S&P 500 (US large companies index) has gained 4.7%. The main negative for small caps from a Republican sweep comes from rising inflation expectations likely slowing the Fed interest rate cutting cycle, something that is important for small caps from a funding perspective (they have a higher proportion of floating rate debt, interest companies pay on this debt is determined by underlying interest rates set by the central bank) and investor risk appetite. The market is currently prioritising the growth potential of Trump's domestic-focused policies over the potential for interest rate cuts to be driven off course but this is clearly something to keep an eye on as the initial excitement eases."

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### HOW MIGHT POLICY CHANGES AFFECT CENTRAL BANK DECISIONS ON INTEREST RATES?

#### **STATE STREET GLOBAL ADVISORS**

“When asked about how policies changes may impact the economy and Fed policy, Chair Powell said the following: “we do not guess, we do not speculate, we do not assume” how policies may change. The Fed waits for actual proposals, then models possible scenarios, and decides afterwards if a change of course is needed. Of course, markets are by their very nature going to speculate and seek to gauge the impact of as-yet-uncertain policy shifts. A lot of that has already happened (this is not to say there isn’t more to go). But the economy does not behave that way. We do agree that the scope for 2025 Fed interest rate cuts has narrowed, but we do not believe it to have closed. We still see a 0.25% cut in December, and at least three more similarly sized cuts in 2025.”

### HAS YOUR OUTLOOK FOR THE US ECONOMY CHANGED SINCE THE ELECTION RESULT?

#### **T.RowePrice** INVEST WITH CONFIDENCE

“Looking ahead, Trump's potential approach could lead to an economy characterized by heightened inflationary pressures rather than pro-growth initiatives. As long-term bond yields have begun to rise (thus bond prices fall), this reflects market concerns about inflation and fiscal policies that may prioritize economic activity over stability. In the short term, market optimism may persist as companies resume investment plans previously halted due to uncertainty. Nevertheless, there are questions regarding how far interest rates can be lowered before market reactions occur. The evolving economic landscape under Trump could resemble a pressure cooker environment, marked by increased tariffs and restrictive immigration policies, reminiscent of past economic experiments that yielded mixed results. As active managers navigate these changes, they will focus on maintaining a risk-aware investment strategy while identifying opportunities within the reshaped market dynamics.”

### TARIFFS WERE MENTIONED A LOT ON THE CAMPAIGN TRAIL, HOW COULD THESE EFFECT THE GLOBAL ECONOMY?

#### **Omnis** INVESTMENTS

“Given the rhetoric on the campaign trail, we know that tariffs are going to be high on the policy agenda, with both China and Europe in focus. Tariffs are likely to keep the pressure on the manufacturing sector and will push up imported inflation, with the latter potentially having implications for the Fed’s interest rate setting policy, The bond market in Europe moving in the opposite direction to the US last week highlights the market’s concern about the negative growth impact of tariffs this side of the Atlantic.”

**Information and views from Omnis and our fund managers, Janus Henderson Investors, State Street Global Advisors and T.Rowe Price are accurate as of 13 November 2024.**

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