Cantab
ASSET MANAGEMENT

US Election – how we view Trump 2.0

7 November 2024

The US election result has defied final polls that predicted a tight race for the White House and the available seats in the House of Representatives and Senate – the two chambers of Congress. The polls were wrong: this was a decisive victory for Donald Trump and the Republican Party. Financial markets had hinted at this scenario over recent weeks, but the scale of the victory is truly eye-opening.

Why did Trump and the Republicans win? In our view: "It's the economy, stupid." This phrase, coined by James Carville in Bill Clinton's 1992 campaign, rings truer than ever. Ultimately, voters have felt the pinch from the economic trends of the past four years, especially inflation, and many clearly believe that Trump can boost their personal finances and put more money in their pocket. Time will tell whether this proves a sensible view or not.

With the Republicans now controlling the Senate and possibly the House of Representatives, they'll have more influence over spending and taxation under the incoming administration. While this victory is resolute, it introduces more uncertainty about the US and global economic outlook, the future path of interest rates, and inflation trends.

The uncertainty surrounding the new US government's spending plans, and their economic impact doesn't necessarily spell trouble for financial markets. In fact, many markets are performing strongly today, likely reflecting the view that a second Trump term could boost economic activity and corporate profits.

This outcome does have significant implications for our investment strategies. We've increased our US equity allocations over the past 18 months. However, while we still have concerns about the inflated valuations of some 'fashionable' companies, we've proactively ensured that our US equity positions reflect both a balanced outlook on the market and the possible return of Trump.

The impact on the rest of the world is still open to debate. The general view is that Trump 2.0 will likely benefit the US but be a drag on the rest of the world. We've recently reduced exposure to China, whose equity market has bucked the trend by losing ground today. However, making rash calls on the short- and medium-term outlook for global equities would be premature. We must stay open-minded and ready to adjust our strategy as needed.

We've positioned our fixed interest investments carefully ahead of both the UK budget and the US election. We limited exposure to longer-duration government bonds, which we believed could be vulnerable to declines following these events. We now face the question of when it might be rewarding adding to these investments, following the sharp drop in prices and rise in yields.

Our strategy has been simple: stay balanced and diversified, preparing our client portfolios for the ongoing uncertainty we've seen this decade. While a range of scenarios is possible, we remain confident in our portfolios' positioning and comfortable with the balance between defensive and riskier assets. We'll continue to monitor developments in the US and globally, keeping you updated if our views or investment approach change.

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