Analyzing the Trump Effect on US & Global Markets - Past Trends & Future Expectations

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Discussion Points

1. Market Reaction
2. Past Trends
3. Global Outlook
4. Technical Analysis
5. FX Forecast and Hedging Strategy

Financial Markets Reshape as U.S. Election Results Unfold

- The U.S. elections, a globally significant event, drew intense attention worldwide, with forecasts strongly favoring Donald Trump's victory.
- As results began confirming Trump's lead, markets reacted dramatically.
- The U.S. Dollar Index surged, while major currencies like the Euro, Pound, Yen, and Rupee depreciated.
- Commodity prices also saw decline.

Market Reactions

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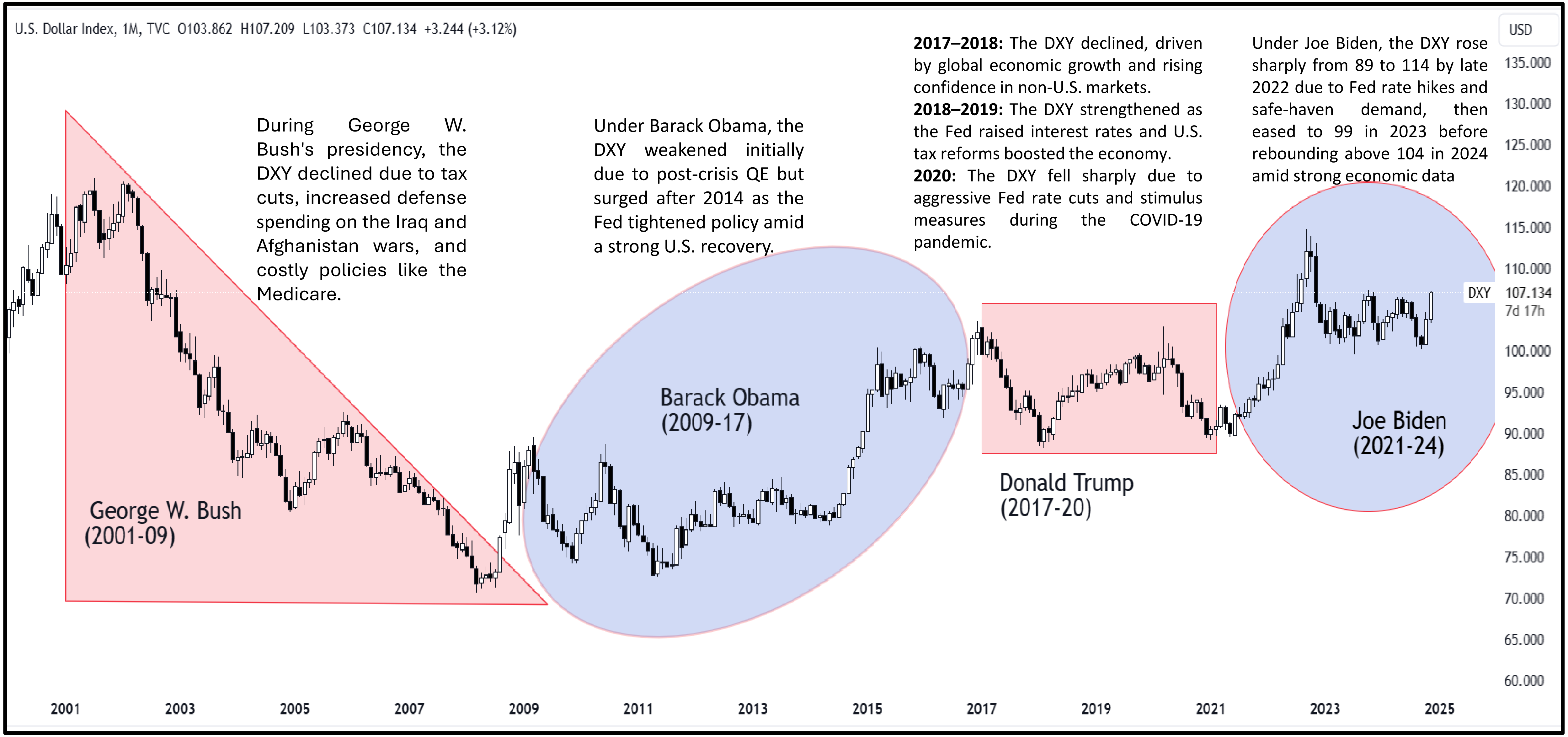
XAU/USD


