



A note from Dan

Donald Trump 2.0: Economic and financial market implications

November 2024

An astonishing American political season culminated in voters choosing as their 47th president, the person who was previously their 45th president. There aren't enough words to describe this remarkable political cycle nor the magnitude of Donald Trump's comeback.

He again outperformed polling expectations and did what no Republican Party candidate has done since George W Bush in 2004 – winning the popular vote as well as an Electoral College majority.

“It's the economy, stupid”

Social scientists will be studying the 2024 election for years to come, as well as the Trump phenomenon more generally, and so explanations at this juncture risk being superficial.

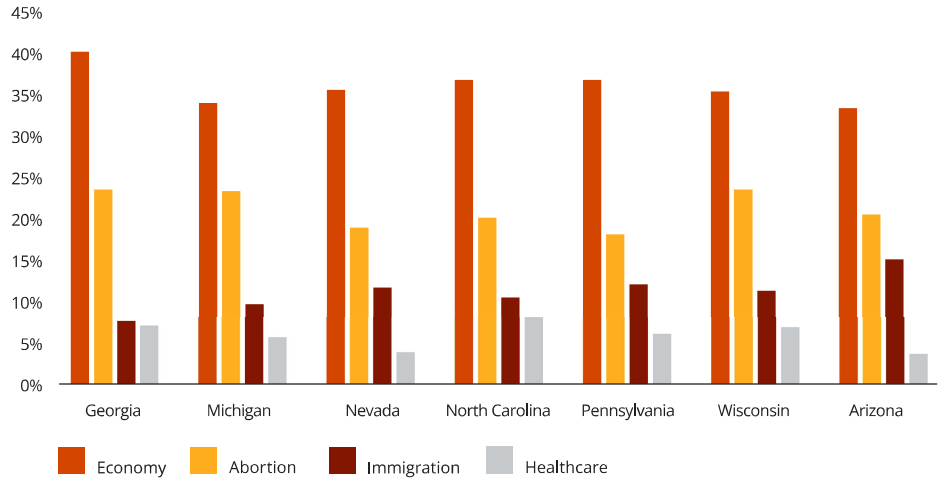
Data leading into the election revealed the primacy of economic issues among battle-ground state voters (**Chart 1, on the next page**), especially the cost-of-living, and voters trusted Mr Trump by sizeable margins over Vice President Kamala Harris (**Chart 2, on the next page**).

Voters who identified the economy as their primary concern voted overwhelmingly for Mr Trump over Ms Harris – 79% to 20%.¹

This recalls the memorable words of James Carville, Bill Clinton's 1992 campaign strategist on what he believed was the salient issue of that political season: “It's the economy, stupid.” Seems the more things change, the more they stay the same.

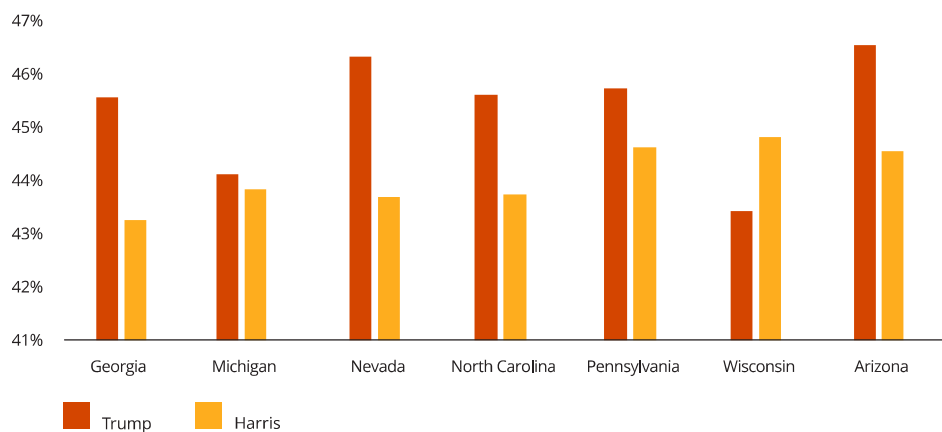
¹ Reuters On the Money, By Lauren Young, Digital Special Projects Editor, 8 November 2024, <https://www.reuters.com/markets/wealth/what-trump-presidency-means-your-money-2024-11-08/>

Chart 1: Economic issues dominated...
Most important issues: battle-ground state voters



Source: Redfield, MLC Asset Management

Chart 2: ...and Mr Trump was more trusted to tackle the cost-of-living
Trust on the cost of living: Trump vs Harris



Source: Redfield, MLC Asset Management

A poll in September found that 65% of registered voters thought the United States was **“on the wrong track.”**

Even with a 4.1% unemployment rate,² the high inflation and interest rates of recent years has eroded Americans' sense of wellbeing.

