US election commentary - a clean sweep for Trump and the Republicans

6 November 2024

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Kamala Harris and Donald Trump appeared neck and neck in the run-up to the US presidential election but in the event Donald Trump triumphed, winning an electoral college majority and the larger share of the popular vote. In the seven key battleground states, which account for 93 electoral college votes out of the 538 total, the candidates were separated by narrow margins in the opinion polls. Yet counting on Wednesday morning showed Trump had won two and was leading in the remaining five. The Republicans were also on course to command a majority in both houses of Congress, giving Trump a clear mandate for change and the necessary support to enact his agenda.

Among early challenges, Trump faces the issue of the US debt limit, often described as the debt ceiling. This is the total sum the US government may borrow to meet its legal obligations. Failure to lift the ceiling would have profound consequences and would almost certainly cause an unprecedented US government default. Since 1960, Congress has acted 78 times to raise or extend the ceiling or revise its definition. The government reached its current $31.4 trillion debt ceiling in early 2023. After the use of extraordinary measures to stave off default, the 2023 Fiscal Responsibility Act suspended the debt ceiling until January 1, 2025. At that date, the Treasury will need to reinstate such measures, giving Trump time to find a solution before these measures lapse. Talks with Congress to find a way forward have frequently taken until the eleventh hour, creating stress in capital markets and impacting the government's credit rating. Brinkmanship over the ceiling and burgeoning borrowing contributed to a downgrade from Standard & Poor's and Fitch, two of the leading ratings agencies, from AAA, the highest possible, to AA+, while Moody's, the third, maintained a Aaa rating but lowered its outlook.

Despite his comprehensive victory, Trump's spending plans may be curtailed by the risk of a bond market sell-off. As the chart below shows, the US is one of the most indebted major countries. In the second quarter of 2024, public sector borrowing as a percentage of gross domestic product rose to 120% while the end-2023 budget deficit was 6.3% of GDP.

Government indebtedness
Latest annual IMF data: Jun 2024
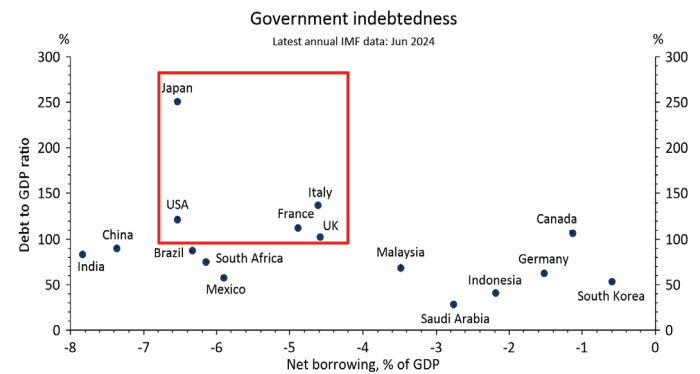
Source: LSEG Datastream

If Trump launches a significant spending programme, investors could demand higher fixed income returns, resulting in rising bond yields and falling prices.

If room for manoeuvre on fiscal spending is limited, a second Trump term is likely to lead to far-reaching changes in trade policy. Trump has said 'tariff' is "the most beautiful word in the dictionary". During his first term, he raised import duties on washing machines, solar panels, steel, aluminium and Chinese goods. These increases were typically not reversed by Biden, leaving bipartisan support for Sino-US trade measures an enduring legacy of Trump's first term. Trump, for his second term, has promised a 10% universal tariff on imports and an additional 60% on Chinese goods. Trump the dealmaker may row back on some of these proposals but an increase in tariffs to levels not seen since the Great Depression seems likely. Trump told voters tariffs would bring manufacturing jobs back to the US but higher costs could spell higher prices, forcing the Federal Reserve to keep interest rates higher for longer and stunting economic growth. On the other side of the trade balance, expensive US-made exports may struggle to compete.

