

## **Will Trumponomics 'trump' Harris' social stance as the US readies for its November election?**

*Sebastian Mullins, Head of Multi-Asset and Fixed Income at Schroders, Australia*

*Sebastian Mullins, Head of Multi-Asset and Fixed Income at global asset manager Schroders discusses the implications of the tumultuous lead-up to November's general election in the US.*

While it is widely anticipated that the Senate will continue to be controlled by Republicans despite Democratic candidate Kamala Harris leading in national polls, we expect that possible Republican control of Congress will embolden Donald Trump's stated policies, should it come to pass. Although lacking in detail, they are expected to follow a similar playbook as the previous Republican term. Policies will seek to reflate the American economy by extending Trump's previous 2016 policy of corporate and individual tax cuts, after the current legislation comes to an end in 2025. In this way, a Trump win could help maintain double-digit earnings growth and serve as a positive driver for the US stock market.

The downside is that further tax cuts will fuel inflation and must be seen in conjunction with his stated immigration policy of repatriating 10 – 15 million undocumented migrants. This is a huge number which we anticipate will have a knock-on effect of creating a labour shortage and upward inflationary pressure on wages. US job growth has been largely attributed to migrant-born Americans, not native-born which have in fact stagnated.

We expect Trump's policy of deregulating energy and climate controls to continue. We also expect it to be extended into the deregulation of the finance sector. While purportedly removing 'red tape' and allowing easier access to credit to stimulate economic growth, this comes with the spectre of inflation.

His 'America First' mantra is to raise tariffs on imports by 60% in the case of goods coming from China and 10% for the rest of the world. We believe that such aggressive policies will be moderated as the implications of such actions become more apparent, but for now it fits his propaganda narrative.

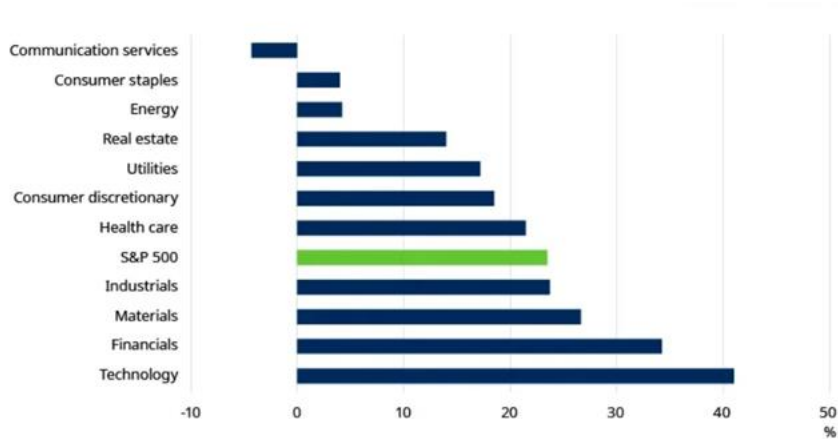
## **How might a Trump election win impact US corporate earnings?**

The US stock market surged by 24% in the year following Trump's election victory in November 2016 (see chart 1, below). At that time, investors anticipated the prospect of pro-growth policies spurring on the US economy.

The best performing areas of the market were the cyclical sectors, such as technology and financials, as they were boosted by the possibility of a more favourable regulatory environment.

In particular, the plan to cut taxes on overseas profits lifted the share price of the technology sector, which at that time also included some of those "Magnificent 7" that have since been reclassified as communication services companies.

## **US market and sector performance one year after Trump's 2016 election**



Source: LSEG, 25 July 2024  
 Note: Performance based on S&P 500 total returns from 8 November 2016 to 7 November 2017. 613156

The industrials and materials sectors also did well on the back of an expected increase in infrastructure and defence spending. By contrast, some of the defensive sectors, including utilities and consumer staples, were left behind in the strong equity rally.