Here's a telling barometer: a poll in September found that 65% of registered voters thought the United States was “on the wrong track,”³ a brutal headwind for the Democratic Party heading into an election.

Coupled with receiving the baton from an unpopular incumbent, perceived to be declining, this left Ms Harris a mountain to climb. She presented herself as a change-agent, but after being part of Joe Biden's administration for the past four years, that was a difficult sell.

Moreover, President Biden's belated July withdrawal from the presidential race handicapped his party leaving insufficient time to hold competitive primaries to select its standard bearer.

Instead, Democrats coalesced around Ms Harris who had to squeeze into a handful of months a campaign that usually takes more than a year.

² The employment situation – October 2024, News release of the Bureau of Labor Statistics, US Department of Labor, <https://www.bls.gov/news.release/pdf/empisit.pdf>

³ Two-thirds of voters say the country is on the wrong track ahead of the 2024 election, by Bridget Bowman, 27 September 2024, <https://www.nbcnews.com/politics/2024-election/two-thirds-voters-say-country-wrong-track-ahead-2024-election-rcna172873>

Peeling off parts of the Democratic Party coalition: Hispanic men the big movers to Donald Trump

Mr Trump won by holding on to his base and by peeling away parts of the 2020 voting coalition assembled by President Biden, which Ms Harris was unable to hold on to.

Exit polls reveal that Ms Harris slightly increased her share of the White vote, and despite a lot of Democratic Party handwringing about defections of Black men to Mr Trump, received 80% of this cohort's votes, just a 1% change from 2020 (**Chart 3**).

However, two groups – Hispanics, especially Hispanic men, and young voters – shifted meaningfully to Mr Trump (**Chart 3**), crulling Ms Harris' hopes.

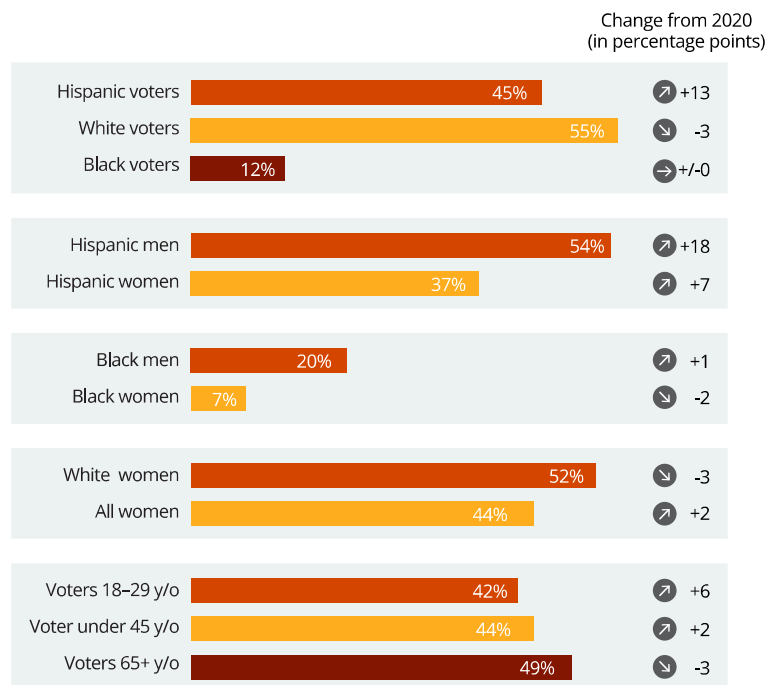
Mr Trump's share of the Hispanic men vote jumped 18%, giving him a majority of this demographic, while increasing his share of young voters (those aged 18-29) by 6% (**Chart 3**).

Given historically strong Hispanic (and young voters') support for the Democratic Party, this must be troubling party strategists over what it augurs for future voting behaviour.

