GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Trump 2.0: Compendium of Potential US Policies and Market Outlooks

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EXECUTIVE SUMMARY

- The November 2024 US elections resulted in the selection of the Republican candidate, Donald Trump, as the next president along with a Republican majority in the Senate and the House of Representatives. This so-called "red sweep" will result in Republican control over executive and legislative branches of government, and therefore, greater freedom to enact the new administration's policies.

- Market participants largely believe that the election will usher in major shifts in US economic policies across numerous fronts that will materially impact the US fiscal position, economic growth, and the direction of global markets.

- Potential policies under a second Trump administration include tax cuts, tariffs and new trade negotiations, restrictions on immigration, and broad deregulation. Dollar devaluation and challenges to Federal Reserve independence have also been discussed.

- Expectations vary on the extent to which certain policies may be or can be implemented. For example, market participants have a high degree of confidence in the ratcheting up of China tariffs, while efforts to reign in Federal Reserve independence are seen as unlikely.

- Investors, as a baseline, believe that the new administration will usher in higher economic growth via tax cuts and deregulation. Fiscal stimulus and tariffs in turn may push inflation higher, complicating the Federal Reserve's rate policy decisions. Elevated geopolitical uncertainty/trade tensions, in addition to unorthodox policy communications, may increase volatility and widen risk premiums.

- Asset prices have largely reflected these views. Yields on US Treasuries have risen. US equities and credit markets have rallied, the US dollar has strengthened, Bitcoin prices have surged, and certain commodities, like copper, have reacted. Nonetheless, although volatility has subsided, market participants are likely expecting more clarity on Trump policies. Uncertainty will remain until new administration policies are announced or are in place.

POTENTIAL SECOND TRUMP ADMINISTRATION POLICIES

There is a high degree of uncertainty and speculation on potential policies. Market participants will look towards key administration appointments, legislative action, and execute orders for clues on which policies will be implemented. Commenters have so far highlighted the following:

- **Corporate and personal tax cuts and incentives**: The new Republican administration will prioritize fiscal expansion via tax policy, including the extension of the 2017 Tax Cut and Jobs Act (TCJA), which expires in 2025. An extension of the TCJA cuts is almost certain, though there may be some negotiations that alter the scope. Other potential tax-cut measures include a reduction in the corporate tax rate from 21% to 15% and the elimination of taxes on social security benefits. Estimates on increases to the US budget deficit from enacting the full suite of tax proposals vary, from $5.8 to $10.4 trillion over a 10-year period, all else equal.[1] Analysts at Deutsche Bank Research estimate that budget deficits will be modestly higher at 7 to 7.5% of U.S. GDP over the next several years.

- **Additional tariffs and muscular trade policy:** Market participants note that the new administration may attempt to impose a 10 to 20 percent across-the-board tariff on trading partners, including the European Union, though the

[1] *See* Penn Wharton Budget Model "The 2024 Trump Campaign Policy Proposals: Budgetary, Economic and Distributional Effects."; Committee for a Responsible Federal Budget: "The Fiscal Impact of the Harris and Trump Campaign".

magnitude is uncertain depending on negotiations. Analysts believe that after tariffs are announced, implementation may take time (through the second half of 2025 or sometime in 2026). On the other hand, commenters believe that tariffs imposed on China, potentially up to 60%, are more likely and imminent.[2] Bilateral and other trade agreements are also likely to be pursued or reviewed by the new administration; for instance, the United States-Mexico-Canada Agreement (USMCA) will come up for review on July 1, 2026.[3] Market participants note that tariffs will likely lead to retaliation by trading partners.

- **Restrictions on immigration:** Donald Trump campaigned on robust controls and security along the US-Mexico border, expansive deportation of migrants, the end of Biden-era asylum programs, and other executive actions to limit immigration. JPMorgan believes that these actions would reduce average employment growth to pre-pandemic estimates at around 100,000/month vs roughly 150,000/month now.

