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THE ERA OF TRUMP TRADE

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Donald J. Trump has been elected the 47th President of the United States, which became apparent after he won the swing state of Pennsylvania. Finally, a victory in Wisconsin helped him in crossing the electoral threshold. His victory speech at the West Palm Beach Convention Centre has highlighted that “We made history for a reason tonight.”

S&P 500 futures were up 1.9% and 10-year Treasury yields hit 4.47%. A further stock market rally is expected. As money is moving out of bond to stocks (economic agents are selling bonds aggressively to re-direct their portfolio into stocks as stock market rallies), the yields are surging as bond prices and yields are inversely related. The US dollar index surged by 1.75% to 105.22. As dollar rallies, the EM currencies feel the heat, including downward pressure on the Indian rupee (₹) that drove down as low as 84.13. Bitcoin soars all time high on 6 Nov'24 at \$75,407 showing a 7% increase. However, such trends are negative for Gold, as investors would prefer now riskier assets including equities, bitcoin etc; thus, moving their money out of safe havens like Gold.



The European shares opened higher. The US stock futures gained as Trump proceeded towards victory. In Asia, Japan's Nikkei 225 gained 2.61 per cent, while China's main indices showed mixed performance, with Hong Kong's Hang Seng declined by 2.23 per cent. This is due to subdued sentiment due to Trump trades' negative sentiment with China.

Henceforth, the era of “Trump Trade” begins. Broader and higher tariffs, especially with countries like China, in the name of protecting domestic manufacturing would be the prior agenda of this new era once again. Also, Trump has campaigned on a series of targeted tax breaks for corporations and individuals. This does not rule out, therefore a higher fiscal deficit burden with higher inflationary trends. Further, geopolitical uncertainty may aggravate as Trump is not in favour of NATO, and support for Ukraine may not be guaranteed. However, all such consequences are “possible outcomes” and not a prediction.

Markets assume the Federal Reserve will cut rates on 7 Nov24 (just one day after the election results) by 25 basis points. The market is also pricing an 80% probability of another quarter point in Dec'24. However, the post-election result inflation impact needs to be discounted in this context. The Bank of England is also expected to cut by a quarter point on 7Nov'24, while the Riksbank is likely easing by 50 basis points. Norges Bank and the Reserve Bank of Australia (RBA) are seen on hold this week.

The global crude oil market bounced 1.4% or so after OPEC+ stated that it would delay a planned December output hike by one month. This was the second time it has extended a 2.2 million bpd cut and shows their concern about global demand.

After the US election result, the Indian stock market also rallied. The Nifty closed at 24,484.05, up 270.75 points or 1.12 per cent and the BSE Sensex at 80,378.13, up 901.50 points or 1.13 per cent. Nifty Midcap 100 and Nifty Small cap 100 rising over two per cent each. All sectoral indices ended higher, led by Nifty IT, which surged 3.99 per cent, followed by Consumer Durables, and Realty indices, which gained more than two per cent.

Nonetheless, the Trumps' possible increase in tariff rates as well as imposition of new tariffs across Indian products in line with strengthening US domestic manufacturing might have some adverse impact on Indian exportable. On the other hand, Indian Information Technology (IT) has surged due to US services sector boost. However, the possible imposition of tariffs on US companies hiring Indian IT employees may adversely impact the sector. Moreover, stringent regulations on H-1B visas and L-1 visas might impact IT companies further. On the other hand, Defence, Healthcare and Pharmaceutical sectors could be benefitted due to US stance to strengthen QUAD and improved pricing for Indian generic firms. The sector-specific impacts would be clear

after the Trump's declaration of various policies regarding this. Moreover, the emerging markets (EMs) currencies could face downward pressure due to stronger gain in US dollar.

The Modi-Trump Personal Bonhomie

Despite US President Donal Trump's "America First" policy and possible forthcoming tariffs across various products of different countries including India, the rough road may be smoothed due to the "Personal Bonhomie" between Trump and Modi. US-India trade last year amounted to nearly \$120bn, with a surplus of \$30bn for India, whereas the bilateral trade increased over 90 percent in the last decade.

A senior Indian diplomat has emphasised that the Indian foreign policy establishment should be aware about the Trump 2.0 priorities. The Indian Prime Minister has developed a personal relationship with Trump over the last decade that translate into a "good equation between Trump and Modi" that is likely to have a positive impact on the bilateral relationship between US and India. The Russia factor is also likely to be discounted more by diplomacy rather than direct military confrontation under the Trump 2.0 era; as again put by the senior Indian Diplomat as "diplomacy to a large extent is conducted on an interpersonal basis at the highest level." Experts believe that while the spat between Canada and India is managed under the Biden's doctrine, it would be more well-managed under the Trump 2.0 era.

The Modi-Trump Companionship had been signified by events like Howdy Modi (2019) and Namaste Trump (2020). In 2019, Modi and Trump together addressed a gathering of over 50,000 people in Houston, the largest rally ever hosted by a foreign leader in US. However, at the same time, India needs to factor the erratic nature and unpredictability of the current US President. For instance, during his presidential campaign Trump described India as a "very big (trade) abuser" and promised to introduce a reciprocal tax if elected. Therefore, India needs to carefully assess Trump's hard stance on immigration, tariffs, and "America First" policies to realign according to India's own security/safety and priority areas.