Gold (XAUUSD), 1D, CAPITALCOM O2,668.810000000 H2,692.220000000 L2,668.060000000 C2,686.640000000 +17.360000000 (+0.65%)
USD
Daily
6th Nov.
GOLD
2,686.640000000
16:57:22
2,760.000000000
2,720.000000000
2,640.000000000
2,600.000000000
2,560.000000000
2,520.000000000
2,480.000000000
2,440.000000000
2,400.000000000
2,360.000000000
2,320.000000000
Jul
15
Aug
12
21
Sep
16
Oct
14
23
Nov
18

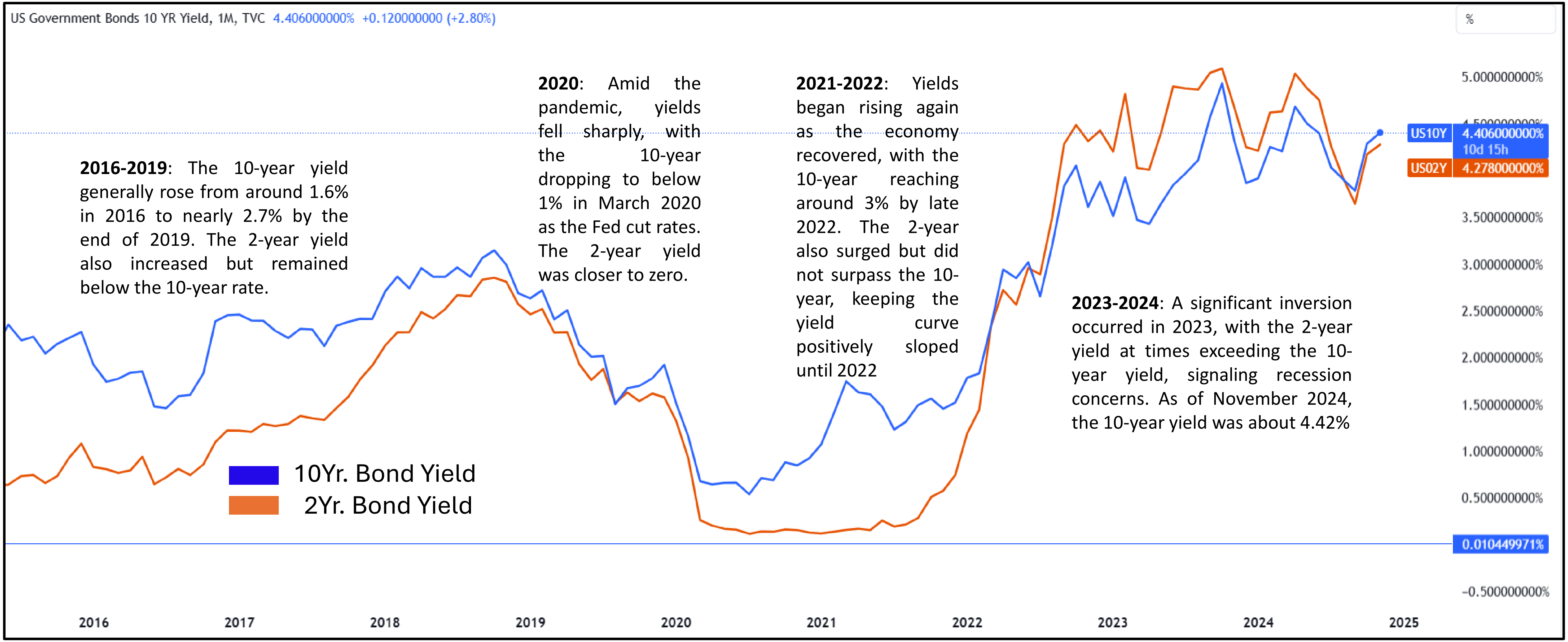
Brent Crude

Brent Crude Futures, 1D, ICEEUR O74.290000000 H74.670000000 L74.210000000 C74.350000000 +0.120000000 (+0.16%)
Daily
USD
BLL
84.000000000
82.000000000
80.000000000
78.000000000
76.000000000
74.350000000
18:03:15
72.000000000
70.000000000
68.000000000
BRNF2025
6th Nov.
Jul
15
Aug
12
21
Sep
16
Oct
14
23
Nov
18