- **Deregulation:** Banking regulation may be scaled back by the appointment of agency heads, including at the OCC, FDIC, and CFPB, who would be seen as friendlier to the financial industry. The Trump administration may also work in tandem with Congress to revise banking legislation, e.g., the Dodd-Frank Act. Basel III Endgame proposals put forth by prudential authorities (i.e., the Federal Reserve, the FDIC, and the OCC) are also expected to be significantly delayed and/or reproposed, benefiting both large and medium-sized banks. Market participant also note the potential for M&A activity among banks, large and small, to pick up due to a more favorable regulatory environment. Other likely regulatory changes include a rolling back of green energy measures, support for digital asset innovation and growth, as well as regulations on Big Tech platforms and on the anti-trust front.

  FX intervention/Dollar weakness: Several Trump campaign surrogates and advisors have advocated for an explicit weak US dollar policy to help reduce the US trade deficit, even though prevailing inflationary pressures may constrain the scope of monetary accommodation and make it less likely in the short run. During the first Trump presidency, the prospect of intervention by US authorities to weaken the dollar was often discussed by market participants, though no FX reserves intervention by the US Treasury ever occurred during that time.[4] It remains possible that the second Trump administration, aside from or along with intervention via FX reserves, may be a proponent of verbal intervention. Although not explicitly mentioned at this point, US authorities may also attempt to negotiate coordinated intervention among monetary authorities of large trading partners. Analysts at Morgan Stanley find verbal intervention as the most likely mechanism, and place FX reserves intervention, coordinated or uncoordinated, as less likely.

- **Challenges to Federal Reserve independence:** Media outlets and some commenters have highlighted Donald Trump's insistence that he should have a say in monetary policy matters. One rumor suggests that the new President could impose his views on monetary policy by nominating a so-called "shadow" chair who would provide forward guidance that may undermine the actual chair. Commenters note that this would be difficult to do in practice because of Fed and Senate pushback and markets resistance. Since there are no openings on the Board of Governors until early 2026, questions would arise over the shadow chair's official status. Analysts at Deutsche Bank Research believe that monetary policy independence is unlikely to be seriously challenged, that current Chair Powell will serve out his term, set to expire in 2026, and that conventional candidates will be appointed to the Federal Reserve Board. Chair Powell has explicitly said, most recently at the FOMC press conference last Thursday, that he would not resign even if the President-elect asked for it, nor does a President have the legal power to fire him.

- **Debt ceiling:** A "red sweep" would reduce legislative brinkmanship that has marked previous debt ceiling episodes in 2023, 2015, 2013, and 2011. Unified control over Congress by the Republican party will likely result in suspension of the debt limit well before the so-called "X-date", which Bank of American and JPMorgan project to be sometime during the summer 2025 or early Q2 2025, respectively.

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[2] The procedure for invoking new tariffs involves going through the Antidumping & Countervailing Duty Investigations Laws under the Tariff Act of 1930. Tariffs on China are empowered under existing Section 301 of the Tariff Actions and Exclusions Process. This was the same legal device used by President Trump to impose tariffs on China in 2018.

[3] *See* Brookings Institute "USMCA review: Upcoming elections and a path forward"

[4] The New York Fed is authorized to intervene in the FX market as directed by the FOMC and by the US Treasury for the SOMA and ESF, respectively. *See* Foreign Exchange Operations - FEDERAL RESERVE BANK of NEW YORK

MARKET OUTLOOKS IN RESPONSE TO A SECOND TRUMP ADMINISTRATION

Before the 2024 US elections and following, market participants have positioned themselves for expectations of a red sweep (i.e., "Trump trades"). Generally, they believe that asset pricing will be influenced by policies through several channels: 1) *Fiscal support* and *deregulation* that will likely contribute to *stronger economic growth*; 2) *Larger deficits*, *tariffs*, and *stronger growth* that may push *inflation expectations higher* and consequently, complicate the *Federal Reserve's policy decisions*, and 3) *Increased volatility* due to higher *geopolitical uncertainty, trade tensions,* and more *unorthodox policy communications*.

Nonetheless, market participants also acknowledge that more details are needed to judge the strengths of these channels. For instance, limits on immigration, higher effective tariff rates, and potential trade tensions (where trade partners may retaliate) may drag down economic growth boosted from tax measures.

