

Trump 2.0 – The advent of US supremacy?

First impressions of Red Sweep by Republicans

- Higher tariffs and tax cuts** – Negative implications to fiscal position longer term. Bond yields under pressure short term; **pace purchases to take advantage of attractive higher yields to capture income.**
- Fed independence** – Market believes pace of rate cuts will slow in 2025, but the situation remains fluid as Trump may pressure Fed Powell to accelerate rate cuts to spur growth.
- US supremacy** – Trump will push for increased US investments and possibly negotiate with China on bilateral trade. **PE re-rating is possible; Underweight under review**
- China** – On the back foot, but this time China is ready and may counter with stronger than expected stimulus. **Maintain Neutral on China equities** pending stimulus announcements.
- Geopolitics** – Potential spending cuts to NATO and an indirect push to end the Russia-Ukraine war could reduce risk premiums. **Reduce Gold.**
- FX** – USD strength to persist in the short term, until the market questions US debt obligations which are expected to balloon by 20% over the next decade. **Stay cautious on EM FX**

	Short Term (0-6 months)	Long Term (6-12 months)
Fixed Income	<p>Higher bond yields from increasing inflation expectations from (a) Tax cut plans; (b) Higher trade tariffs across-the-board</p> <p>Fed will cut rate cautiously on inflation outlook</p> <p>Shorten duration: Buy short tenor bonds (<5y) for higher income, Negative longer tenor bonds</p> <p>Buy Income funds to lock in higher yield</p>	<p>Effects of Trump trade fades as policy uncertainties reduces upon partial implementation. Fed rate cuts to continue albeit at slower pace, hence dovish tones. Positive: Fixed income</p>
US Equities	<p>Positive for growth. Corporate tax cut +5% to S&P500 EPS. Eventually higher bond yields could cut re-rating.</p> <p>Positive: +5% EPS boost and PER multiple re-rates to 22x (at +1 std. dev. above mean) on pro-growth policies, S&P500 index to reach 6,300 (+6%). Buy US equities on pullback.</p>	<p>Inflationary pressure from tax cuts, higher tariffs. Export markets and GDP growth shrink from retaliatory tariffs.</p> <p>Negative: Higher borrowing costs and risk-free rates => de-rate valuations and earnings.</p>
Asian Equities	<p>Higher bond yields initially => Strong dollar => Negative on Asian currencies, bond and equity markets.</p> <p>Tariffs hikes Negative on China, all exporters to US</p>	<p>Retaliatory tariffs negative for US Growth. Adds to US inflation</p>
China Equities	<p>Depending on stimulus size, HSI could settle between -1 std. dev. and mean valuations, or 8.5x-10x PE. Implies HSI range of 19000-22000 (-8% to +8%). Neutral China.</p>	<p>Await if stimulus measures to bear fruit i.e. if consumption can offset export tariff issues. Structural issues like property overhang need to be resolved.</p>
ASEAN Equities	<p>Negative from Stronger Dollar</p>	<p>Trade and FDI diversion positive for ASEAN</p>
US Dollar	<p>Strong USD from Higher bond yields</p>	<p>Weaker US dollar as bond yield spike reverses</p>
Gold	<p>Negative initially from stronger USD and perception of lower geo-political risks</p>	<p>Positive as Hedge against high US debt issues and higher inflation expectations</p>

Source: CIMB Chief Investment Office

Summary

Markets were right. While a Trump presidency promises more changes across tariffs, budget deficits, inflation and international relationships, some of these have been partially priced into markets in the past 1-2 months. The so-called 'Trump trade' pushed bond yields, US dollar and the S&P upwards. We believe control of Congress, something of a surprise, will give markets reason to expect faster action on tariffs and taxation, so, the 'Trump trade' may not be over.

Control of Congress allows Trump to move faster to enact the planned tax regime. If a determined president moves swiftly on tax changes through Congress, (extending the Tax Cuts and Jobs Act) household confidence, the already robust consumer spending will continue to drive the US economy. The promised corporate tax cut, a nakedly expansionary move, is an outright positive for corporate America, expanding earnings, and benefitting companies with more domestic revenues. Corporate earnings, already recovering from a trough in 2023, will receive a further boost in 2025.