Finally, the election revealed that lower relative turnout, versus 2020, worked in Mr Trump's favour. There's a widespread belief in US politics that high turnouts are positive for the Democratic Party, and the fall in the number of votes this time did the party no favours.

At the time of writing, Mr Trump vote tally was 76.4 million⁴ (compared to around 74 million in 2020), while Ms Harris was the choice of 73.7 million voters,⁵ well short of Mr Biden's 81.3 million votes in 2020. Unfortunately for the Democratic Party, Ms Harris was unable to enthuse voters in the way Mr Biden did in 2020.

Chart 3: Hispanic men shifted decisively to Mr Trump
Share of US voter groups who picked Donald Trump for president according to exit polls



Source: Edison Research via Reuters

⁴ US Presidential Election 2024: Trump vs Harris: live results map of the US presidential election. https://ig.ft.com/us-elections/2024/results/president/?seat_id=P-AZ-00

⁵ Ibid

An aligned Congress for Mr Trump

The Republican Party has won back the Senate and held on to its House of Representatives majority and so Mr Trump will have an aligned Congress, at least for two years (until the 2026 mid-term elections) to implement an agenda of lower taxes; deportation of undocumented immigrants; tariffs; encouragement of fossil fuel exploration and development; and all-around economic deregulation.

In the American system, Congress is an equal branch of government and thus not beholden to the president. Many White House occupants have despaired over the machinations of supposed congressional allies and so it's possible that Mr Trump may have his share of headaches with his Republican legislative counterparts too.

However, there is a counter to this scenario: the Republican Party has been remade in Mr Trump's image and independent-minded, traditional Republicans like the late Senator John McCain, and retiring Senator Mitt Romney, or Representative Liz Cheney, are thin on the ground.

Moreover, unlike the first Trump presidency with its mix of traditional Republicans and Trump loyalists, this time, the White House, and bureaucracy will be staffed with true believers who promise to "demolish the deep state."⁶

In the Trump era, there are likely to be few incentives for opposition.

Economic and market impacts

We believe the implementation of Mr Trump's agenda will result in higher US economic growth, over the medium term, and be positive for company earnings.

But there's also a possible sting in the tail as a cocktail of higher economic growth, larger budget deficits, and higher tariffs will be inflationary and so we anticipate US interest rates being higher than they would be if more fiscally restrictive policies were in place.

While equity markets lit up on the back of the election outcome, bond markets signalled wariness as benchmark 10-year US Treasury yields jumped (bond prices fell).

Even without accounting for the likely extension of all or most of the tax cuts Mr Trump signed into law when he was president in 2017, which expire at the end of next year, "government debt held by the public could potentially double over the next decade"⁷ to US\$52 trillion, from US\$26 trillion at the end of last year, according to Congressional Budget Office (CBO) forecasts.⁸

The extension of the 2017 tax cuts, by themselves, would add around US\$4.5 trillion, according to CBO projections.⁹

Our summary of the possible impact on inflation, and assets class views, stemming from the election, are shown in **charts 4 and 5, on the next page.**

⁶ Trump triumphant: How his White House will be different this time, by Nick Bryant, 10 November 2024, <https://www.abc.net.au/news/2024-11-10/us-election-trump-triumphant/104580858>

⁷ US fiscal strain looms as key challenge for newly elected Trump, by Davide Barbuscia, 7 November 2024, <https://www.reuters.com/markets/us/us-fiscal-strain-looms-key-challenge-newly-elected-trump-2024-11-06/>

⁸ Ibid

⁹ Ibid

Donald Trump 2.0: Economic and financial market implications

Chart 4: Impact on inflation from Trump win and aligned Congress

Fiscal position	Trade policy	Upside, but one off A temporary but pronounced inflation shock
	Tax policy	Very modest upside Under a Trump sweep tax cuts likely large enough for some inflationary pressures
	Benefits/ government spending	Modest upside Increased government spending and benefits under Trump plan to result in modestly higher inflationary pressures
Other	Immigration policy	Modest upside Reduced immigration to result in tighter labour market and higher wages, and therefore upward pressure on inflation
	Regulatory policy	Neutral
	Energy policy	Very modest downside Lower energy prices as a result of pro oil and gas policy
Total impact	Modest upside, but mostly temporary Largely as a result of trade policy, but also due to pro-cyclical tax and spending, and reduced immigration. Impact mainly one-off but large	

