

What does a Trump victory mean for financial markets and the rand?

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Donald Trump has been elected as the 47th President of the United States, according to various news networks, with his inauguration scheduled for January 2025.

In the short term, some of the market reactions are already evident and understandable. For example, the Bitcoin price is up, the US dollar has strengthened, the US bond market is weaker, and the equity market has strengthened – although some of these were already starting to be priced into markets as it became clear that Trump's election bid had gained further momentum in recent weeks. There has also been some moderation in expectations regarding the outlook for US interest rates.

Unfortunately, the election outcome is also perceived as net negative for Emerging Markets, most especially China.

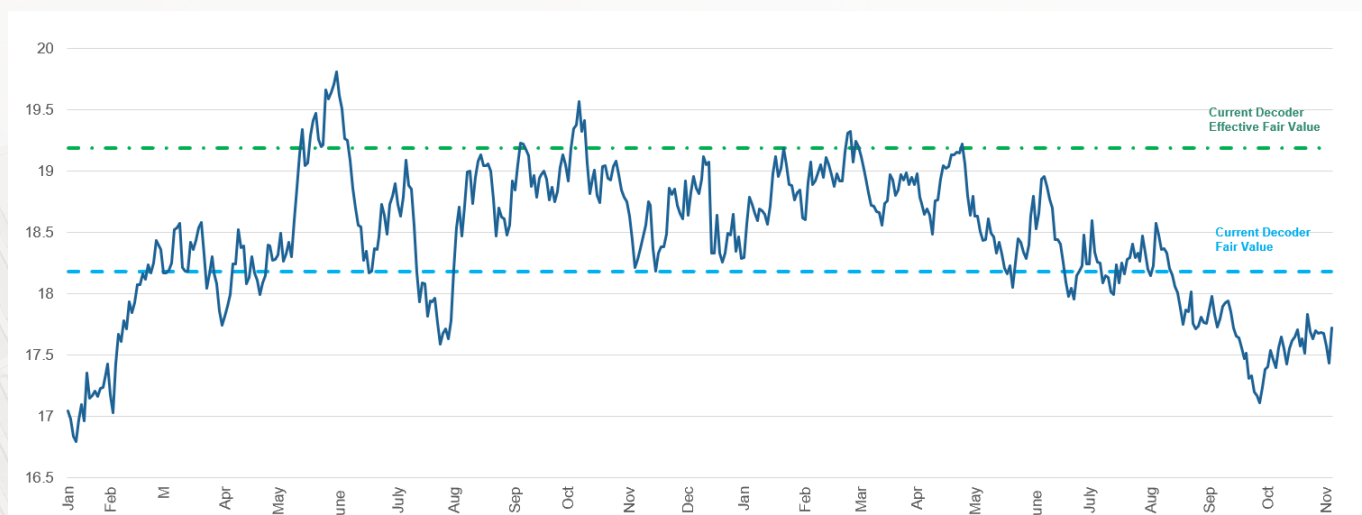
The rationale for the current market reaction stems from Trump's stated intention to impose significant import duties on Chinese goods, extend the US personal income tax breaks that are scheduled to expire in 2025, a desire to boost US economic growth, especially industrial activity and an intention to be less supportive of global initiatives that do not directly benefit the US.

Over the medium-term, the outlook for the US and global economy is a lot more uncertain. This uncertainty may ultimately unsettle financial markets, especially if Trump's policies start to negatively impact the US economy. This becomes more likely if:

- The extent of Trump's victory emboldens him to implement much more radical economic policies.
- The Republican party has complete control over Congress, which might encourage them to override growing concerns about the size of US government debt.
- Trump's unpredictability could introduce a higher level of uncertainty that could undermine stability.
- China's response to Trump's policies could escalate a more pronounced trade war between the two biggest economies in the world.
- Trump's victory strengthens the role BRICs and a desire to move away from the US dollar as the reserve currency.
- An increase in geopolitical tensions if the US steps away from their historical role in global conflicts.
- The US experiences a resurgence in inflation as a result of higher import duties that require a change in monetary policy.

The rand is currently trading at R17.72/USD, losing 1.6% since yesterday's close (R17.42/USD) and, with a Trump victory, has a bias to further weakness. Despite positive domestic sentiment, the rand will be negatively impacted by global factors such as US dollar strength and risk-off sentiment. Current market levels are still below estimated fair value and represent good value based on current fundamentals.

RAND PER US DOLLAR | daily



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