

Reflections on the U.S. Election Outcome

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The November 5 U.S. election results delivered surprises, particularly in the extent of the Republican sweep. Trump winning the popular vote—a feat achieved by Republican candidates only twice since 1988—coupled with his success in securing all seven battleground states, proved unexpected for markets.

The Republican Party's new Senate majority, a first since 2021, and its likely slim majority in the House of Representatives mark a significant shift in the balance of power. This suggests likely changes in legislative priorities ahead. As a result, markets are now bracing for potential broad-ranging policy reforms in areas such as taxation, immigration, and deregulation.

On the Democratic front, Kamala Harris's insufficient appeal to female voters emerged as a notable surprise. Democratic support declined broadly across various demographic segments, despite the party's focused outreach to women and immigrant groups.

Assessing the Economic Impact of Trump's Fiscal Policies

The Trump administration's policy agenda is centred on four critical areas: taxes, regulation, trade, and immigration. A primary focal point is the extension and potential expansion of previous tax cuts, aimed at bolstering household and business finances, thus supporting increased consumer spending and growth.

A heightened focus on deregulation is expected to enhance business prospects significantly. More specifically, removing regulations and streamlining business oversight is seen as boosting profit margins and potentially spurring heightened merger and acquisition activities. The energy and financial sectors appear particularly well positioned to benefit, given the administration's stated intention to increase domestic energy production and deregulate banks.

Trade policies will be in focus, with the imposition of tariffs emerging as a distinct possibility. While the potential impact of tariffs on U.S. consumers and inflation remains a point of concern, it's essential to factor in the inherent bargaining leverage they offer in negotiations with trade partners.

Additionally, immigration policy adjustments, including potential mass deportations and altered immigration quotas, hold critical significance for businesses and economic growth. Depending on the specific details, this may turn out to be inflationary.

Implications for Investment Asset Classes

Trump's policies are likely to lead to higher nominal growth and higher debt levels. All else equal, this would push interest rates, the U.S. dollar, and U.S. equities higher.

While many of these impacts may have been already factored into current valuations, higher interest rates would improve yields on fixed-income investments. On the flip side, the resulting strength of the U.S. dollar could exert downward pressure on commodities such as gold and copper in the short term.

Within the stock market arena, sectors directly affected by Trump policies—such as banks and small caps—are likely to reap immediate gains. Conversely, other markets, including European and Chinese equities, may face headwinds amid these developments.

The Impact on Canada in the Face of a Trump Era 2.0

Canada's economic landscape is well positioned to leverage potential tailwinds emerging from Trump's expansionary policy stance, particularly given its close economic interconnection with the United States.

Looking ahead, trade policy remains a pivotal point, with the possibility of universal tariffs on Canadian exports posing a substantial risk. While this prospect could elicit retaliatory measures and inflationary upturns, Canada's robust positioning within the auto sector—fortified in 2020 by terms enshrined in the United States-Mexico-Canada Agreement (USMCA)—is expected to serve as a protective buffer.

Anticipating possible trade policy amendments, Canada is likely to face a call for revisiting trade negotiations and potentially conceding some ground without venturing into a full-scale trade war.

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