Zuger Kantonalbank

Portfolio – Update

7 November 2024

Presidential election in the USA

Over the last few months, the financial markets have repeatedly reacted to fluctuations in the latest polls on the 2024 US presidential election – particularly after the challenger on the Republican side turned out to be Donald Trump. With the withdrawal from the race of incumbent President Joe Biden and the nomination of Kamala Harris, the outcome of the election was thrown wide open again. A neck-and-neck race had long been on the cards. As of yesterday, we know that Donald Trump will be the next occupant of the White House. The Senate too will fall into Republican hands, whereas the composition of the House of Representatives will not be known for some weeks yet.

Confirmation of our positioning

Despite the lack of clarity over the electoral outcome, investors had continually attempted to use the latest polls to profit from potential gains. On each occasion, the equity market performance of the individual sectors provided an insight into which industries were viewed as the likely beneficiaries. However, no consistent trend emerged over the last few quarters, as the advantage held by the various candidates continuously changed.

In recent weeks, investors have positioned themselves for a Trump victory. Global stock markets – particularly the US equity market – have performed handsomely over the last few weeks. The fears highlighted in our last publication, namely interest rate cuts not materialising and a very rapid slowdown in the US labour market, have dissipated. There are now signs of recovery in the labour market, and the global economy will grow in the second half of 2024 too. Together with declining or persistently low rates of inflation, this is having positive effects. Firstly, the financial markets are expecting an environment with moderate growth and low rates of inflation. Secondly, capital market interest rates are likely to remain stable or decline gradually. Along with equities, this also makes an investment in bonds look attractive.

What does Donald Trump 2.0 mean for the financial markets?

The financial markets always react nervously to uncertainties. The risk of an extremely close electoral result or even ongoing legal disputes over the outcome has now evaporated thanks to yesterday's events, which have clarified the balance of power in US politics for the next few years. This constellation should be viewed as fundamentally positive for the financial markets. As is so often the case after significant political events, however, it would be unwise to put too much stock in short-term market reactions – maintaining a stable positioning looks the sensible play right now.

At the same time, results at the time of writing pointed to a significant increase in the chances of a "red wave" – meaning a Republican majority in both chambers of Congress. This would give an even greater boost to the power of Donald Trump and the Republican Party. Legislation – including tax cuts and deregulation, among other things – will be that much easier to push through, which could in turn give rise to greater market volatility.

Trump and the equity markets

Where the international equity markets are concerned, the next few months will show the extent to which any tariffs and trade restrictions are likely to have an impact. We remain cautious with regard to China, which continues to grapple with a problematic real estate market and a challenging growth environment. In Europe and Switzerland we are sticking to our existing positioning.

The US stock market looks to be favoured by this electoral outcome, with Corporate America expected to benefit from a less regulated environment and lower taxes. Equities from the banking sector had already reacted in the run-up to election day, with investors pricing in the likelihood of deregulation under Donald Trump. Such a development could have a positive impact on earnings in the financial industry. By contrast, it is worth subjecting the technology sector to closer analysis.

Trump and Big Tech

The technology sector, which is likely to face a more restrictive US trade policy, can be expected to come under very close scrutiny in the immediate future. After all, Silicon Valley has always been viewed as a Democratic stronghold. On the other hand, while the tech sector and Silicon Valley have typically been viewed as progressive and therefore more Democratic in their leanings, the industry has moved closer to the Republicans and Donald Trump in recent months following the nomination of J.D. Vance as Trump's running mate. Vance used to work in Silicon Valley and is renowned as a start-up and tech investor with a broad network.

Moreover, with prominent US investors such as Bill Ackman publicly declaring their support for Trump, the latter's acceptability has risen markedly. Against this backdrop, Tesla CEO Elon Musk likewise put his support behind Trump. However, Trump has repeatedly made it clear that he considers the large tech companies to be insufficiently regulated and too powerful – which has fuelled fears that the likes of Google, Apple, Microsoft and other companies might be broken up.

For its part, the chip industry reacted negatively to the prospect of a possible Trump victory in the run-up to the election given the corresponding likelihood of a more confrontational trade policy in respect of China under a Trump administration. This could further increase the pressure on US tech companies that are active in the Chinese market, most notably those companies that supply the key technologies in the semiconductor production process. The export of high-tech microchips to China itself, particularly by Nvidia, can also be expected to face further restrictions.

Trump and crypto investments

In the past, Donald Trump was not always consistently on the side of crypto industry advocates. However, in this electoral year he has made significant efforts to court the crypto community. Back at the start of 2024 he let it be publicly known that he wanted the future of Bitcoin and other cryptocurrencies to be very much in the US. This was a significantly different stance to that of the Democrats, who have taken a hard line against this industry in recent years, with only Kamala Harris having shown a rather more lenient attitude towards these investments. Only time will tell how enduring Trump's support actually turns out to be. But in the early hours of 6 November, crypto investments reacted very positively when it became clear that a Trump victory was in the offing.

Interest rates, Trump and the US dollar

Even though interest rates are a key factor in the development of the economy, the ability of the US President to directly influence interest rate policy is low as the US central bank (Fed) is independent. Capital market interest rates have developed independently of electoral forecast in recent months, with the most recent movements having been influenced first and foremost by economic indicators such as consumer prices and labour market data. Nonetheless, the outcome of these elections is having an impact on interest rates: with Trump as the new occupant of the White House, investors are expecting a looser fiscal policy in which the overriding priorities will be economic growth through tax cuts and a stronger domestic economy thanks to high import tariffs. Investors could therefore adjust their inflationary expectations upwards. Whether this will actually happen is not yet clear. As a rule, the interest rate market reacts sensitively to possible tax adjustments and fiscal programmes. The US dollar strengthened somewhat after the electoral result became apparent, while US interest rates have already risen significantly since the first interim results.

What this means for investors

As is so often the case at times of political upheaval, investors would do well to maintain their focus on the fundamental development of the economy and corporate earnings. The fact that the outcome to this election is now clear does not mean that reliable forecasts can be made regarding the development of equity markets generally and individual sectors in particular. In keeping with our existing practice, we will make certain adjustments to sectoral and company weightings in order to align the portfolios with the changed situation.

Our overweighting of the equity quota generally and US stocks as a sub-category looks appropriate on the basis of the economic situation and the latest company data. We are therefore maintaining this positioning.