Trump election win signals big U.S. policy shift

BlackRock

Former President Donald Trump has won the U.S. presidency, with Republicans retaking control of the Senate. Control of the House of Representatives – where Republicans currently hold a narrow majority – is yet undecided. Control of the House would give a second Trump administration broader powers to enact its tax, energy, trade and regulatory agenda. S&P 500 futures jumped over 2% to a record high, while the U.S. dollar rallied and U.S. bond yields jumped. We stay overweight U.S. stocks and keep our preference for the U.S. over Europe.

We focus on coming changes in fiscal policy, trade, immigration, energy, regulation – and expect a very different approach to foreign policy. Republican control of Congress is key for Trump to extend expiring Tax Cuts and Jobs Act provisions. He is likely to propose new cuts, potentially including corporate taxes. Congressional budget procedures allow deficit increases over the next decade, likely meaning persistent budget deficits – one factor we think will push up long-term Treasury yields.

On trade, Trump has proposed a wide range of tariffs, including 60% on China and 10-20% universal tariffs. He will likely make this an early priority, yet implementation is uncertain. This protectionist stance could reinforce geopolitical and economic fragmentation, a structural factor we see keeping inflation higher in the medium term. A reduction in legal immigration could impact the labor market.

Trump's win likely means some deregulation, including rolling back banking regulations, though big tech may remain a bipartisan antitrust focus. Under Trump, we see Republicans aiming to boost energy production – though U.S. oil and gas output has already hit all-time highs, and ramping up production takes time. Scaling back parts of the Inflation Reduction Act, like electric vehicle credits, is on the agenda, but full repeal seems unlikely, in our view. We expect Trump will pursue permitting reform to expand energy infrastructure.

In the near term, we see U.S. equities supported by solid economic and corporate earnings growth, political clarity and Federal Reserve rate cuts. Longer term, much depends on how much of Trump's agenda is enacted. We think energy, financial and tech sectors can benefit, partly from deregulation. We see multiple factors, including supply constraints like an aging workforce, keeping inflation above pre-pandemic levels. Higher-for-longer inflation and policy rates could eventually challenge risk sentiment. We are neutral long-term U.S. Treasuries and prefer medium-term maturities and some quality credit for income – but expect yields to rise over time as investors seek more compensation for the risk of holding bonds.

Key views

A Trump win opens the door for tax cuts, deregulation and tougher trade policy. House control is key.

Elevated budget deficits are one factor we see pushing up inflation and long-term Treasury yields over time.

We stay risk-on in U.S. equities, supported by solid growth and earnings. Yet sticky inflation and higher-for-longer interest rates could eventually challenge risk sentiment.

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