What does Trump's triumph mean for markets? Shorter-dated US inflation-linked bonds may provide

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some protection for capital should anti-immigration and anti-globalisation policies prove inflationary. Longer-dated US government bonds were priced on the day of the election to deliver an attractive inflation-adjusted yield of almost 2% but lower capital growth was in prospect because the Fed is likely to delay the pace of interest rate cuts.

Gold may provide a safe-haven and offer diversification given Trump's unpredictability. Foreign central banks, including the People's Bank of China, have been significant buyers of gold and may continue to diversify their reserves away from US treasury bonds towards gold, particularly if Trump announces a fiscal programme funded by larger-than-expected government bond issues.
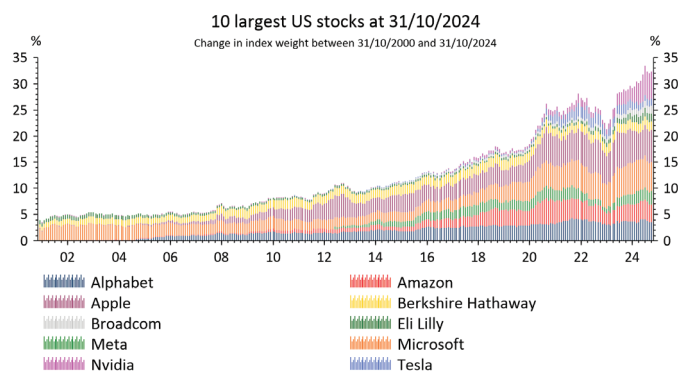
Fresh Sino-US trade restrictions will be a dampener on already faltering Chinese economic growth but there are grounds to be positive about some other emerging markets, including India, which is benefiting from strong economic growth and the pro-business policies of Narendra Modi, the prime minister. A stronger dollar, fuelled by higher-than-expected inflation and interest rates, may, however, prove a negative factor for emerging markets overall.

US equities rose on the news of Trump's victory but it may pay to be cautious about Wall Street stocks, which have been trading on high valuations compared to some overseas equities. The concentration within the US market is historically high, with just 10 stocks accounting for 32% of the entire market value, as the chart opposite shows.
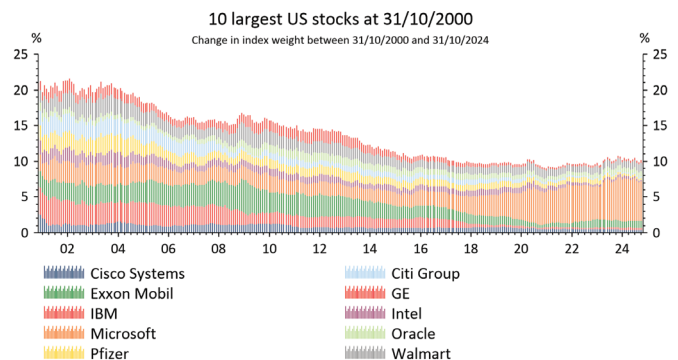

10 largest US stocks at 31/10/2024
Change in index weight between 31/10/2000 and 31/10/2024

Alphabet, Apple, Broadcom, Meta, Nvidia, Amazon, Berkshire Hathaway, Eli Lilly, Microsoft, Tesla

Source: LSEG Datastream

Seven of the 10 largest companies are technology stocks, highlighting US leadership in artificial intelligence, but there is no room for earnings disappointment. The chart below shows the top 10 US stocks by value in 2000 during the "dotcom boom", when enthusiasm for technology was similarly exuberant. Their subsequent performance serves as a cautionary tale. The only top 10 stock in 2000 that sits in today's top 10 is Microsoft, which accounts for 5.3% of the market while the others account for just 4.6% . More lowly valued markets such as the UK's and the infrastructure sector are likely to provide better buying opportunities.

10 largest US stocks at 31/10/2000
Change in index weight between 31/10/2000 and 31/10/2024

Cisco Systems, Exxon Mobil, IBM, Microsoft, Pfizer, Citi Group, GE, Intel, Oracle, Walmart

Source: LSEG Datastream

Important information

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