Source: MLC Asset Management

Chart 5: Possible asset class implications from Trump win and aligned Congress

Fiscal position	Bonds/ duration	Modest upside, more persistent Most of which will be temporary due to higher tariffs, but more persistent than if Congress was divided. Coming as a result of higher inflation growth. Yield curves should steepen
	Global equities	Modest upside (tactically) Higher earnings from tax cuts and regulatory policy more than offsets the impact from higher tariffs on consumption. Price-Earnings ratios likely to expand on the Trump trade on steroids as he acts as a cycle accelerant
	Emerging Markets vs Developed Markets equities	Modest downside Trump's trade agenda is negative for Emerging Markets equities, particularly China. Higher USD to weigh on relative performance
	Credit	Neutral
	USD	Modest upside, more persistent Most of which will be temporary due to higher tariffs, but more persistent than if Congress was divided. Coming as a result of higher inflation growth

Source: MLC Asset Management

Investment discipline matters

Mr Trump is an atypical political figure, and his agenda could upend many long-held assumptions about America. Consequently, investors are likely to be even more than usually attentive to events in Washington.

As ever, investment discipline matters and it would be unwise to jump at shadows. Impulsive behaviour is rarely positive for long-term wealth accumulation.

Donald Trump 2.0: Economic and financial market implications

Investment principles that have stood the test of time like diversification, and intelligent risk-taking/risk-management, will, we believe, continue to be effective.

On clients' behalf, we invest in many thousands of investments across many countries, regions, asset classes, managers, and investment styles. Doing this means that portfolios are not reliant on a narrow set of return drivers and instead accumulate returns from many sources.

We adjust our public asset investments – listed equities, and government and corporate bonds – consistent with our assessment of their long-term return potential, while being mindful of the possibility of asset valuations diverging from intrinsic value over shorter periods, which can create opportunities.

Many of the portfolios we manage for clients also have exposure to unlisted assets, which are important sources of diversification, in our view.

For instance, we continue to have high-conviction in private equity, especially those focussed on mid-size companies, where there are more operational efficiencies to be achieved, relative to larger companies, where transformation can take longer to realise, or where operations are already highly efficient and growth prospects may be limited.

Likewise, portfolios with exposure to alternative strategies, including those with cash flows from government and legal receivables, or climate-related reinsurance premiums, benefit from returns untethered to sharemarket performance, or economic cycles.

The unlisted infrastructure arena continues to be an important part of many of the portfolios we manage for our clients. Our infrastructure investments show a preference for businesses benefiting from the economic digitisation trend through exposures to fibre networks and telecommunications towers, and renewable energy, and as well as investments in electricity transmission lines and distribution networks.

All up, we remain confident that we have a great breadth of quality assets, along with the philosophy, process, and knowledge to navigate clients' portfolios through the coming year and beyond.

Important information

This document has been prepared by NULIS Nominees (Australia) Limited (NULIS) ABN 80 008 515 633, AFSL 236465 as Trustee of MLC Super Fund (ABN 70 732 426 024). MasterKey Business Super (MKBS) is part of the MLC Super Fund. NULIS is part of the Insignia Financial group of companies comprising Insignia Financial Ltd (ABN 49 100 103 722) and its related bodies corporate (Insignia Financial Group).

The information and commentary provided in this communication is of a general nature only and does not relate to any specific fund or product issued by an Insignia Financial Group entity. This information does not take into account your objectives, financial situation or needs. You should consider whether it is appropriate for you. You should consider obtaining independent advice before making any financial decisions based on this information. You should read the relevant Product Disclosure Statements (PDS) and Target Market Determination (TMD) before you make a decision to acquire or continue to hold the product. A copy of the relevant PDS and TMD is available on the website at mlc.com.au or by calling us on 132 652.

Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market. An investment is subject to investment risk, including possible delays in repayment and loss of income and principal invested. Actual returns may vary from any target return described and there is a risk that the investment may achieve lower than expected returns.

Any opinions expressed constitute our judgement at the time of issue and are subject to change without notice. We believe that the information contained in this communication is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of compilation. However, no warranty is made as to their accuracy or reliability or in respect of other information contained in this communication. Any projection or forward-looking statement (Projection) in this communication is provided for information purposes only. No representation is made as to the accuracy or reasonableness of any such Projection or that it will be met. Actual events may vary materially.

This communication is directed to and prepared for Australian residents only.