Trump, the stock market and the economy

21 October 2024

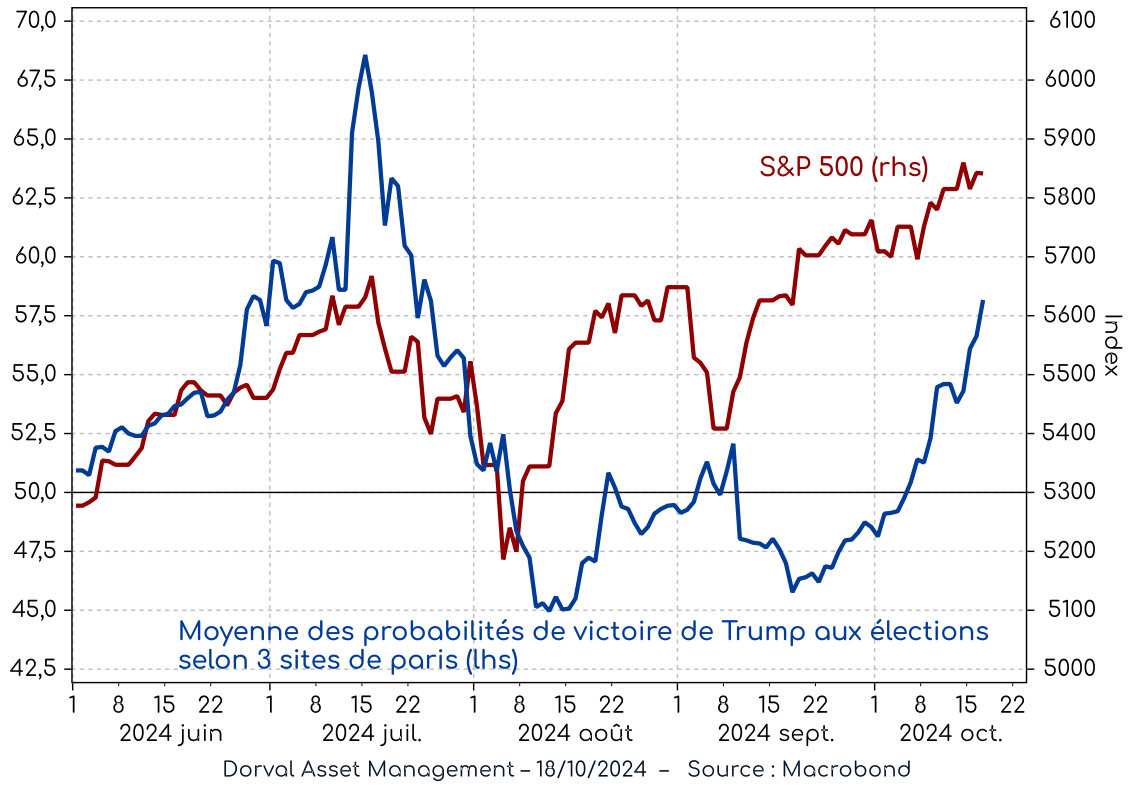
Dear Clients and Partners,

The US presidential elections on 5 November promise to be hotly contested, but forecast sites are now touting Trump as the favourite. Would a new term under Donald Trump be good or bad for the economy and the financial markets?

While the prospect of Donald Trump being re-elected raises political and economic questions, Wall Street is unperturbed (cf. chart 1). Quite the reverse – stock exchanges and large US companies have a positive view of Trump. His business-friendly stance, the performance of the economy during his first term in office (2016–2020) and his vows to cut taxes for companies and households evoke, for them, "a winning America".