Past Trend-Dollar Index



U.S 10yr vs 2yr bonds yield



U.S Inflation Rate YoY

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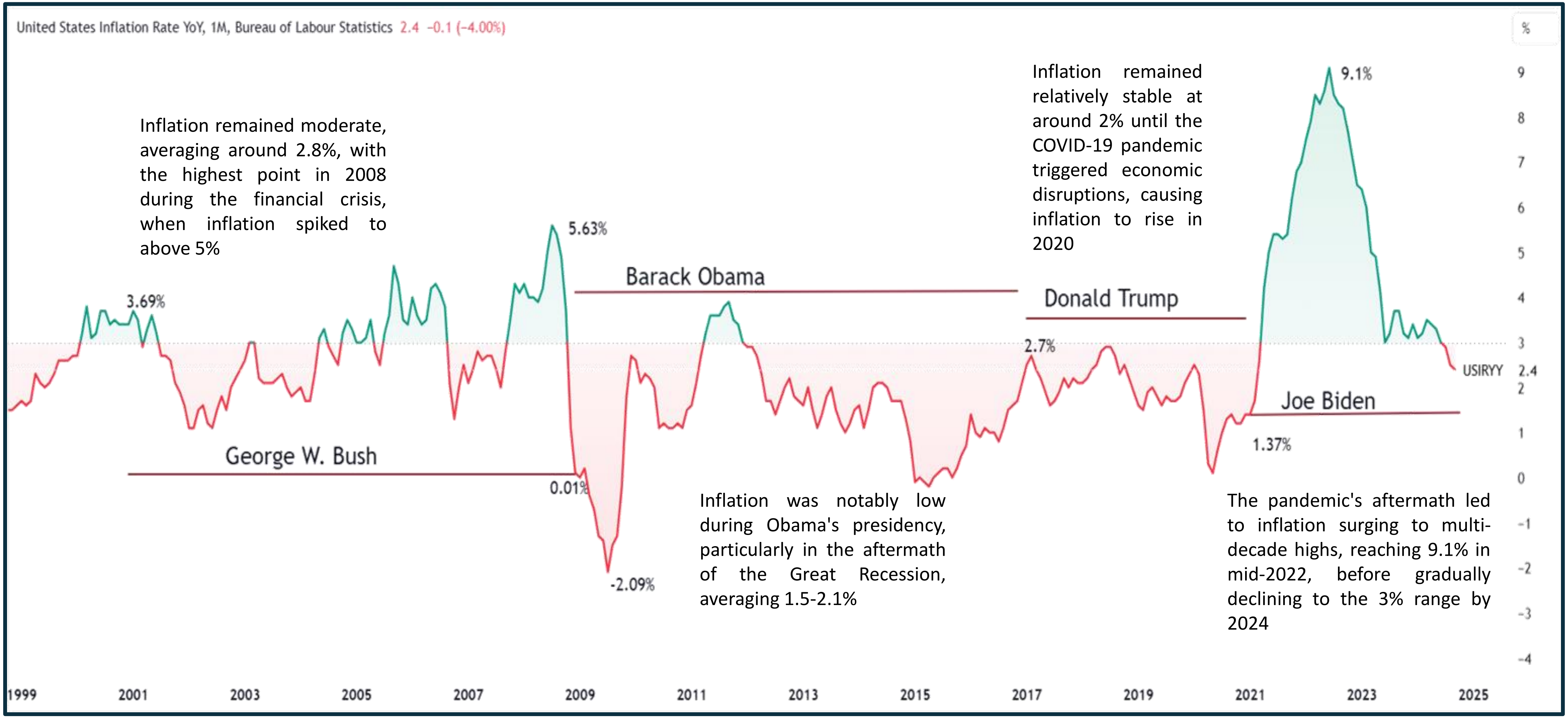
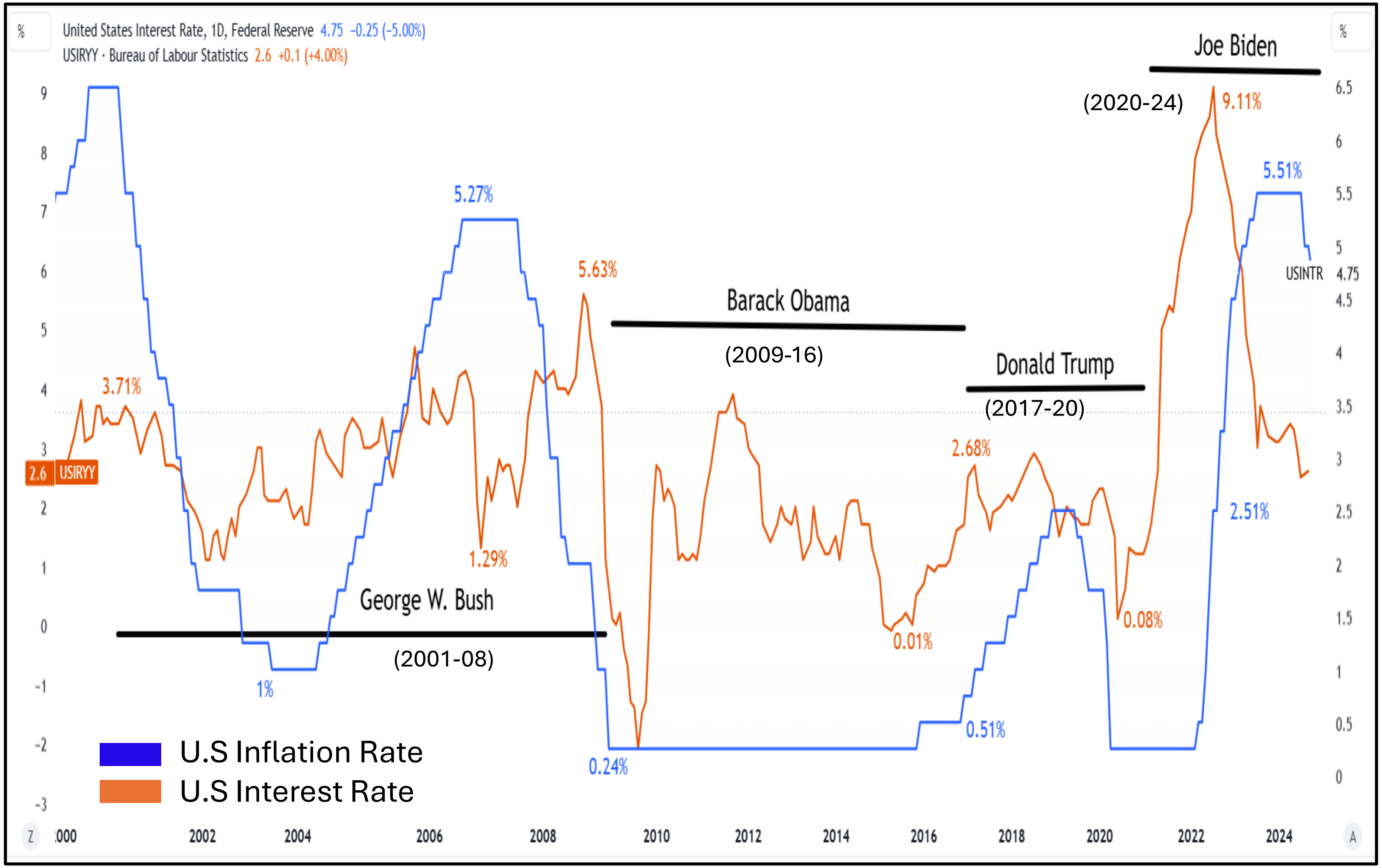
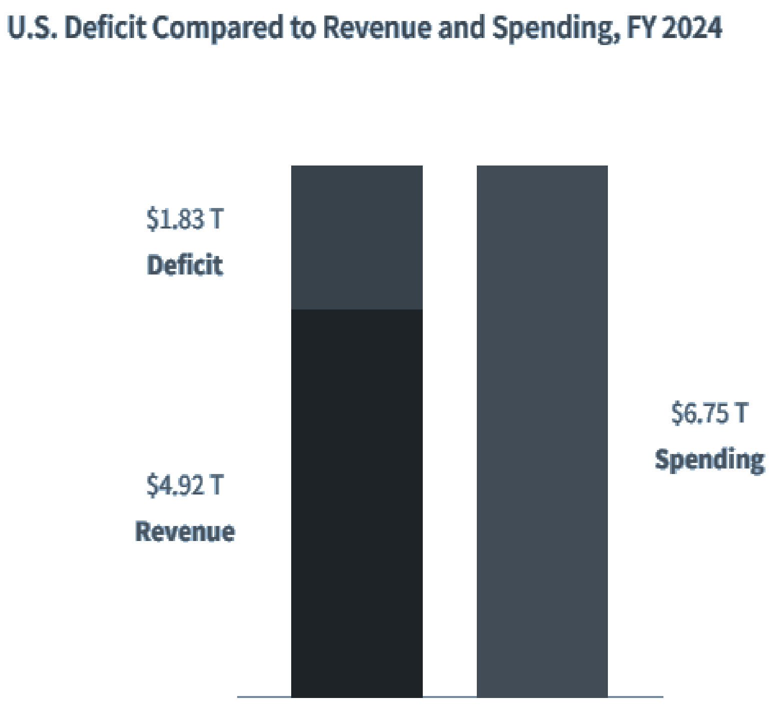


