



by CHRIS
KONSTANTINOS

THE RIVERFRONT WRITING TEAM

ADAM GROSSMAN, CFA
Global Equity CIO | Partner

CHRIS KONSTANTINOS, CFA
Managing Partner |
Chief Investment Strategist

KEVIN NICHOLSON, CFA
Global Fixed Income CIO | Partner

DOUG SANDLER, CFA
Vice Chairman

ROD SMYTH
Chairman of the Board of Directors

DAN ZOLET, CFA
Associate Portfolio Manager

SUMMARY

- Trump's proposed economic platform, if enacted, would likely mean higher growth, inflation, interest rates and volatility, in our view.
- We believe that the US economy and financial assets would likely fare better than international ones.
- US 'Economic Exceptionalism' will persist regardless of who wins the election, in our opinion.

We would note that immigration policies and higher tariffs are easier to enact through executive order, while regulatory reform and energy independence may take bipartisan agreement and require more time.

07.23.2024

Trumponomics 2.0? (Part One)

Macroeconomic Impacts of a 2nd Trump Presidency

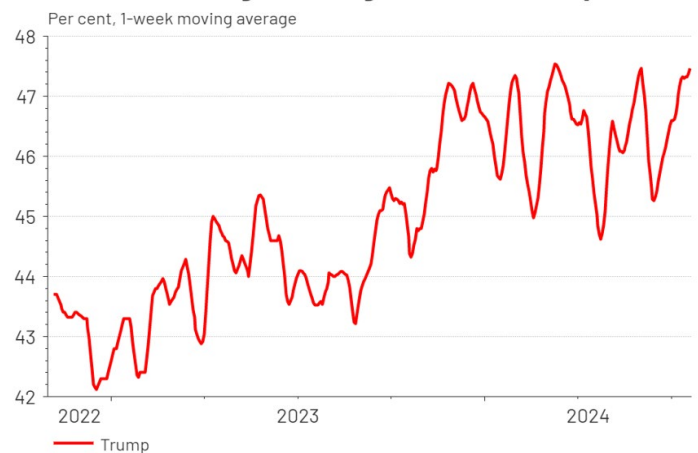
Elections – and the political drama that comes with them – can be harmful to investors' long-term returns. This is not due to one candidate winning or losing, but rather because of the investor mindset of short-termism, and the paralysis that it can bring. We believe the results of this (or any) upcoming US election should not cause an investor to alter their long-term financial plan. However, given the dramatic political events of the last few weeks, we thought it helpful to consider what a 2nd Trump presidency might mean for the economy, interest rates and corporate earnings (in the coming weeks, we will explore potential sector effects of 'Trumponomics 2.0' in detail).

U.S. ECONOMY AND STOCKS: 'Trump 2.0' may raise nominal growth and inflation

In yet another twist, President Biden announced over the weekend that he would not seek reelection, throwing in an additional layer of uncertainty into an already wild race. However, regardless of the Democratic nominee, the probability of former President Trump being re-elected has recently risen meaningfully, according to betting markets and poll aggregators (see chart 1, below). President Trump's economic platform from 2016–2020 was marked by a focus on tax cuts, deficit spending, and corporate deregulation. This was blended with 'America First' security, immigration and trade policies that favored U.S. interests, manufacturers, and workers over those abroad. Recent comments from the former President himself suggest little deviation from this script in a 2nd term. He has floated corporate tax rates as low as 15%, funded by fewer foreign defense commitments, and 10% tariffs levied on all imported goods – as well as 60% tariffs specifically on Chinese goods.

If his policy platform is enacted in its entirety, what might this mean for the U.S. economy? While we agree with economists and experts that less immigration and higher tariffs are inflationary, the likelihood and degree of inflation impact will depend on Trump's ability to offset those pressures with energy independence and deregulation, in our view.

Chart 1: Polling Pointing Towards Trump



Source: LSEG Datastream, Real Clear Politics, RiverFront; data daily, as of 7.18.24.
Chart shown for illustrative purposes only.

Regardless of political regime, rarely does a populace get the full set of policies that they voted for. A President's effectiveness in enacting economic policy depends a lot on support from the legislative branch. While the odds have clearly increased of a Republican sweep of Congress – i.e., holding the House and winning back the Senate – the small margins here make a sweep a more difficult outcome to predict than just the presidential race. Also, Trump would face opposition within his own party on tariffs and deficit spending. Plenty of GOP policymakers – including many who may be in Trump 2.0's inner circle – have long-standing aversions to tariffs and budget deficits.

