



Trump's second term

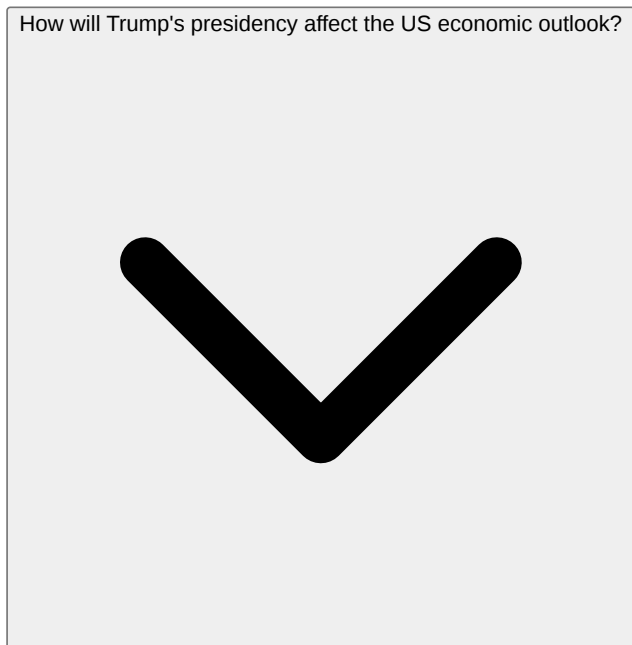
Key insight into how the re-election of Donald Trump could reshape the global economy and markets



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Frequently asked questions

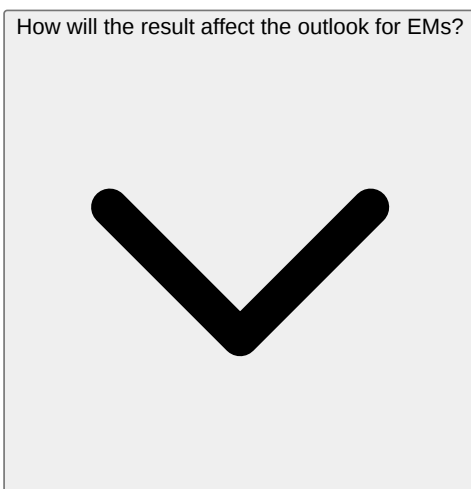


Trump has pledged to fund tax cuts with revenues from import tariffs. Trump's policies present upside risks to inflation, due to the impact of tariffs on import prices, which could force the Fed to keep interest rates higher than it would do otherwise.

However, the realities of governing mean that the impacts on both inflation and GDP growth of Trump's stated policy intentions should be smaller than many anticipate (see [here](#)).



Even if Donald Trump imposed 10% across-the-board tariffs with no carve-outs for European allies, we suspect that the economic impact would be relatively small. The value added from goods exports to the US is equivalent to less than 2% of euro-zone GDP. And assuming that the tariff was imposed on all countries, the price elasticity of demand for euro-zone exports to the US would be relatively low. What's more, it seems likely that an appreciation of the US dollar would limit any adverse impact. Similar arguments apply to the UK, where the likely exemption of services exports would be particularly important. (See [here](#) and [here](#))

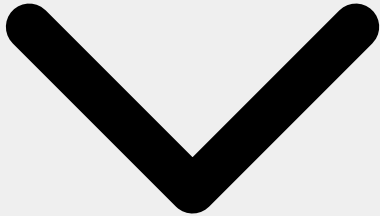


EM currencies have fallen post-election and weaker exchange rates will act as a safety valve for EM exporters facing US import tariffs. But there will still be a near-term impact on export demand. [Mexico](#) is most vulnerable.

Some [EM central banks](#) that follow the Fed closely – notably Indonesia and Mexico – and/or that are contending with above-target inflation (Central Europe and other parts of Latin America) will cut interest rates by less than we previously thought.

On the geopolitical front, Trump has made ending the war in Ukraine a priority. But a ceasefire wouldn't cause a significant shift in Russia's energy trade or easing of sanctions. In the Middle East, Trump will probably stick to a pro-Israel/anti-Iran stance which poses an upside risk to oil prices. (For more on EMs, see our [dedicated webpage](#).)

What will Trump's re-election mean for financial markets?




We think Trump's policies are consistent with higher yields, a stronger dollar and continued strength in US equities. We think that on balance it is now more likely that the 10-year Treasury yield will remain around 4.5%, rather than fall back as we had anticipated. Meanwhile, whereas we had thought the dollar would weaken a little over the next year, it is now more likely that the DXY index appreciates by 3-5% rather than weakens. We continue to anticipate further increases in US equity prices, but may revise down our forecasts for equities in other major economies. In particular, China and Mexico may see a larger negative impact from US tariffs. Finally, Trump's re-election is unlikely to have a major bearing on commodity prices but, at the margin, adds to the downside risks facing oil over the next 3-5 years. See [here](#) for more on the market impact of another Trump presidency, and our latest equities market forecasts [here](#).

