



## Key Takeaways from a Republican Win

It's been a huge week on US equity and bond markets, largely influenced by the outcome of the US election for control of the White House. The Republican Party, also known as the GOP (Grand Old Party), led by Donald Trump achieved a resounding victory over the incumbent Democrats. Trump not only secured the necessary 270 electoral votes, reaching 295 in the latest count, but also won the popular vote.

### Why Should Investors Care?

In the long run, markets have shown resilience and adaptability regardless of which US political party is in power. However, in the shorter term, the controlling party - especially when it holds both the Senate and the House of Representatives - has a greater ability to enact legislation that can influence market conditions. At this stage control of the House is undecided, but there is a high probability that the Republicans will retain it.

### Investment Implications

The Trump administration has emphasised its commitment to imposing tariffs on various imports and has also signalled plans to implement deregulation measures. Generally, these moves are positive for business profitability.

A likely extension - and possibly even expansion - of the 2017 corporate tax cuts, which are set to expire in 2025, is also anticipated. Additionally, the administration has discussed tax cuts on overtime and tips, which could further reduce the tax burden on individuals.

However, lower taxes will put increased pressure on the already substantial budget deficit. To offset this, the administration (possibly with input from supporter, Elon Musk) is expected to aim for spending cuts. Reducing government spending is however always challenging and the bond market appears skeptical at this stage.

The US equity markets appeared to have anticipated a Republican win, but on Wednesday the S&P500 **posted its largest daily gain in history on the day after Election Day with the index up 2.5% to a new all-time high.**

A Trump administration may also take a firmer stance on European defense contributions, putting further pressure on the euro.

### The Inflation Issue

One of the most significant factors driving voters to the Republican Party was high inflation, especially over the last couple of years, where the price of goods and services have generally risen faster than wages, straining household budgets.

Much of this inflation can be traced back to post-COVID policies, where the US Federal Reserve (Fed) and the banking system as a whole, significantly increased the broad money supply. Into the first half of 2022 they started on the journey of higher rates to curtail this inflation.

Inflation has cooled from its highs and yesterday the Fed cut short term interest rates by another 0.25% following its 0.5% rate cut in September. With the start of lower interest rates, Trump's return to the White House appears well timed!

### Conclusion

In the long term, there may be no need for a dramatic shift in investment strategy with each change in political power. Despite radical - sounding policies and rhetoric, markets tend to adjust through the "noise" because businesses are adaptable.



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