Wall Street seems to love Donald Trump

Wall Street semble aimer Donald Trump



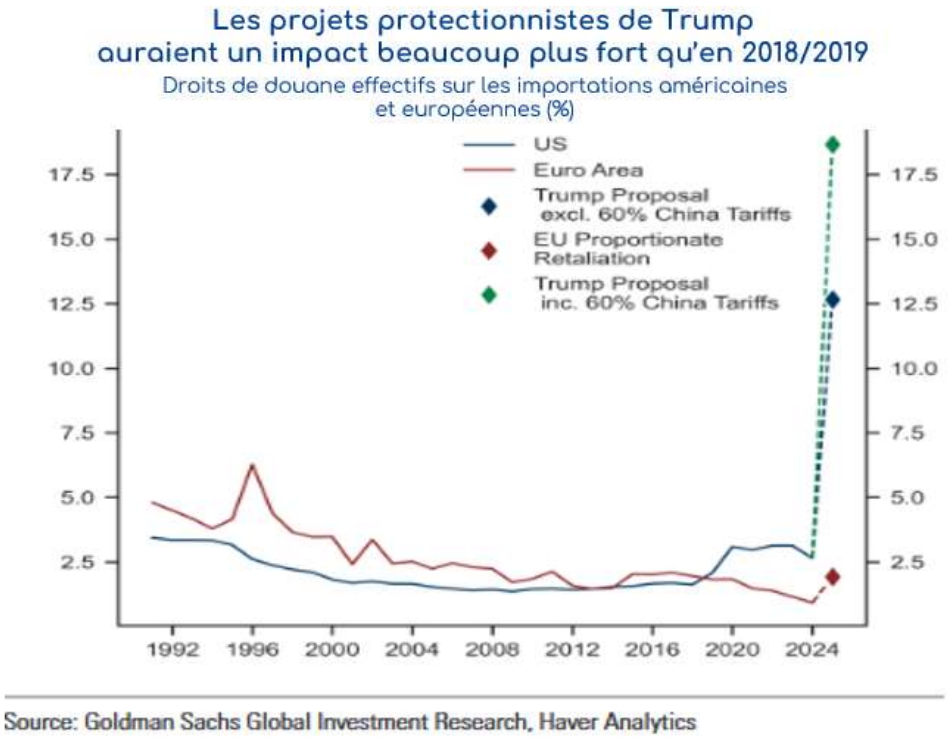
Dorval Asset Management – 18/10/2024 – Source : Macrobond

June 2024 **July** 2024 **Aug.** 2024 **Sept.** 2024 **Oct.** 2024

S&P 500 (rhs) / Average probability of a Trump electoral victory according to three betting websites (lhs)

It's nothing new for a Republican candidate to be better perceived by US companies and wealthy savers than their Democratic counterpart. What is perhaps more surprising is just how little impact economists' overwhelmingly negative projections based on Donal Trump's economic agenda are having at this stage. In terms of promoting growth, he plans to renew the tax cuts introduced in 2017 (set to expire in 2025 if no further action is taken), introduce new cuts and encourage shale oil and gas production. As for barriers to growth, however, he threatens a trade war on an unprecedented scale with tariffs of at least 10% on all US imports of goods, and 60% on imports from China (cf. chart 2). He also proposes mass deportations of immigrants who, having arrived in large numbers in recent years, had helped to finally cool the overheated labour market. Goldman Sachs estimates that this agenda would overall have a negative net impact of 0.5% on US GDP, and would increase US inflation by more than 1%. Other sources, such as the Peterson Institute, model a negative impact of at least 2.5% on US GDP by 2028.

Trump's protectionist policies expected to have a much larger impact than in 2018/2019



Effective customs duties on US and European imports (%)

Optimists will argue that these projections are naturally tenuous – especially since no one can predict what Trump may want and, most importantly, what he will actually be able to put in place if he is elected (the Senate and House of Representatives elections will take place on the same day). They are counting on the US' famous system of checks and balances for damage control, as well as on the purported responsibility of Donald Trump's economic advisers. Lastly, the pro-Trump camp will argue that Kamala Harris's agenda, with plans to raise taxes, is potentially far more dangerous than Trump's...