We strongly believe that corporate tax cuts and deregulation are stimulative to corporate earnings and would drive higher warranted valuations on stocks, all else being equal. However, we also believe limits on free trade and immigration tend to mute economic activity and boost inflation; these are impulses that tend to drag down earnings and stock valuations. Thus, it is difficult to make an accurate forecast of the aggregate impact of Trump's platform, especially one based on campaign pledges four months before the election.

Attempting to use Trump's first term to draw conclusions on his next is also fraught with forecasting pitfalls, as the pandemic created distortions with regard to growth, inflation, and volatility. But our best guess at this point is that Trump's economic policies in aggregate would likely cause both US nominal GDP growth and inflation to rise. This 'reflationary' scenario is broadly aligned with our Base Case from our [2024 Long-Term Capital Market Assumptions](#), whereby we expect both growth and inflation to remain slightly elevated over the next 5-to-7 years. **This is a scenario that supports moderately positive gains in stocks, in our view.** This also aligns with the stock market experience under Trump prior to the pandemic. In 2018-19, the S&P 500 experienced strong gains, albeit with higher volatility and periodic downturns based on sentiment surrounding the tariff 'war'.

The crucial swing-factors, in our view, depend on how draconian tariff policy is, if unconventional foreign policy raises geopolitical risks and thus market volatility, and in general whether Trump and VP pick JD Vance's populist rhetoric translates into measures that hurt corporate earnings more than help them. On a longer-term basis, our main concern will be whether what we have termed as 'US Economic Exceptionalism' – including the disinflationary force of technological productivity gains – is powerful enough to counteract inflationary policies and [keep the U.S. from falling into 'stagflation'](#), a negative backdrop for investors. We suspect that stagflation will be avoided but remain vigilant towards its risks.

INTERNATIONAL ECONOMIES, STOCKS AND CURRENCIES: Trump policies likely more detrimental to international than US

Overall, we expect a constructive backdrop over the next few years for both US stocks and bonds, regardless of who is in office in January. However, the same cannot be said overseas. We believe that economic impacts of Trump's tariffs and disregard for long-standing security arrangements will be more detrimental to many international economies than for the U.S. These effects will likely be especially pronounced for countries highly dependent on exports, such as Germany and China. To this point, during the pre-COVID phase of the 'Trump trade war' of 2018-19, European industrial production and manufacturing surveys were generally depressed, and China's economy struggled mightily. Stock market returns in both regions were lackluster and underperformed US stocks meaningfully over this period.

A side effect of this may be that central bank policy may meaningfully diverge between the Federal Reserve ('Fed') and other major central banks, with sweeping implications for foreign currencies and interest rates. Trump and others in his inner circle have stated that a weaker dollar is preferable, but Trumponomics may end up strengthening the USD if inflation and rates were to rise. Capital may continue to flock to the US' higher relative interest rates in a world where Europe and Asia are forced to ease monetary policy and lower rates to offset declining economies.

INTEREST RATES: Trumponomics may usher in higher long rates and a steepening yield curve