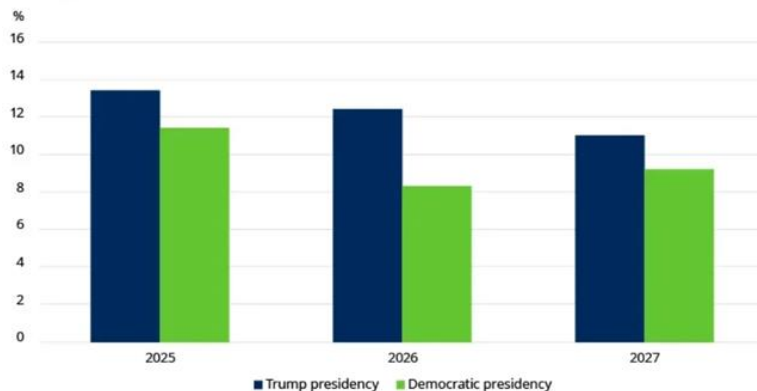
The underperformance of the cyclical energy sector was an anomaly, mainly due to supply factors and robust gains before Trump got elected.

Undoubtedly, the anticipation of pro-growth policies played a significant role in the re-rating of the US market which occurred at that time. But it is important to note that stronger corporate earnings growth also contributed to the market's performance. Against a backdrop of stronger US economic activity, the growth rate of S&P 500 earnings in 2017 more than doubled, reaching 11.8%.

While past performance is not a guide to future returns, if Trump does win this time, the US market could again benefit from the expectations of stronger earnings growth. Although there is the risk of higher government bond yields from a larger budget deficit, which could undermine already rich equity valuations.

At the same time, investor sentiment could be hit by the imposition of further trade tariffs. All that said, from an earnings perspective, our S&P 500 EPS (earnings per share) model [1] suggests that earnings are likely to expand at a faster pace with a Trump victory.

### S&P500 earnings growth expected to be stronger under a Trump presidency



Source: Schroders Economics Group, 25 July 2024. 613156

In the scenario of a Trump victory, we anticipate a more positive expansion in margins and a stronger profile of capacity utilisation driven by our robust US growth forecast as a result of more favourable regulatory environment and further tax cuts. Trump is planning to extend the 2017 Tax Cuts and Jobs Act (TCJA) and has also said that he would cut the corporate tax rate. This would enable US earnings to maintain their double-digit growth in the coming years, particularly in 2026 and 2027.

Such a trend would serve as an important positive driver for the US market, with the more cyclical sectors likely to benefit the most based on the past performance playbook.

### **A Harris / Walz presidency**

A major stumbling block of a further Democratic presidency is that its policies have and will be hamstrung by a current and an expected Republican controlled Senate, failing to endorse lower house approved legislation.

We have seen this play out in the current administration, and we anticipate some strong horse trading to occur to get new policies into law, or the repeal of other currently contentious legislation such as the laws surrounding abortion and women's rights.

We predict that Harris will follow on the established Biden policies and there is every likelihood that rather than 'sunset' current Trump inspired tax cuts, she will endorse maintaining tax incentives for corporations and for those individuals who take home less than \$400 000/pa. Without further tax incentives for corporates, a surge in the bond and equity markets is not expected to materialise as did a 'knee-jerk' reaction when Trump was last in charge. Being constrained by a hostile Senate and unable to turn policies into law, Harris may be left with no option but to rule by presidential decree, which isn't always the best option.

So whether it's a win for the Democrats or the Republicans, changed economic fundamentals since Trump was last conducting the US economy mean that higher growth and accompanying inflation will take time to play out. The markets are expected to take their time too, to understand the specifics of any new policies and their consequences.

**[1]** *To forecast S&P 500 EPS, we take a top-down approach. We first estimate the NIPA profit share [Corporate profits of whole economy based on the National Income and Product Accounts (NIPA) as a percentage of GDP]. The profit share is based on the capacity utilisation, which is driven by real GDP growth, and margins (corporate pricing minus labour costs). We forecast S&P 500 EPS growth based on the NIPA profit growth rate, as they usually have a strong relationship with each other.*