US election - Trump or Biden?

The economic consequences

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The US economy has been in robust condition since the Covid crisis was overcome. The picture is characterized by significant employment gains, recent positive productivity trends and rising investment. The significant rise in interest rates since spring 2022 has not had a major impact on the economy and the economic consequences of the Russian attack on Ukraine have remained limited.

The economic policy of the Biden administration played a significant role in this development, as it implemented several large-scale programs to keep the economy running while accepting a very sharp rise in public debt. This included programs to stabilize the economy during the pandemic, infrastructure programs, the expansion of semiconductor production as well as the Inflation Reduction Act (IRA), which promotes energy and emission-saving technologies.

Tariffs and multilateralism

But what does the future look like and what economic consequences would a Republican victory in the upcoming presidential election have? For the long-term development of the global economy and the US economy, a victory for Donald Trump, who has a slight lead in the polls, would probably have very serious consequences. Even if there is no formulated election program and it is not possible to know exactly what will be implemented in detail, the general direction of economic and trade policy is clear.

The statements regarding a general import tariff of 10% and a special tariff of 60% on Chinese imports suggest a further intensification of the already rampant protectionism. The economic war with China would probably escalate into a "deal", at least in the short term, and tensions with the EU would increase once again. US current account deficits would be cited as a justification, as would security policy concerns. Countermeasures by the countries concerned could be expected, the willingness of countries to cooperate would be weakened and multilateralism would be pushed back further. The current government's efforts to improve the dialog with numerous countries in Asia, Latin America and Europe would probably be scrapped. All of this is likely to reinforce the bloc formation of the global South and further restrict the international division of labor and free trade. These are not good conditions for long-term global economic growth.

Will Trump give a short-term boost to the US economy?

Speculation about future government action is also required at this point. What is clear is that Trump is likely to extend the tax cuts from his first term of office, which would expire in 2025. He also intends to further reduce corporation tax from 21% - possibly to 18%. It is unclear whether the measures of the Inflation Reduction Act would be continued, presumably in a slightly modified form. In contrast to Trump, Biden would again increase taxes for the wealthy in the US and limit tax relief (in force since the end of 2017) to the middle income segments and low earners, with middle incomes in the US ranging up to annual incomes of USD 400,000. In Germany, the maximum tax rate for single people is set at around 66,000 euros. Looking at the tax differences alone, the economy would probably be stimulated significantly more by a Trump government. However, the Republicans are also debating measures with a contractionary effect, such as the previously mentioned intention to increase tariffs across the board. Such trade barriers would drive up prices and thus reduce the scope for interest rate cuts and the purchasing power of consumers. It is true that the Democrats also have a protectionist tendency, as the recent tariff increases against China on e-cars, solar and wind technology show. However, the measures are aimed at China and certain product groups and are based on electoral considerations.

Consequences for the labor market and immigration

In the event of a Republican victory, net immigration would also be significantly reduced as a result of stricter border controls and deportations. Immigration in recent years has been an important growth stimulus for the US economy. Without immigration, it would not have been possible to achieve monthly employment growth of between 200,000-300,000 employees without triggering a considerable overload of the labor market and corresponding countermeasures by the US Federal Reserve. The conclusion is therefore that the widely expected stimulus from a Trump administration will be rather weak and will not trigger an economic upturn.

Limits to expansionary fiscal policy

Moreover, the desire for a continued expansionary fiscal policy will come up against hard financing limits, regardless of the governing party. The overall government deficit amounted to 8.8% of GDP in 2023 and is expected to be around 6.5% in 2024. According to the IMF, the general government gross debt ratio is already 122.1% of GDP in 2023 and the net interest burden in the federal budget is expected to amount to USD 870 billion, or 3.1% of GDP, in the 2024 fiscal year. These figures indicate that consolidation will be unavoidable in the coming years.

Conclusions from an investor's perspective

On the one hand, it is not advisable to place large bets on the outcome of the election. Political investment strategies tend not to last very long. On the other hand, even if the outcome of the election is predicted correctly, it is by no means certain how the stock markets will react. Unexpected developments have occurred during Trump's first term in office. For example, under Trump from 2016 to 2020, investors would have been well advised to focus heavily on renewable energies and avoid fossil fuels or defense companies. Since Biden took office, however, it is now fossil fuel companies and defense stocks that have generated high profits, while renewable energy stocks have lost ground. Of course, this had nothing to do with government policy, but primarily with the global political situation and Russia's attack on Ukraine. Investors should therefore not focus primarily on political developments, but should take the global economic situation and macroeconomic trends as the starting point for their considerations. The economic prospects for moderate growth in the USA in 2025 are quite good, not because of Donald Trump, but perhaps even despite him.

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Rating system of the absolute valuation	
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