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US elections monitor: policy impact

All eyes will be on the US elections in November – but the implications for markets could be quite different depending on who wins. We analyse the policies of the two presumptive nominees and find a Donald Trump presidency could cause a bigger market reaction in the near term, assuming a divided government.

The two main presidential candidates – President Joe Biden and former president Donald Trump – are gearing up for November's US elections. But what do their policy proposals mean for markets? They have contrasting views on domestic and international issues – and their policies

KEY TAKEAWAYS

- We see three main channels in which the policies of President Joe Biden and former president Donald Trump will impact markets: economic growth, inflation and demand for safe-haven assets.
- We find a Trump presidency could mean weaker international and US equities, but support for the US dollar and gold, with the implications for US Treasuries less clear.
- As Mr Biden is the incumbent, the impact on asset valuations from his second term may be more neutral, with possible support for US equities and commodities.
- Regardless of who wins, we expect a limited market impact from fiscal policy as many of the tax cuts Mr Trump pushed through in 2017 may not be renewed after they expire.

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Navigating Rates

may steer markets in different directions. We analyse how a range of asset classes might react.

To simplify, our analysis focuses on dominant near-term (12 month) effects under a divided government, where one party does not unilaterally control the presidency, the House of Representatives and the Senate. We consider a divided government the most likely outcome regardless of who wins the White House but acknowledge market reactions may differ meaningfully under a unified government, as well as over the long run.

We also acknowledge the possibility that Mr Biden may yet drop out of the race and be replaced by another candidate amid concerns about his age – he's 81 – and fitness for office. But he remains the favourite to secure the Democratic presidential nomination.

Starkly different policies may mean a varied market response

Overall, we think policies will impact financial markets via three main channels: economic growth, inflation and demand for safe-haven assets.

We've analysed the effects on markets across seven policy areas where we think the impact will be most pronounced (see below and Exhibit 1):

1 Fiscal policy: major stimulus is unlikely under a divided government

Mr Biden and Mr Trump are both talking big on fiscal plans. Mr Biden has proposed USD 5.1 trillion in tax hikes partly offset by new spending, with a net USD 3.3 trillion in deficit reduction by 2034. Mr Trump aims to make his 2017 tax cuts permanent and further cut the corporate rate from 21% to 20%. While the estimated USD 6.1 trillion gross cost of Mr Trump's tax plans may be partly offset by higher tariffs, a net reduction in the deficit is far from certain. What is certain is most of the 2017 tax cuts expire on 1 January 2026 and, under a divided government, Congress is unlikely to approve full tax cut extensions. That said, a majority of policymakers across government may be keen to prevent a fiscal cliff. As a result, regardless of who wins the presidency, market impact may prove neutral.

2 Trade policy: tariffs will be a focus for markets

Presidents can affect trade policy through tariffs without Congressional approval. This opens the door to unilateral actions that can influence growth, inflation and markets. Mr Biden and Mr Trump have both tried to subsidise US industry by increasing trade barriers, particularly against China. More of the same may follow, although Mr Trump's "America First" approach appears comparably tougher, including a 10% blanket levy on all US imports plus a 60% tax on Chinese products. If implemented, this could create headwinds for foreign equities, in addition to a US inflationary impulse that could initially send US Treasury yields higher. The question is whether the US economy could withstand higher inflation and yields, suggesting a subsequent risk of recession and lower yields.

3 Institutional approach: geopolitical backdrop could shift under Mr Trump

Markets can expect continued support for institutions such as NATO, as well as Ukraine, Taiwan and an Israel-Palestine two-state solution if Mr Biden is re-elected. But Mr Trump's institutional approach may be less well received by some investors. This might include efforts to undermine NATO, less consultation with US allies and an end of support for Ukraine. Back home, Mr Trump would likely seek to terminate the remaining court cases against him and pardon the convictions of those involved in the 6 January 2021 attack on Capitol Hill. At the margin, these efforts may bolster global demand for safe-haven assets and weigh on international equities.

4 Institutional approach: geopolitical backdrop could shift under Mr Trump

American presidents have some power to unilaterally affect immigration policy, at least temporarily. This means comparably tight immigration under Mr Trump could dampen the supply of labour, suggesting faster wage and consumer inflation, higher US Treasury yields and tighter margins for US companies. Relatively easier immigration under Mr Biden could have the opposite effect.

5 Monetary policy independence: expect the Fed to be under fire from Mr Trump

Markets are already laser-focused on potential US Federal Reserve (Fed) interest rate cuts. But under a Trump presidency a simple shift lower may not be sufficient. We think Mr Trump may undermine the Fed's independence by openly and aggressively pushing for stimulus, before replacing Chair Jerome Powell at the expiry of his second term in May 2026. For US Treasuries, we think the impact may be felt more on short-term rates than long-term rates due to lingering inflation concerns. A narrower spread between US yields and the rest of the world could dampen the US dollar, while equities and commodities may benefit from the prospect of monetary stimulus.

