US Market Reaction To Possible Second Trump Term Appears Unperturbed – For Now

The prospect of an election does not generally appear to ruffle the feathers of equity markets.

Instead, it is the policies that come from the resulting administration that can influence the market.

However, given Donald Trump's boisterous style it is perhaps no wonder that some investors are looking in trepidation as to what may lie ahead in November for equity markets.

It is as well to remember that despite promising trade war with China in his bid for the presidency back in 2016, it was not until 2018 and Trump's promise becoming reality that the S&P along with other global indices started to take notice.

China in particular had a torrid year as tariff after tariff was announced on hundreds of billions of Chinese goods being sold in the US.

The investment team at Aubrey are bottom-up stock-pickers but we are macro aware to the extent that top down factors play a part in our forecasting.

To this extent, what are the differences between Joe Biden and Trump that could alter our prospective?

The war in Ukraine, by disrupting supply lines of energy and foodstuff, certainly sparked an acceleration in inflation.

If Trump were to direct a prompt reduction in US support for Ukraine, is this likely to affect global inflation? Given the trajectory of inflation and rates since the war started this seems unlikely.

But as the prospect of a second term starts to build it is reasonable to assume that analysts' company forecasts will be affected.

Although the Biden administration continued with the tariff policy of the Trump administration, it is reasonable to assume that if Trump were re-elected then these would go higher still.

This would clearly worsen the outlook for Asian exporters in 2025 relative to 2024 and would prolong negative sentiment towards China.

Another reason why if investors want to play China at all they should stick to pure domestic plays.

A Trump White House probably also means that Asian currencies will likely be weak as few of them perform well when the Renminbi is weak. If this happens then it is obviously harder for Asian banks to cut rates.

Whatever you believe about the trade war initiated by Trump and continued by Biden, it certainly woke us all up to an unhealthy reliance on China for global supply lines.

Since then 'near-shoring' and 're-shoring' has gathered pace, accelerated by the impact of Covid on China.

Investment has flooded into south east Asia and Latin America as companies have established a 'China+1' approach to ensure they have greater diversification of their supply lines and enable them to navigate US tariffs.

Clearly supply lines that have been embedded in one country for many years cannot be uprooted overnight and established elsewhere, however the process is in train and will clearly benefit the likes of India, Mexico and Vietnam amongst others.

Although the reliance on China may have decreased it is, however, reasonable to assume that China will continue to find other markets for its products, US tariff barriers notwithstanding.

As for the reaction of the US market to a second Trump term it appears to be unperturbed at present, with the economy looking in rude good health.

At a recent conference in the US one of my colleagues was struck by the positive outlook of most of the corporates he met there.

Little to no mention was given of the upcoming election, far less any potential negative impact it might have on the way the companies do business.

The Fed's delay in cutting rates clearly appears to back up the rosy glow of the US economy.

The big conundrum for emerging markets is currently the fact that China is cheap but most investors want to steer clear, whilst India is much loved but investors worry about the valuations.

China is clearly going to face headwinds of another Trump presidency but, irrespective of the US election, we believe that India is still a go-to investment destination, with arguments as to expensive valuations failing to take into account profit potential.

By raising rates earlier in the inflationary cycle Latin American countries are now in a position to ease and some are already doing so.

Consequently, in addition to the positive impulse of near-shoring to several of these economies, monetary easing should be supportive for both companies and consumers.

This article was written specifically for FT Adviser and can be found on their website here.

Biography

Mark Martyrossian | Director, Head of Distribution

Mark joined Aubrey in 2017, having known Andrew Dalrymple for several years whilst working in Hong Kong together.

Since 1987, Mark has been involved with Asian equities in a number of capacities. This began in equity sales before he established and managed a trading book for Crosby Securities in Hong Kong. He was also responsible for initiating a corporate finance business focused primarily on China. After the sale of Crosby Securities, he joined Warburgs with his China team. On his return to London, Mark founded a FCA registered fund management business with a number of Asian equity strategies. He managed that business until 2016 when he sold his interest.

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