INVESTMENT CONSIDERATIONS FOLLOWING TRUMP'S PRESIDENTIAL WIN

Donald Trump's decisive victory in the US presidential election may bring big shifts for investors. Here we touch on some initial market reactions and potential implications of Trump's win on taxes, tariffs, regulations, social and health care policies, and the inflation outlook.

INITIAL MARKET REACTIONS

- Donald Trump's decisive victory in the US presidential election has initially been greeted by higher bond yields, tighter credit spreads, a stronger dollar, and higher stock prices — especially in small cap indexes (**Figure 1**).
- The financial markets' initial take appears to be that US growth will be stronger due to extending the 2017 tax cuts, favoring US firms over foreign firms through tariff hikes, and easing regulations and anti-trust enforcement.
- What remains unclear is how big the macroeconomic impact of Trump's policies will be, since Congress will have a say in the matter. Senate races have been decided in favor of the Republicans, but House majority remains in play as Republicans eye a "red sweep." If the Republicans control both chambers of Congress, President Trump could have greater leeway in pursuing his favored policies, although he still might face constraints in some areas.

FIGURE 1

Trump Bump

Index	2-Day Change, % (11/7/2024)
S&P 500	3.29%
Nasdaq	4.51%
Russell 1000 Growth	4.26%
Russell 1000 Value	2.49%
Russell 2000	5.40%
2-Year US Treasury	0.03%
10-Year US Treasury	-0.35%
US Dollar (DXY)	1.05%

Source: Bloomberg. Total return changes are shown from 11/5/2024 market close through 11/7/2024 market close.

- The election results suggest modest implications for municipal bonds, primarily through potential tax policy changes when the 2017 tax bill sunsets in 2025. While economic conditions and sector-specific policies may impact certain segments, narrow congressional margins could lead to tax compromises affecting overall municipal bond demand.

POTENTIAL TAX, TARIFF, AND REGULATORY CHANGES

- Even with a red sweep, there will probably be enough fiscal conservatives in the Republican Party to stymie President Trump's proposed cut in the corporate tax rate from 21% to 15%.
- Tesla CEO Elon Musk is unlikely to find trillions of dollars that Congress will be willing to cut from federal spending, but green-energy subsidies in the Inflation Reduction Act could be scaled back — including for electric vehicles.

POST-ELECTION INVESTMENT CONSIDERATIONS *continued*

- President Biden's whole-of-government approach to climate change seems likely to be replaced by a whole-of-government approach to promote domestic energy production.
- An aggressive set of tariff increases do seem likely — and not just on China — so the volatility in Mexico's currency makes sense. That said, Congress may balk at extensive across-the-board tariff hikes on America's allies. It also remains unclear how Congressional support — or pushback — may influence President Trump's ability to pursue strong isolationist measures like cutting support for NATO, Ukraine, or Taiwan.
- Regulatory initiatives under Biden will soon come under review, replaced with a regulatory freeze and the rollback of numerous Biden-era regulations. Likewise, the Trump administration is likely to be more friendly toward mergers & acquisitions by taking a more laissez-faire approach to anti-trust enforcement. The crypto industry is likely to benefit from greater regulatory certainty.

SOCIAL & HEALTH CARE POLICIES

- President Trump is likely to have strong congressional support, including additional resources, to close the southern border. But it is unclear how much support there will be for mass deportations that would disrupt families, communities, and small businesses.
- Regarding health care, drug price controls and cuts to Medicare Advantage seem less likely, but modest Medicaid cuts could be on the table, which would crimp hospitals' revenues. It's also unclear whether enhanced Affordable Care Act (Obamacare) subsidies will be extended.

INFLATION OUTLOOK

- The greatest threat to the inflation outlook would come from across-the-board tariff hikes coupled with mass-deportation, which could generate a negative supply shock to the economy. Extreme measures on these fronts seem likely to face pushback within the Republican Party, but those developments need to be monitored carefully.
- The stimulative effect of extending the 2017 tax cuts will be modest since that simply amounts to maintaining the status quo. If no big additional tax cuts or spending initiatives are pursued, then inflation and deficit fears may be overblown.
- Interest rates have risen with the potential of further deficit spending and inflation, and at this point may have adequately discounted that outlook.

NAVIGATING FORWARD WITH A CLIENT-FIRST APPROACH

As the implications of President Trump's reelection unfold, we are assessing the evolving landscape and adapting our Strategies as necessary. Our investment team is closely monitoring developments, gauging potential impacts across markets, and evaluating opportunities and risks with diligence. Our primary focus continues: to make thoughtful, well-informed decisions that serve the best interests of our clients.