6 Climate policy: energy policies will feed through to inflation and asset valuations

Mr Trump would likely undo many of his predecessor's climate policies and aim to expand fossil fuel production. Such a move may initially boost the US economy via cheaper energy costs, prompting disinflation and lower US Treasury rates. Longer-term affects could, of course, be different. For Mr Biden, supporting the green energy transition may mean reduced oil and gas supplies, a potential driver of inflation, US Treasury yields, the dollar and commodities excluding gold.

7 Climate policy: energy policies will feed through to inflation and asset valuations

We expect Mr Trump to put a greater focus on ease of doing business by reducing regulatory barriers across the energy, financial and consumer sectors. If effective, those moves could soften the rate of inflation in the near-term, leading to lower US Treasury yields and a weaker dollar. All else equal, this could also support US equities. Mr Biden's regulatory approach should remain largely unchanged in a prospective second term, meaning neutral affects for markets, broadly.

Who would be better for markets?

In combination, we think Mr Trump's policies may be supportive of the dollar and gold. He took a tough stance on a range of issues during his time in office – and we expect a similar approach if he is re-elected, potentially boosting these safe-haven assets.

US equities had a strong tax-cut-fuelled run during Mr Trump's first administration. However, hopes for a repeat rally seem at odds with the fiscal restraint of a divided government and the inflation impact from Mr Trump's trade and immigration proposals. For foreign equities, while the same dynamics apply, the impact could be amplified due to reduced access to US markets and diminished institutional support for traditional US allies.

Overall, we think the market impact from a second Biden term might be more neutral. Mr Biden is the incumbent,

Exhibit 1: Our expected market reaction to policies under the two main candidates (based on a 12-month investment horizon under a divided government)

		Fiscal policy	Trade policy	Institutional approach*	Immigration policy	Monetary policy independence	Climate policy	Regulatory policy	Average
UST yields	*Trump*	🟡	🟢	🟥	🟢	🟥	🟥	🟥	🟡
	Biden	🟡	🟡	🟡	🟥	🟡	🟩	🟡	🟡
Spot USD	*Trump*	🟡	🟩	🟢	🟢	🟥	🟥	🟥	🟩
	Biden	🟡	🟡	🟡	🟥	🟡	🟩	🟡	🟡
US equity returns	*Trump*	🟡	🟥	🟥	🟥	🟩	🟡	🟩	🟥
	Biden	🟡	🟡	🟡	🟩	🟡	🟡	🟡	🟩
International equity returns	*Trump*	🟡	🔴	🔴	🟥	🟩	🟡	🟡	🔴
	Biden	🟡	🟡	🟡	🟡	🟡	🟡	🟡	🟡
Commodities x-gold	*Trump*	🟡	🟡	🟥	🟡	🟩	🟥	🟥	🟥
	Biden	🟡	🟡	🟡	🟡	🟡	🟩	🟡	🟩
Gold	*Trump*	🟡	🟩	🟩	🟩	🟩	🟡	🟡	🟢
	Biden	🟡	🟡	🟡	🟡	🟡	🟡	🟡	🟡

Dark green = very positive impact, **light green** = positive impact, **yellow** = Neutral or TBD, **light red** = negative impact, **dark red** = very negative impact. *Support for rule of law, traditional US allies, global institutions

Note: Assessment based on our expectation of a divided government. We still don't know the exact agenda of both main candidates, while the risks around our expectations are huge.

Source: AllianzGI Global Economics & Strategy. Allianz of America, Bloomberg, Washington Post; Whitehouse.gov, Associated Press, Politico; as at June 2024 markets are familiar with his views and policies, and his actions would be constrained by a divided government.

Importantly, while our analysis focuses on near-term market effects, we recognise that second and third round effects are possible. Market pricing of prospective policy changes will also likely be uneven – some effects may already be pricing in, while others may take longer to materialise.

Staying invested is critical through the election

Latest market odds suggest a higher chance of a victory for Mr Trump after a poor showing by Mr Biden in the first US presidential debate.[1] But with neither candidate yet to fully articulate their policy platforms and questions over whether Mr Biden will remain in the race for the Democratic nomination, markets will stay watchful in the run-up to November.

Markets don't like uncertainty: ahead of the vote in election years, volatility typically rises. The tendency for some investors is to stay on the sidelines. However, once the results are known, markets are likely to return their focus to economic growth and interest rates. This means for most investors the important thing is to look through any volatility and stay invested.

[1] Source: fivethirtyeight.com; ABC News; Predictit.org; as of 28 June 2024

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