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What will a new US President mean for markets and the global economy?

- Donald Trump's election campaign focused on three priorities – immigration, fiscal policy and trade
- The initial impact could be positive for the US economy but we might face a very different picture by the mid-term of the presidency
- Fixed income markets have so far been mixed but we believe there is potentially a compelling opportunity in US high yield over the next one to two years from an all-in yield perspective
- We remain positive on equity markets in the short term, and optimistic on medium-term growth potential, despite some question marks over future policy impacts on inflation, interest rates, yields and earnings

Donald Trump's decisive win in the US election will see him return to the White House for a second term. Our investment experts analyse the outlook for the US market, what the new president's proposed policies could mean for the global economy, and the investment implications across asset classes.

Gilles Moëc, AXA Group Chief Economist and Head of Research, AXA IM

Donald Trump campaigned on a very clear economic platform with three main items on his list – immigration, fiscal policy and trade tariffs.

On immigration, he has expressed plans to remove illegal immigrants from the US. According to the Pew Research Center, there are roughly eight million illegal immigrants in the US workforce, accounting for about 5% of the total. Removing 5% of the workforce would noticeably change the picture for the labour market, which would be consistent with higher pay and inflation.

On fiscal policy Trump has said he would extend the tax cuts he brought in during his 2017 administration. According to the Congressional Budget Office this would add about 1% of GDP to the US deficit every year for the next 10 years - from a baseline which is already fairly high.

He has also mooted a cut in the corporate tax rate from 21% to 15% and exempting social security benefits and tips from income tax. The Penn Wharton Budget Model estimates that taken together, the extension of the 2017 tax cuts combined with these additional measures would add roughly 2% of GDP to the US deficit.

Finally on trade, Trump has promised a 60% tariff on Chinese products and a 10% tariff on goods from everywhere else in the world. This is likely to lift US inflation noticeably and trigger quite a significant increase in the supply of Treasury bonds which would be consistent with higher long-term interest rates. The market reaction after the election has been a continuation of what we had already seen for some time, suggesting that markets are behaving rationally.

Olivier Blanchard, Former IMF Chief Economist and Senior Fellow at the Peterson Institute for International Economics

A 10% worldwide trade tariff and 60% on China will initially decrease imports, especially from China, and increase US domestic demand for domestic goods. This would reduce the trade deficit, which is what Donald Trump wants - but that is just the first step.

Then we will get US dollar appreciation, which we are already seeing: a smaller trade deficit is likely to make investors more optimistic about the dollar. With an economy that is more or less at full employment, any increase in domestic demand will put pressure on inflation. This would likely see the Federal Reserve (Fed) increase interest rates, leading to additional dollar appreciation.

So in a year or two's time, the picture will look much less good – exports and exporters will suffer. Trump will then have three options – to tell the Fed to decrease rates, which is unlikely to be successful, as they are likely to disagree and the central bank is not under his control; increase tariffs further; or decrease tariffs in the face of inflation and dollar appreciation.

Removing nearly 10 million illegal immigrants is not something that can be done in a year, and Trump is more likely to plan to remove one million a year - though even that may not happen, and he may opt to remove a smaller, symbolic amount. It would create notable shortages in the labour market, especially in agriculture – which Trump will need to be careful of given his support in rural areas. The need to replace immigrants will lead to more vacancies, a tighter labour market, and lead to inflation – another reason why I think the Fed might have to react on interest rates.

If Trump were to extend tax cuts, and exempt social security benefits from income tax, it could add 1%-2% to the US deficit – which is already large at around 3%-4%. A 6% primary deficit is a very big number, even for the US.

I also think we will see deregulation, including in financial markets - I am concerned about the lack of regulation of the cryptocurrency market, as it is now of a scale that if things go wrong, it could have a broader macroeconomic effect.

There is less uncertainty than there was last week before the election – but there is still a lot of uncertainty, which can affect investment and consumption and decrease demand and activity. I do not think however it will overwhelm the effects described above.

Bottom line: The next two years may look good, but after that, the outlook becomes more difficult.

Nick Hayes, Head Of Active Fixed Income Allocation And Total Return, AXA IM Core

Fixed income markets have had a mixed reaction to the result so far. The immediate reaction to the prospect of a nationalistic, pro-growth Trump era has been rising yields on US Treasuries, reflecting greater spending and inflation expectations and the steepening of the yield curve. However, we've seen outperformance of European and UK bond markets, while credit spreads (which are usually correlated with equities) have tightened, especially in the US, helping to offset some volatility in government bonds.

To assess whether this will continue, we can first look at the environment we've seen in the run up to the election. We are in a rate cutting cycle even if that might now be a slightly shallower one than previously expected, especially in the US. That has provided a fairly volatile environment for fixed income. Certainly, movements in Treasury, Gilt and Bund markets have been reflecting that we are no longer in a zero-rate world. So, overall, we have higher yields – that are starting to come down - but also more volatility.

Fixed income returns have been broadly positive over the past 12-18 months, even if not in a straight line. Higher levels of carry and yield make for a better environment than we've had in fixed income for a few years, but this comes with higher volatility as the market tries to anticipate whether changes in the yield curve in the US should impact elsewhere.

When we look at global fixed income as a whole, we can observe that government bonds are responding to the positive global macroeconomic picture, while further down the credit curve, spreads are relatively tight versus history, adding a credit premium. So, credit spreads are reasonably attractive but the current all-in yield on US high yield makes it more compelling, in our view, for the next year or two from a total return perspective. Conversely, with the rising probability of recession in Europe, the European high yield market faces a potentially higher default rate, although it's important to remember that the European high yield market has a very different risk profile to the US market, being generally higher quality and shorter dated.

Dominic Byrne, Head of Global Equity, AXA IM Core

Market activity in the run-up to the election can help illustrate the logic of equity markets' short-term reaction. Over the last year, strong relative US equity performance indicated that markets had not been troubled by election risk. This included sectors we would expect to exhibit strength from a Trump victory, such as financial services. More defensive sectors such as healthcare and consumer staples, or those exposed to China, such as materials, were weaker.

Leading up to the election, dynamics within the market consistently indicated a Trump election victory. One of the ways this was evident was by the stronger performance of high-profile sell-side 'Trump' versus 'Harris' model portfolios, i.e. different baskets of stocks that would be expected to perform well for either a Trump or Kamala Harris victory.

Equity markets have remained strong; falling inflation and interest rates, plus a favourable corporate earning cycle, indicate a short-term positive environment for equities. Regulations, tax, and steepening yield curves benefit domestic financials, cyclicals, small-cap and value stocks.

Tariffs that could boost domestic industrials in the US (alongside domestic stimuli) could negatively impact export-led economies such as China, Korea, Germany and Mexico. One market we like is Japanese equities, which continue to benefit from corporate reforms. On top of this the financials sector would benefit should the Bank of Japan move to protect the yen, alongside a steepening yield curve.

The medium term is less immediately clear, pending further clarity on how policies impact future inflation yields, interest rates, economic growth and corporate earnings. Nevertheless, US domestic industrial focus and shrinking labour means robotics and automation presents a strong, long-term structural growth trend.

Political handovers of recent years had little overall effect on the S&P 500, which rose around 65% throughout the term of Trump's first presidency – very much in line with its performance during Joe Biden's term, until replaced by Harris. We remain positive on equity markets in the short term, and optimistic on medium-term growth potential.

Data source: Bloomberg

AXA Investment Managers