- **US Treasury markets:** Market participants anticipate higher yields, a steeper Treasury yield curve, and potentially wider Treasury breakevens, reflecting higher inflation expectations. Higher yields in medium- and longer-term maturities may also reflect pricing in of more robust economic growth. In addition, a larger supply of Treasury debt due to higher fiscal deficits may also exert upward pressure on yields, likely through higher term premiums, reflective of investors' increased concerns over fiscal sustainability. The TCJA, debt ceiling negotiations, and the ability of domestic and foreign investors to absorb additional supply, will influence the pace and composition of Treasury debt and levels of yields.

- **Policy rates:** Aside from fiscal stimulus, tariffs may also drive inflation. Economists at Goldman Sachs predict that a 10% across-the-board tariff could increase the core personal consumption expenditure (PCE) index by approximately 1.2 percentage points. In response to both fiscal stimulus and tariff shocks, the Federal Reserve may keep the federal funds rate target higher and adopt a slower pace approaching the so-called neutral rate, which some commenters now believe will also be revised upward.

- **US equities and credit markets:** US equity markets have so far rallied following the November 2024 elections outcome, with market participants viewing fiscal stimulus and deregulation as buoyant for corporate performance. Credit markets, as represented through Investment Grade and High Yield indices, have edged tighter, also reflecting risk-on sentiment driven by hopes for potential Trump policies. Some market participants view the financial sector as particularly responsive to deregulation; analysts at Morgan Stanley note that deregulation, including delays or further alterations to the Basel III Endgame proposal, could free up capital for both large and smaller banks. Conversely, equities related to electric vehicles may react negatively to the reversal of green energy measures. Risks to the broader equity and credit market outlooks include concerns over fiscal sustainability, the impact of a strong dollar on multinational earnings growth, and how equity price growth may become disconnected from earnings fundamentals.

- **FX and emerging markets:** The US dollar has already strengthened against most other currencies, supported by expectations of more robust US economic growth and potentially higher-for-longer US interest rates. Wells Fargo analysts believe that higher trade, immigration, and foreign policy uncertainties may further strengthen the US dollar. With tighter US trade policies against China, the onshore RMB reference rate fell to its weakest level following Trump's victory, amid anticipated tariff threats. If the second Trump administration imposes universal tariffs, Morgan Stanley notes that currencies heavily dependent on US exports will face the most downside pressure, including large Emerging Market (EM) trading partners, most notably Mexico, where the peso has declined 5% over the last 30 days.
    - A stronger dollar may also influence EM monetary policies. Foreign policy may amplify the sensitivity of EM assets, including in the EMEA and MENA regions, where US foreign policy towards Ukraine, Russia, and Iran may shift significantly. While the new administration's policies are generally expected to be negative for EM, some market participants note that a few EM economies may benefit from near-shoring opportunities driven by tariffs and closer relationships among leaders more ideologically aligned with the President-elect.
    - The next administration may engage in FX intervention or other dollar weakness policies, as noted above, introducing volatility. Market participants will be attentive to Trump's cabinet appointments, including Treasury secretary and US trade representative, for indications of the next administration's actual dollar policies.

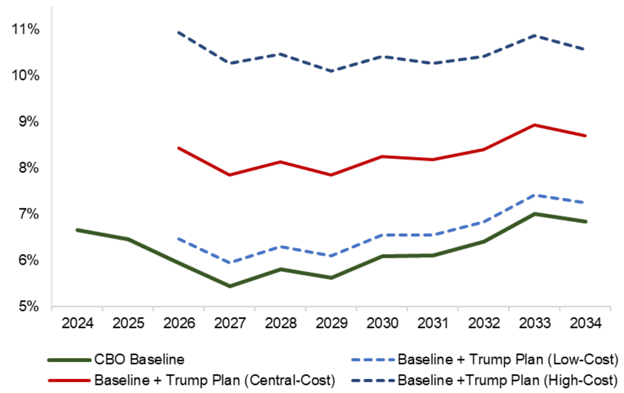
- **Crypto:** Crypto markets have perhaps seen the largest reaction to the 2024 US presidential election result. Bitcoin has seen prices reach near $90,000, rising by 25% since November 4. Markets view the crypto industry as strategically aligned with the President-elect. Deutsche Bank Research notes that a pro-crypto Trump administration and Republican congress could boost crypto markets by seeking to speed up the formation of a favorable regulatory process along with the installment of more industry-friendly financial regulators.

