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The impact of Donald Trump’s election victory

Gerhard Winzer

After a long campaign, the results of the US presidential election are in: Donald Trump will be the next President of the United States. In addition, the Republican Party has retained its majority in Congress. What are the repercussions for the global economy and the financial markets?

End of the blockade

The past years in the USA have been dominated by a stalemate between Democrats and Republicans. This period has now come to an end. Generally speaking, Donald Trump stands for change, whereas Hillary Clinton represents the status quo. That being said, the programme of the Republican Party is not fully congruent with Donald Trump’s programme. The main question is how and if the system of mutual control (i.e. checks and balances) will be effective in this case. The exact blend of the two programmes is a matter of uncertainty.

Expansive fiscal policy – higher growth

With regard to the fiscal policy, tax cuts and a stepped-up level of spending especially on infrastructure seem to be in the cards. This means both a rise in budget deficit and in economic growth.

Restrictive trade policy

One of the most important points we can take from Donald Trump’s statements is an aversion to globalisation and free trade. Even in the absence of a trade war, we can still expect restrictive policies like a selective increase in import duties.

Restrictive immigration policy – lower potential growth

Even if some of the more striking statements like the deportation of illegal immigrants cannot be implemented, a more restrictive immigration policy is to be expected. Given that this policy would cause the growth rate of the employable population to decrease, such a policy would result in lower potential growth.

Higher inflation

The combination of lower potential growth (i.e. aggregate supply) and higher actual growth (i.e. aggregate demand) implies an increase in inflation pressure.

More interest rate increases

For the monetary policy, the environment means more interest rate increases than currently priced into the markets. As long as no sustainable turbulences break out on the markets, the US central bank will increase the Fed funds rate in December.

US dollar likely to appreciate

The combination of an expansive fiscal policy and a less expansive monetary policy translates into increased appreciation pressure for the US dollar, which in turn would dampen the possible extent of interest rate hikes. This is juxtaposed by a possible long-term erosion of trust in the world's most important reserve currency.

Yield increases

In this scenario, the yields of US Treasury bonds are subject to upward pressure. Similar to the case of monetary policy, the extent of potential yield increases would be dampened by an appreciating US dollar.

Mixed picture for equities

The outlook for equities and the economic environment in other countries is mixed. Higher growth and tax cuts come with the trade-off of increased uncertainty, more interest rate hikes, a stronger US dollar, and a more restrictive trade policy.

Political ramifications

The global political ramifications should not be overlooked either. The anti-establishment movement has received a global boost by Donald Trump's victory. In this context, the imminent elections in Italy, the Netherlands, and Germany are of particular relevance.

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