That's one way to look at it; but the Federal Reserve might be compelled to put a halt to rate cuts if Trump's measures – an explosion of customs tariffs, a rowback on

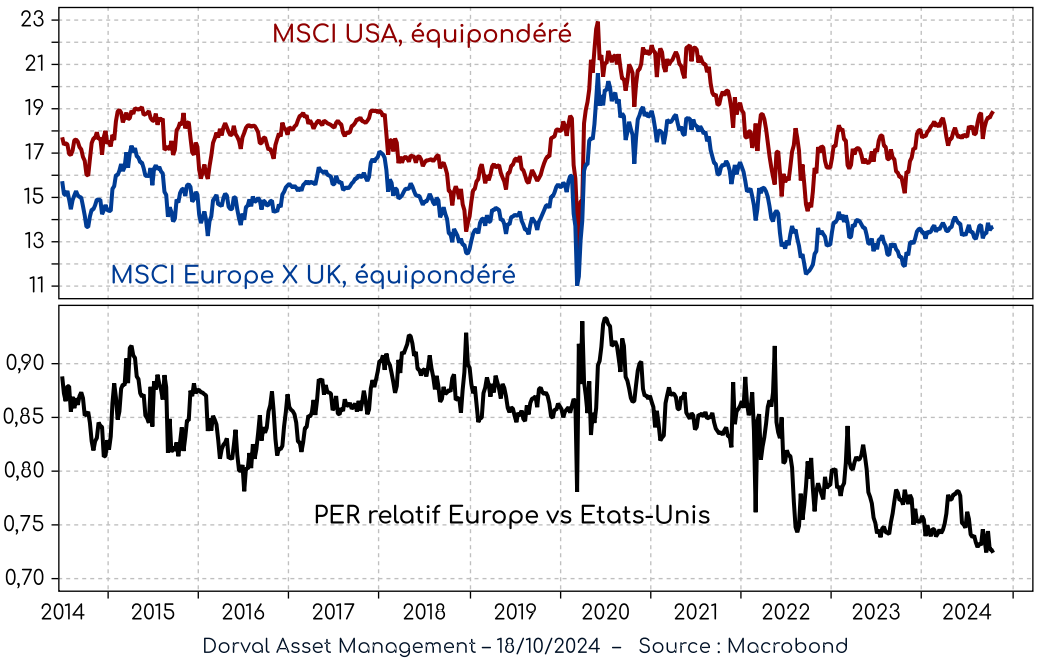
immigration and maintaining very strong public deficits – ignite fears of a resurgence in inflation. This could then lead to intense tensions between the US administration and the Federal Reserve, and long-term rates could soar.

We may also recall the significant negative impact that the uncertainty caused by the trade war had on stock markets, as well as the global economy outside the United States. Based on this experience, Goldman Sachs believes that, above all else, uncertainty is the mechanism that would cause European economic growth to take a hit, to the tune of one GDP point. In this scenario, listed European companies would see their results fall by around 6% to 7% in 2025 compared to current forecasts. These estimates are highly nebulous, however. Moreover, the very low relative valuation of European equities, whose PER currently sits at 27% below those of American companies (a record low in recent history, cf. chart 3), are protecting the market at least in part.

European equities already carry a considerable risk premium compared to US equities

Les actions européennes portent déjà une prime de risque considérable par rapport aux actions américaines

PER prospectifs calculés par Bloomberg



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Prospective PERs calculated by Bloomberg / MSCI USA Equal Weighted / MSCI Europe ex UK Equal Weighted / Relative PER Europe vs United States

At this stage, we have not put in place any specific hedging measures related to the US elections in our portfolios, as the outcome of the election on 5 November remains highly uncertain. For example, The Economist's political model still gives Kamala Harris a slight edge. Moreover, experience shows that financial markets' response to political events is sometimes surprising and changeable.

Our exposure rates are as follows:

- Dorval Convictions: 65% net exposure to equities, comprising 60% Euro STOXX 50 SRI core basket, 6.5% financials basket, 7% small-caps basket. Hedged using Euro STOXX 50 futures.

Dorval Asset Management

Public limited company with share capital of €493,876

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