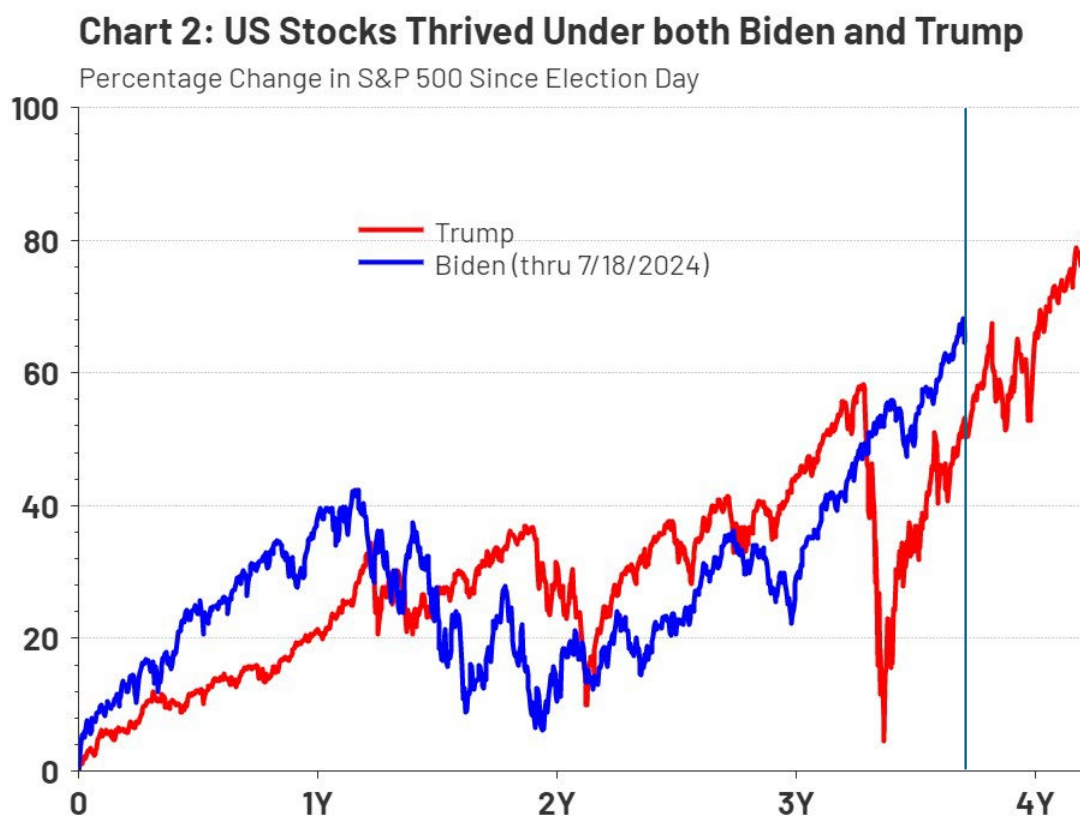
Speaking of rates, our fixed income team believes that Trumponomics' effects on economic growth and inflation will cause an increase in long-term interest rates, causing a steepening of the 'yield curve' (the difference between short and long-term rates). To this point, rate markets experienced pronounced yield curve steepening on the trading day in 2024 after Biden's poor debate showing, and again on the Monday after the failed assassination attempt on Trump. Directly following the 2016 election results, long-term yields increased, equity prices rose, and the dollar appreciated.

However, this amount of steepening not only depends on growth and inflation impulses behaving as expected under Trump's economic and political agendas, but also that the Fed reaction function remains apolitical. In his first term, Trump was at times critical of the Fed under current Chair Jerome Powell. Many have voiced concern that a 2nd Trump Administration may try and call into question the Fed's stated political independence. For his part, Trump in a recent interview with *BusinessWeek* stated that he is willing to allow Jerome Powell to serve out his term, which expires May 2026.

CONCLUSION: US 'Economic Exceptionalism' Will Continue, Regardless of Who Is in Office

Our best guess at this point is that Trump's economic policies in aggregate would likely cause both US nominal GDP growth and inflation to rise, along with the value of the US dollar and long-term interest rates. As long as this combination does not result in 1970s-style stagflation, we believe this scenario can support positive gains in stock markets, particularly in the U.S. Our current opinion is this will be the most likely scenario through the next business cycle.

Elections tend to bring out the strongest of emotions in citizens...particularly in today's polarized environment. What is often lost in the noise is that the **structural advantages that the US enjoys – what we have termed US 'Economic Exceptionalism' – will likely persist regardless (and often in spite of) who holds political office, in our view.** Long-term studies of investment performance around political regimes are relatively inconclusive in terms of which party is more 'market-friendly' as it relates to stocks. Indeed, through the first 969 market days of both Trump's and Biden's terms, S&P 500 returns were similarly strong (see vertical line on chart 2, below). In total, US large-cap stocks have increased close to 65% so far during Biden's term and appreciated 78% during the entire of Trump's presidency.



Source: LSEG Datastream, RiverFront, data weekly as of 7.18.24. Chart shown for illustrative purposes only.

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Index Definitions:

Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero).

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Definitions:

When referring to being "overweight" or "underweight" relative to a market or asset class, RiverFront is referring to our current portfolios' weightings compared to the composite benchmarks for each portfolio.

Gross Domestic Product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

In a rising interest rate environment, the value of fixed-income securities generally declines.

Inflation is a gradual loss of purchasing power, reflected in a broad rise in prices for goods and services over time.

WEEKLY VIEW

Reflation is a fiscal or monetary policy designed to expand output, stimulate spending, and curb the effects of deflation, which usually occurs after a period of economic uncertainty or a recession.

Stagflation is an economic cycle characterized by slow growth and a high unemployment rate accompanied by inflation.

Disinflation is a temporary slowing of the pace of price inflation and is used to describe instances when the inflation rate has reduced marginally over the short term.

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