U.S Inflation v/s Interest Rate

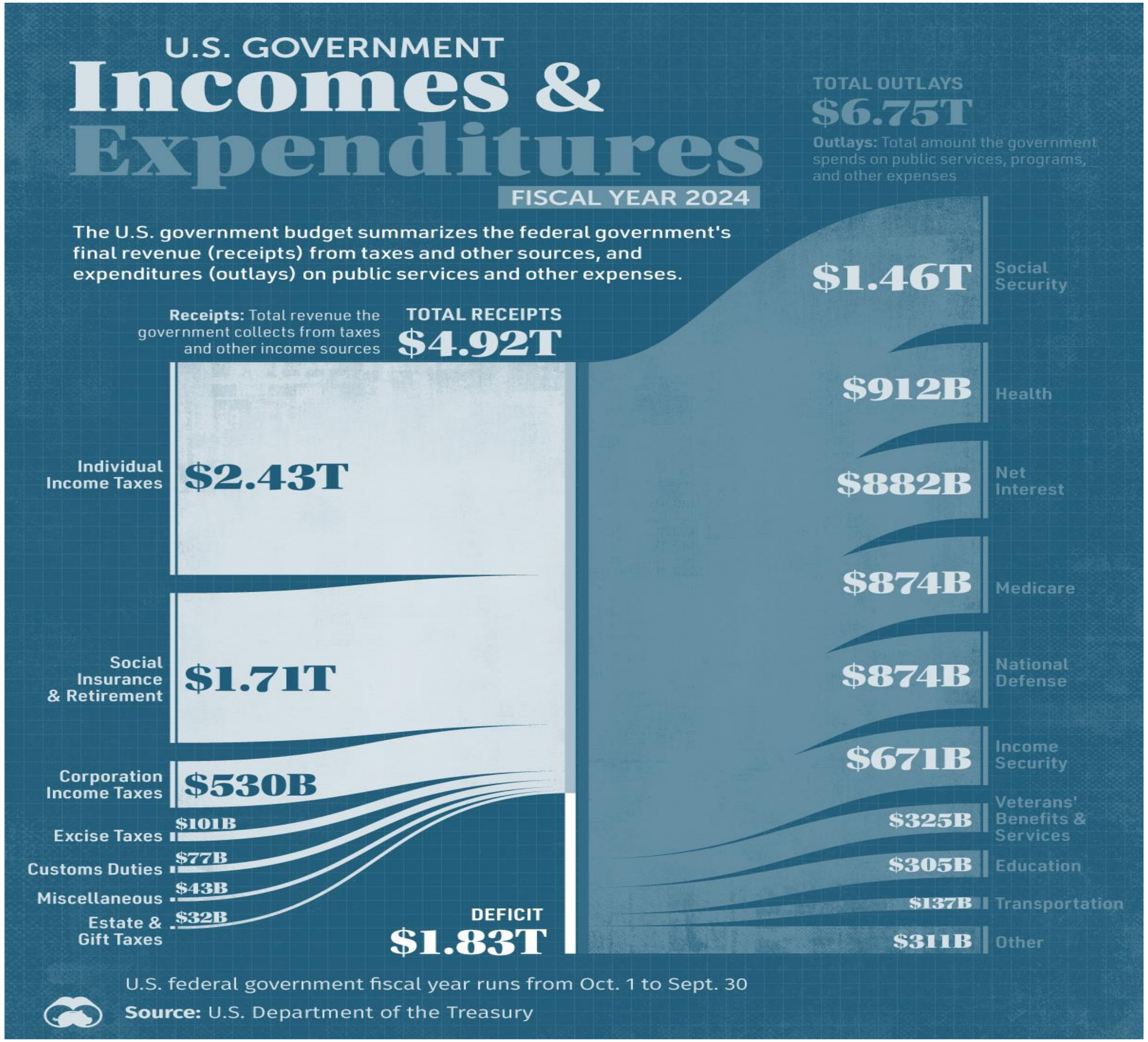


- **2001-08:** Inflation remained moderate, averaging around 2.8%, with the highest point in 2008 during the financial crisis, when inflation spiked to above 5%
- **2009-16:** Inflation was notably low during Obama's presidency, particularly in the aftermath of the Great Recession, averaging 1.5-2.1%
- **2017-20:** Inflation remained relatively stable at around 2% until the COVID-19 pandemic triggered economic disruptions, causing inflation to rise in 2020
- **2020-24:** The pandemic's aftermath led to inflation surging to multi-decade highs, reaching 9.1% in mid-2022, before gradually declining to the 3% range by 2024.

