From the desk of: New York Life Investments'
Global Market Strategy team

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Markets got Trumped

November 6, 2024

Additional resources

Comprehensive U.S. election resources are available here.

New York Life Investments' Global Market Strategy team is hosting a general public-approved webinar on Friday, November 8, at 1pm EST to discuss election results and implications for investors. Register here and feel free to share.

Trump has won the presidency, and though full Congressional control may not be known for a couple of days, the result is highly investable. Below is an update (as of 9:30 am on November 6) of where we stand and what investors can take away.

Results roundup

White House: Donald Trump won the presidency and is poised to have won the popular vote. This mandate makes it less likely that any legal challenges related to the November 12th sentencing in his 'hush money' trial impede his path to presidency.

Senate: Republicans won control of the Senate, but their margin is uncertain. At the time of writing, Republicans had gained three seats for 52 seats total, but 6 seats – three of which are contested – remain uncalled. The Republicans' margin of control in the Senate matters: with a 55-seat majority, centrist or vulnerable (i.e. in-cycle for 2026) Republican lawmakers would have less influence in holding up the legislative agenda.

House of Representatives: It's unlikely we'll know who controls the House until tomorrow or Friday. Though Republicans did not perform as well as expected in some areas, Trump's popular vote win makes it marginally more likely that Republicans will keep control of the House. The threshold for control is 218 seats; it appears the maximum Republicans could hold is 220 – a thin margin.

What does this mean for investments?

Even without knowing control of the House, **this election result is already investable**. Why? Several of the key areas of potential policy change – trade, immigration, regulation – are likely to be enacted by executive orders that do not require Congress. We are likely to see market moves in the coming days related to these themes:

- **Trade:** Higher tariffs on China are more likely. Universal tariffs, including on Europe, are likely to garner headline risk but less likely to be used, in our view, due to their clear impact to inflation. The near-term impact of these tariffs is likely dollar positive. *Why? Because countries like Japan, China, and the UK face the risk of targeting*

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tariff policy, which is negative for their currencies. As a result, the dollar has been strengthening against these currencies as Trump's odds rose in the polls.

- **Immigration:** The U.S. southern border is likely to be shut down as soon as Trump takes office. In his first term, the Trump administration curbed funding of legal immigration and visa processing, including student visas. *Tighter immigration amid a still-hot labor market could result in higher labor costs.*
- **Regulation:** *New* regulations have already become more challenging as a result of the "Chevron deference" Supreme Court decision made earlier this year, but we expect the Trump administration to move in the direction of removing or relaxing enforcement of existing regulations. We expect this to result in lighter bank regulation and lighter energy regulation (i.e. rolling back emissions standards for LNG exports). *A de-regulatory impulse is likely positive for financials, parts of energy, parts of healthcare, and parts of consumer discretionary.*

Most common client questions

Treasury yields: We have less certainty on tax and budget-driven market factors – expectations for spending, growth, inflation, and rates – until the full makeup of Congress is known. We've already seen the 10Y yield rise in reaction to the rising odds and materialization of a Trump victory, but perhaps more telling is the rise of the "term premium" and long rates, implying that a "Red sweep" outcome is seen as a material long-term fiscal risk. *This point is important. Many investors have pointed to the strong economic growth outlook – not election outcomes – as the reason for long rates moving higher. We believe that a stronger outlook is a contributing factor to higher short-term rates, but are playing less of a role in the long end. The fact that we have seen the term premium rise suggests that concerns about Treasury supply are playing an important role in the moves.*

Regardless of congressional makeup, we expect the Trump administration to move quickly on renewal of the 2017 Tax Cuts and Jobs Act as part of budget negotiations.

IRA: Clients often ask which aspects of the Inflation Reduction Act (IRA) are most at risk. We do not believe there will be a major rollback of this policy. It was passed with support of 17 Republicans and has potentially gained support since thanks to strong IRA spending in red states. By our estimates, nearly 65% of spending has been levied in Republican-controlled counties. There will certainly be headline risk related to the IRA, but we expect that only a few targeted items – subsidies for electric vehicles, offshore wind – could be rolled back.

Politicizing the Fed: Fed Chair Jay Powell's second term will expire in May 2026. Though we expect President-elect Trump to continue his open criticism of the Fed, his attempts to 'fire' Powell in 2018 – after nominating him to the position – were not fruitful. We believe the nomination of a new Fed chair is likely to take place on its normal timeline; investors will start hearing about it next summer. None of the current short-listed candidates would be likely to roll back the Fed's focus on maximum employment and stable prices. *In other words: no new Arthur Burns likely here.*

Debt ceiling: The U.S. debt ceiling is set to be reinstated on January 2, preventing the government from issuing new debt until Congress raises the limit likely later in the year. When that happens, the Treasury will be forced to rely on its roughly $800 billion held at the Fed to fund expenses. These so-called "extraordinary measures", which the Treasury uses to pay its bills until funding is released, have tended to offset immediate concerns about debt sustainability. If sustained liquidity helps keep market financial conditions loose, then it could support lower bond yields, a weaker dollar, and outperformance in long-duration assets.

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