- **Commodities:** Lastly, market participants have a mixed outlook on commodities. Deregulation of energy production by the new administration may unlock more energy supply and decrease prices, though analysts at Bank of American believe this effect may be marginal. On the other hand, geopolitical tensions between the US, Iran, and Venezuela may drive energy prices higher. JPMorgan and Bank of America analysts note that Trump policies may lead to a further rise in gold as a hedge against concerns over US fiscal sustainability. A trade-war between the US and China, the largest metals consumer, may also depress demand for certain commodities like copper, which fell below $9,000 for the first time in two months following the US election.

TRUMP TRADES

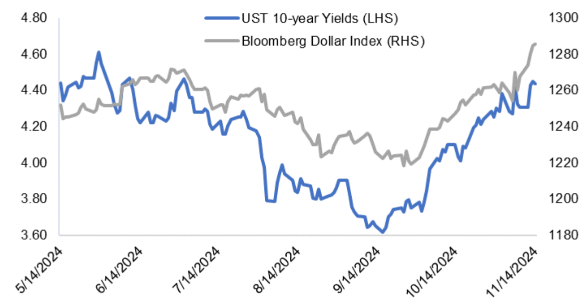
Market participants expect budget deficits to increase under a second Trump administration, although the extent will depend on the specific policies to be implemented.

Figure 1. Projected Budget Deficits as % of GDP



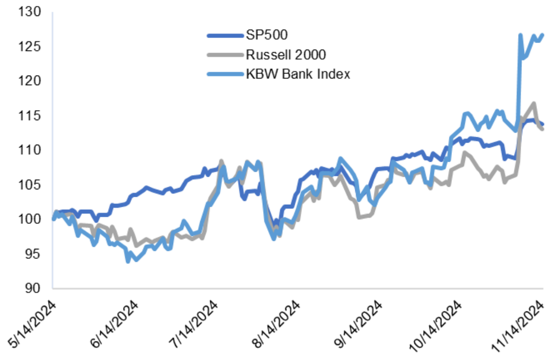
US Treasury yields began rising amid anticipation of a Republican sweep. Dollar strength also coincides with Trump's election.

Figure 2. US 10-Year Yield (Bps) and Bloomberg Dollar Index



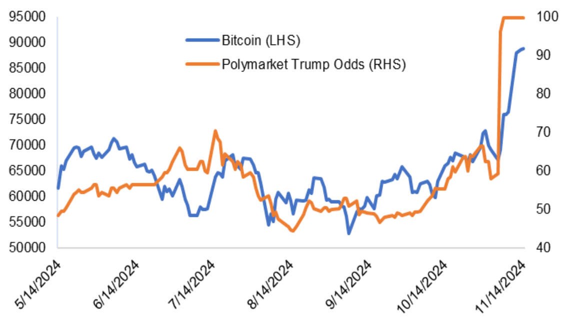
US equities have broadly risen following Trump's election, driven by expectations of corporate strength; the KBW index outperformed both the S&P500 and the Russell 2000 with banking deregulation firmly in view.

Figure 3. US Equities (Normalized)



Bitcoin may be the largest beneficiary of Trump's election so far; Republican control of Congress and the White House is expected to be very friendly to the industry.

Figure 4. Bitcoin Prices ($/BTC) vs Prediction Market Odds



Sources: *Bloomberg, CBO, CRFB, Haver, IMF Staff calculations*
Note: *CBO forecasts of GDP are nominal and assume balanced budget policy. Trump plan costs are net impacts estimated by the Committee for a Responsible Federal Budget averaged over a 10-year period starting in 2026 plus CBO baseline deficit projections. Low-cost, central-cost, and high-cost estimates are $1.65 trillion, $7.75 trillion, and $15.55 trillion, respectively*