How will China's economy fare under a second Trump administration?



China's leadership prefers stability and its economy benefits hugely from the current global system of still largely-open trade. A second Trump term will bring uncertainty, turmoil, higher tariffs (probably) on Chinese goods and a global retreat (possibly) from free trade (see our thoughts on the impact of the tariffs [here](#)).

But it could also splinter the coalition of allies that has amplified US efforts to contain China's economy during the Biden presidency. See [here](#) for more.

 Trump speaking

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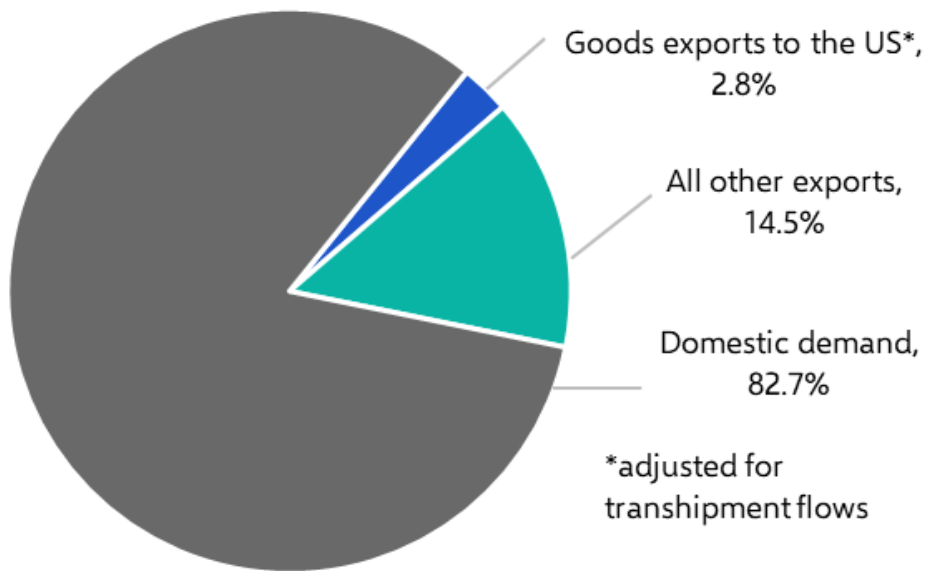


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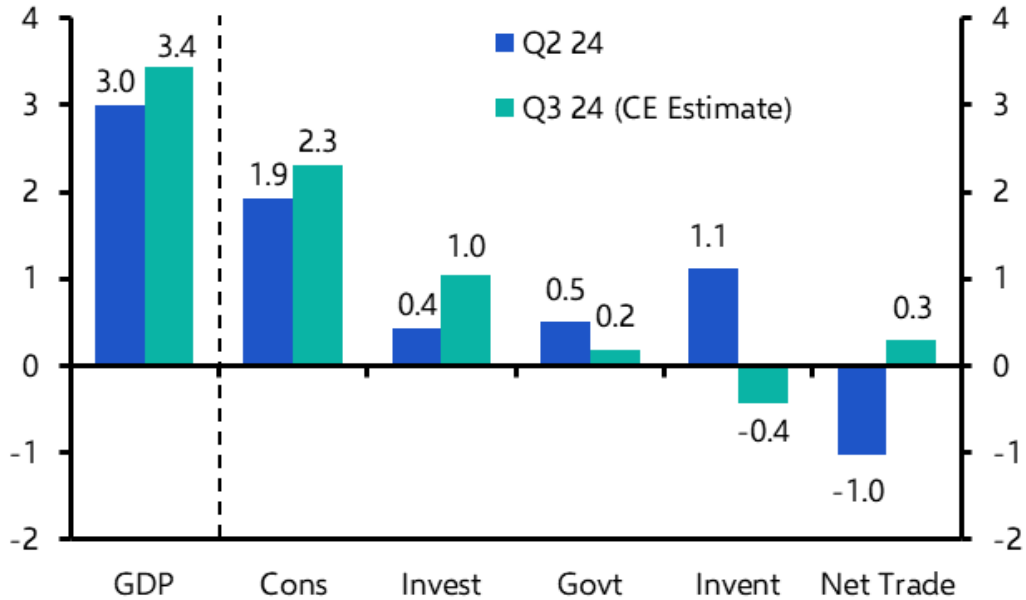


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6th November 2024, 1:00PM GMT

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