



After Trump's win, fiscal policy and inflation risks in focus

US growth prospects, equities favourable in the short term, but fewer hurdles to fiscal expansion pose longer term risks

By Naomi Fink, Chief Global Strategist
7 November 2024

Republican candidate and former president Donald Trump gained a decisive majority of electoral votes in the US presidential election. Meanwhile, Republicans have also secured a majority in the Senate, while, at time of writing, the counting of House ballots continue. The markets have already responded with some volatility, with stocks rewarding the presumed likelihood of corporate tax cuts and perceiving a general penchant toward deregulation across industries as positive for earnings. On the other hand, bond markets have responded unfavourably, with yields rising on the prospect of a united front between executive and legislative arms of government with respect to fiscal expansion. This comes at a time when US debt-to-GDP¹ is already at historic highs near 120% and budget deficits already exceed 6% of Gross Domestic Product (GDP)².

In the near-term, the prospect of a Republican-controlled Congress and executive branch may increase the likelihood of Congress approving an increase in the US debt ceiling. Consistent with the latest [Global Investment Committee's outlook: low risk no longer](#), we remain constructive on US growth and therefore equity markets. Nonetheless, in the longer-term, a different scenario may unfold. We note that, to date, Congress has tended to raise the debt ceiling³ after some negotiation. As such the debt ceiling works more as an opportunity for Congress to enact checks on US fiscal health, an opportunity that is less likely to bear fruit when Congress is reluctant to challenge presidential fiscal proposals. Therefore, with the prospect of fewer hurdles to fiscal expansion and the possibility of sweeping tariffs on imported goods, we anticipate a rise in tail risks⁴ associated with higher US inflation. Additionally, the bond market may experience potential disruptions if external investors demand a higher premium to finance US external deficits.

We note that dollar/yen has appreciated on the prospect of a more aggressive US trade policy. Although this has helped bolster Japanese stocks, we see greater potential for interim volatility due to the narrow base of investors

¹ The debt-to-GDP ratio is a metric that compares a country's public debt to its gross domestic product (GDP). It reliably indicates a country's ability to pay back its debts by comparing what the country owes with what it produces.

² Source: White House Office of Management and Budget, October 2024

³ The debt ceiling is a cap on the total amount of money that the United States is authorized to borrow to fund the government and meet its financial obligations.

⁴ Tail risk is the chance of a loss occurring due to a rare event, as predicted by a probability distribution.

engaging in higher-frequency yen-funded carry trades⁵. Additionally, the Bank of Japan (BOJ) remains on a tightening trajectory, and a weaker yen—feeding through via import prices to consumer prices—has been flagged as a more substantial inflationary risk at BOJ Governor Kazuo Ueda's latest press release. Therefore, a weaker yen, all else being equal, may bring forward the timing of BOJ rate hikes, so long as market volatility has cooled down. For now, there is an environment of plentiful risk appetite, but given the rise in tail risks, we see some reason for those looking to hedge those lower-probability risks to hold at least a small proportion of their assets in yen. This is because should such tail risks materialise (such as a volatile disruption in US Treasury markets), Japan's current account surplus may suddenly appear more attractive than it does during times of higher risk appetite.

Lastly, it is important to focus on one aspect of the Trump vs. Harris race that had very little to do with their political platforms. Specifically, it will be a one term, rather than a two-term, presidency for Trump. Two-term presidencies typically bring greater negotiations (including fiscal negotiations) between the executive and legislative branches in the second term, which may increase the incentive for a candidate seeking re-election to curtail fiscal largesse⁶. This incentive does not exist for a one-term candidate, which may mean that the tail risks associated with fiscal profligacy⁷ may be larger than for a two-term candidate. This could widen the divide between the short-term outcome (extending of the US economic cycle) and the impact of longer-term risks, such as disruption in the bond market.

Important information: This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (Nikko AM) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell. Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements. All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association.

United Kingdom: This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

Luxembourg and Germany: This document is communicated by Nikko Asset Management Luxembourg S.A., which is authorised and regulated in the Grand Duchy of Luxembourg by the Commission de Surveillance du Secteur Financier (the CSSF) as a management company authorised under Chapter 15 of the Law of 17 December 2010 (No S00000717) and as an alternative investment fund manager according to the Law of 12 July 2013 (No. A00002630).

United States: This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. An offering of any investments, securities or investment advisory services with respect to securities may only be made by receipt of relevant and complete offering documentation and agreements, as applicable. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

⁵ A carry trade involves borrowing at a low interest rate and investing in an asset that provides a higher rate of return.

⁶ Generosity or liberal giving

⁷ Reckless extravagance or wastefulness in the use of resources

Singapore: Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

Hong Kong: This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

New Zealand: This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document nether constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

Republic of Korea: This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

Canada: The information provide herein does not constitute any form of financial opinion or investment advice on the part of Nikko AM and it should not be relied on as such. It does not constitute a prospectus, offering memorandum or private placement memorandum in Canada, and

may not be used in making any investment decision. It should not be considered a solicitation to buy or an offer to sell a security in Canada. This information is provided for informational and educational use only.