Inflationary expectations to spike. The tax cuts enabling this fiscal stimulus will create inflationary expectations in the short-term and accelerate debt-to-GDP by an alarming 20% in a decade. Markets react to this inflationary expectations, and have pushed up long-term Treasury bond yields. If sovereign ratings are threatened, bond yields will stay high for longer and weaken the growth outlook, which in turn impact credit spreads. A troubling possibility for US bond markets and longer term growth.

The ease with which Trump can raise tariffs (no new legislation needed) puts the ball in China's court – will China be willing to negotiate over this, or offset it with a large domestic stimulus?

As markets correctly anticipated this election outcome in the past 4-6 weeks, markets may be playing out their final act of their reactions in the aftermath of this election. Given Mr. Trump's record, investors will pause to assess whether the administration is executing early on its goals.

Historically, presidential races won by Democrats have produced higher returns over a 1-year period but little difference over 1 or 3 months. However, incumbent losses (like the present one) tend to produce low returns over 3 and 12 months. Low returns after an incumbent loss could be caused by the substantial change in policy initiatives that comes with new leaders. More generally, returns have been on average positive 3 and 12 months after elections.

S&P500 Average Returns Post-Election since 1964

Outcome	+1M	+3M	+1Y
Democrat Win	0.0%	3.2%	15.1%
Republican Win	0.8%	3.1%	2.9%
Incumbent Win	0.9%	5.5%	14.1%
Incumbent Loss	0.1%	1.1%	3.8%

Source: Bloomberg

The Main Issues

Two market moving policy agenda for the new administration are their tax and tariff proposals.

Tax proposals. Mr. Trump's tax proposals, if implemented in its entirety, is inflationary. A key part is a further reduction in the corporate tax rate from 21% today, to 15%. If successfully implemented, S&P500 earnings are projected to rise by +5% in 2025. Other elements of the Tax Cuts and Jobs Act 2017 (TCJA) that relate to individuals, such as the tax reliefs/allowances, estate taxes, mortgage income deductions, child tax credits, are also expected to be extended and made permanent. In total, Trump's tax proposals are projected to raise the Budget deficit by \$7.5-7.75tr over 10 years. This will elevate US debt to GDP ratio by around +20ppts to 142% by 2034; but this is a longer term concern beyond 2025.

Bond yields to reverse later. In the longer-term, the higher sovereign debt could impact US sovereign credit ratings and hence US bond market. Higher interest rates will eventually reduce the economy's growth trajectory, partially reversing the rise in UST yields and widen corporate credit spreads. As many in the Republican party are against significantly higher deficits and national debt, corporate tax cuts may be negotiated down or sacrificed to generate some 'offset' to other generous elements of his proposals.

Tariff proposal and plans. Trump's widely publicized proposal to raise trade tariffs on all trading partners' imports by 10-20% and on Chinese imports by 60-100% may turn out to be an opening bargaining position. Regardless, a 10%/60% tariff on imports into the US would have several effects: (a) put pressure on the Renminbi, and by association, Asian currencies (b) invite retaliatory tariffs, which affects US exporters (c) raise domestic prices (inflationary), eventually resulting in lower real personal consumption expenditures (PCE) but higher PCE prices, (d) lower real income, as higher prices take root.

Tax Regime Changes on Expiry of TCJA

	CURRENT TAX REGIME	ON EXPIRY OF TCJA
Standard tax relief		
- Single taxpayer	14,600	8,300
- Joint taxpayers	29,200	16,600
Mortgage interest relief	Properties <\$0.75m	Properties below \$1m
Deduction for State and local taxes	Up to \$10,000	No cap reinserted
Estate taxes	First \$13.6m exempted	First \$5m exempted
Child tax credit	\$2,000	\$1,000

Source: Bloomberg

The Tax Cuts and Jobs Act 2017 was enacted by Mr Trump in his first administration, expires in 2025, and will return taxpayers to a higher tax regime (see above) unless extended. Trump intends to do just that – extend all the features AND make them permanent. His proposal to cut corporate taxes further (21% to 15%) may become a point of negotiation (even within his party).

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