

# What Trump's win means for policy, the economy, and markets

In the Loop  
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## Key Insights

- **Policy:** Imposing assertive trade tariffs is likely to be an area of emphasis for President Trump, along with extending tax cuts passed during his first term.
- **Economy:** Tougher trade and immigration policies, if implemented, could potentially be inflationary.
- **Investment landscape:** Small-cap stocks may benefit, while potentially higher inflation expectations could lift bond yields.

**R**epublican Donald Trump's victory in the U.S. presidential election gives him another chance to build on many of his priorities from his first term in the White House. An assertive approach to trade policy that leans heavily on tariffs is likely to be an area of emphasis, along with deregulation.

The biggest question centers on how Trump and Congress will address the impending expiration of significant tax cuts that were passed during his first term as president.

Let's explore how a Trump presidency and the challenge of a looming fiscal cliff could shape U.S. government policy, the economy, and the investment landscape.

## Policy watch: Tax cuts, tariffs, and deregulation are important themes



**Gil Fortgang**  
*Washington Associate Analyst, U.S. Equity Division of T. Rowe Price Investment Management, Inc.*

Extending the Tax Cuts and Jobs Act's (TCJA) lower marginal income tax rates for individuals and tax breaks for businesses would avoid one of the largest nominal tax hikes in U.S. history. Doing so would also result in an estimated

USD 4 trillion–USD 5 trillion in additional deficit spending over the next decade.

On the campaign trail, Trump voiced his support for additional tax breaks for individuals and cutting the corporate tax rate from 21% to as low as 15%. Political realities may temper these proposals.

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new ones, creating potential policy risk for certain industries and sectors.

Take clean energy, for example. Changes to the Inflation Reduction Act (IRA) passed during the Biden administration could be one avenue for offsetting the tax cut extension. Trump's pre-election comments suggested that the IRA's tax credits for electric vehicles and renewable energy could be at risk for possible repeal or adjustment.

Other proposals to cut federal spending could enter the debate, potentially creating headline risk for industries that might be affected. The range of possible outcomes is likely to be wide. But any agreement that ultimately emerges is still likely to involve meaningful deficit spending.

The potential revenue that the U.S. government could generate through

stepped-up tariffs also is likely to figure into the budget conversation. Trump has repeatedly floated a 10% border tax on all goods coming to the U.S. from abroad and a tariff as high as 60% on imports from China. Setting aside the specific numbers, these pronouncements signal that Trump is likely to take an aggressive stance on trade policy that would extend beyond China.

Such an approach could set the stage for extracting concessions from other countries, either on trade or to further other policy objectives—pressuring European allies to increase their defense spending, for example. But unilateral action on tariffs likely would lead to retaliatory actions by the targeted countries.

Expect the Trump administration to seek to roll back federal regulation, including efforts to ease regulatory burdens on the oil and gas industry and the financials sector.

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– Gil Fortgang  
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## Economy: Robust U.S. economy faces policies that could be potentially inflationary



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The new president is inheriting an economy that is growing robustly. While inflation remains above the Federal Reserve's 2% target, it has come down materially from the peaks of 2022. But the fiscal deficit is high and is projected to reach 7% of gross domestic product (GDP) by the end of 2024.<sup>1</sup> This would be the highest level ever during peacetime and outside of a recession. Although debt service costs are high—currently more than 2% of GDP each year—there were no signs during the campaign that lowering the deficit would be a priority of the new president. Therefore, any improvement on this front seems unlikely.

With respect to economic growth, all eyes are on what happens with the TCJA. While an extension of expiring provisions could

support the economy, the net effect could end up being neutral overall if it means that parts of the IRA are changed to help fund it. Additional corporate tax cuts are likely to be difficult to get through given that there is limited fiscal space to increase the deficit further. If they are delivered, it could be positive for growth. However, any positive effect could be offset by uncertainty around tariffs.

On the inflation front, raising existing tariffs and/or imposing additional levies on imports could cause a one-off price shock. The magnitude would depend on the ability of businesses to pass these higher costs along to consumers, which is hard to predict. Another area to watch is the new president's vow to tighten immigration policies. A tough stance here could result in a negative shock to the supply of workers, tightening U.S. labor markets. Unlike higher tariffs, such a scenario likely would have a more sustained impact on prices.

**7%**

The percent of U.S. GDP that the federal budget deficit is expected to hit by the end of 2024.<sup>1</sup>

<sup>1</sup> Source: Congressional Budget Office.

Overall, it's important to be cautious about the long-term implications of the new administration's economic policies. The measures eventually adopted could be very

different from those promised during the campaign, and there is a lack of detail about costs and implementation. So uncertainty is likely to remain high in the meantime.

## Investment landscape: Small-caps may benefit from a Trump win, but inflation bears watching



**Tim Murray, CFA**  
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Multi-Asset Division of  
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Knowing the result of the U.S. presidential election should resolve a major source of uncertainty for markets and the economy, which could help to lift investors' risk appetite.

In stock markets, U.S. small-caps could benefit from Trump's win, especially if his administration rolls back regulation and takes a softer stance on mergers and acquisitions. Small businesses have been cautious leading up to the election, so more clarity on policy may prompt them to rebuild inventories and step up business spending. The potential for further corporate tax cuts and for the Fed to ease monetary policy would also be tailwinds.

From a sector perspective, the election results are likely a mixed bag for energy. While oil and gas companies could benefit from a friendlier regulatory environment, companies linked to renewable energy may come under pressure amid concerns that parts of the IRA could be repealed. Elsewhere, financials might benefit from hopes that a

Trump administration would take a lighter approach to regulation and oversight.

The potential impact of Trump's trade and immigration policies on inflation will bear watching over the medium term. Higher inflation expectations could push bond yields up further and weigh on the valuations that equity investors are willing to pay for companies' future cash flows. Trade tensions could also lead to volatility in impacted industries and markets.

Whatever deal is made about the expiring TCJA tax cuts could generate more volatility around U.S. Treasury auctions if offerings of certain maturities overwhelm demand.

With respect to the U.S. dollar, the outlook is uncertain. Although Trump has been vocal about wanting a weaker currency, some of his proposed policies, such as tariff hikes, could cause the dollar to appreciate. But other factors also will come into play, including the Fed's easing bias and U.S. economic performance relative to other global economies.

In all, it's too early at this stage to make a directional call on the dollar. But its status as the world's reserve currency is unlikely to change.

**“ ...U.S. small-caps  
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**– Tim Murray,  
Capital Markets Strategist, Multi-Asset  
Division of T. Rowe Price Associates, Inc.**

## Conclusion

**Once the election results have been finalized, that should bring an end to a big uncertainty for markets. However, markets will still be watching closely to see if and how the proposed policies of the new president are enacted.**

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