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Flash Report

US Elections

Impact of a Trump Presidency on Financial Markets: A First Glance

Although startling given the outcome predicted by most of the polls, the election of Donald Trump as President of the United States and the clean slate he will have in Congress for at least two years is in line with other protest votes that are driven by a wide-reaching populist wave (eg Brexit).

Financial markets initially reacted by marking down risky assets and by taking refuge in the familiar safe havens of government bonds and gold. However, following the President-elect's acceptance speech, which was widely perceived as conciliatory, thoughtful and presidential, sentiment soon shifted and cooler heads started to prevail.

Short on Specifics

And indeed, it is difficult to confidently ascertain what the impact of a Trump presidency in a Republican-controlled Congress will be. One can't rush to conclusions for many reasons, notably that the transition will only take place on January 20th, 2017, that his cabinet and advisors have yet to be appointed and that much of the President-elect's campaign was short on specifics and long on rhetoric.

Therefore, we can't do much more than speculate on what policy changes this administration will bring about. However, we need to be ready for the impact that they will have on financial markets. In a general sense, the Republican party's agenda is conservative and should be seen as striving to improve the business climate.

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Fiscal policy

+ Statements were made throughout the campaign that the federal corporate tax rate would be cut and that there would also be some personal income tax cuts.

+ Other campaign promises include increasing public sector outlays on infrastructure projects.

+ As a result, we could expect the public sector deficit to increase over time and lead to greater debt issuance.

Trade policy

+ The rhetoric on that front clearly points to raising trade barriers to protect US industries, notably calling into question NAFTA. However, there are procedures that could impede the speed at which such protectionist measures could be implemented.

Immigration reform

+ The rhetoric included restrictions on immigration, going as far as deportation of illegal immigrants.

Regulatory reform

+ As part of the conservative agenda, regulations should be alleviated.

+ The approval framework for energy or pipeline projects could be loosened.

Healthcare

+ The Republicans, who have fought Obamacare all along, will surely attempt to replace it with an all-private version.

Environmental policy

+ Mr. Trump has previously stated that he would rescind the Clean Power Plan, back out of the Paris Agreement and cancel spending on clean energy.

Justice System

+ President Trump will have a free hand to appoint conservative justices to fill the current and prospective vacancies in the Supreme Court, which will tilt the Court towards the right.

Potential Impact of These Changes on Markets

Keeping in mind that these potential impacts will only appear clearer as more is known about the official policy agenda of the President-elect and his Republican Congress, we can infer the following from our initial assessment:

+ The fiscal policy platform of the campaign, if implemented, will lead to greater issuance of debt, and higher bond yields. Any interest rate sensitive sector could be negatively impacted in such a context. Additionally, fiscal policy may in time impact monetary policy at the Fed, particularly if protectionist policies lead to upward pressure on inflation.

+ Canada is unlikely to be a target of adverse US policy, notwithstanding Trump's concerns over NAFTA. In fact, we may be a beneficiary of his position on energy and pipelines. Predicting near term winners and losers in this environment can be tenuous, but the election outcome should be positive for industries such as healthcare, financial services, materials, and energy. Many consumer stocks and large importers may face a less favourable environment. Many large global companies in the United States will benefit from corporate tax reform, but global supply chains may be vulnerable to increased protectionist sentiment.

+ The campaign rhetoric about environmental policy will call for some push back on achieving the targets that were set at the Paris COP21 meeting about a year ago. This will have consequences on climate change related outcomes (from rising temperatures to shrinking ice sheets and rising sea levels). Potential impacts on various sectors of the equity market are complex and too numerous to detail here. These will deserve the full focus of our research efforts.

We will therefore closely follow any development of President-elect Trump's policies. In the meantime, we will not let emotions overtake reason and will remain focussed on economic and financial fundamentals.

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