U.S Deficit-Revenue & Spending



In FY 2024 total government spending was $6.75 trillion and total revenue was $4.92 trillion, resulting in a deficit of $1.83 trillion, an increase of $138 billion from the previous fiscal year.



Global Outlook

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Morgan Stanley

- Trump's re-election may lead to extension of his Tax Cuts and Jobs Act, likely increasing federal deficits while also supporting corporate valuation multiples.
- Proposed tariffs on Chinese goods, meanwhile, could raise inflation and weigh on U.S. economic growth.

Report published by Morgan Stanley,
Dated 6th Nov'24

OXFORD ECONOMICS

Targeted tariffs on China, the EU, Mexico, and Canada will eventually depress exports of the affected sectors to the US. But the impact on overall export volumes may be tempered by trade diversification and higher US demand thanks to much looser US fiscal policy. That said, the impact on different sectors could be large depending on the form of the new tariff regime.

Report published by Oxford Economics,
Dated 8th Nov'24

Global Outlook

J.P.Morgan
ASSET MANAGEMENT

Report published by Morgan Stanley, Dated 18th Nov'24

On taxes, in 2025, we expect the omnibus reconciliation bill, which is the one budgetary vehicle with immunity from Senate filibusters, to contain very significant tax cuts. This bill will likely contain a full extension of the 2017 TCJA cuts that were set to expire at the end of 2025. The President-elect has also promised a cut in the capital gains tax from 21% to 15% for domestic production, a restoration of full expensing of R&D and equipment purchases, also for domestic production, removal of the cap on SALT deductions, deductibility of auto loan interest and exemptions from income tax for all social security, tips and overtime income. Based on calculations from the Committee for a Responsible Federal Budget, we estimate that a full implementation of these plans would add more than $5.0 trillion to the federal debt over 10 years, on top of a simple extension of tax policy as it is currently being implemented. This could amount to over $400 billion in additional annual fiscal stimulus and deficit financing, kicking in at the start of 2026.

On immigration, while campaign rhetoric was extreme, we expect actions to be less so. The newly-named "border czar", Tom Homan, has emphasized that he will prioritize deporting undocumented immigrants with criminal convictions and final deportation orders. This group likely has much lower labor-force participation than other immigrant groups. Consequently, we do not expect a sharp decline in labor force from deportations.

That being said, the election may discourage people from crossing the border as well as dampening more traditional immigration. In addition, legal avenues to immigrate may be slowed or restricted as was the case in the first Trump administration. It is quite possible that the picture could change with the passage of an immigration reform bill. However, for now, we are assuming that a crackdown on immigration cuts labor force growth by 25,000 per month or 300,000 per year – or roughly a quarter of net immigration in the year ended June 2023.

Global Outlook

Report published by BNP Paribhas, Dated 12th Nov'24

Scenario	Impact	Fed response	Market reaction
Global tariff war	Push up US dollar value, hamper US exports	Cut US interest rates quickly and/or deeply	Positive for bonds
Short-term rise in inflation due to tariffs	*Interest rates are unchanged*	*Rate cuts on hold*	*Markets scale back rate-cut expectations*
Transitory inflationary shock; GDP growth slows	Markets adjust rate-cut expectations	Resume cutting rates after inflation flare-up	Initial shock for stocks, bonds; recovery when rate-cut cycle resumes
Resultant inflation is stickier than expected	*Economy falls into stagflation*	*Challenge for Fed policies*	*Challenge for investment strategies*

The Fed should pause its rate-cutting cycle in September 2025 with a policy rate of 3.75%, i.e., hence we have removed two 25bp cuts compared to our previous scenario. For the ECB, we forecast a terminal rate of 2% to be reached in September 2025 (2.25% in the previous scenario).

We see the US 10-year yield at 4.25% in 12 months (previously 4%). We have not changed our 12-month target on the Germany bund yield (2.25%). We turn Neutral from Positive on EM bonds.

The higher rate differential suggests renewed USD strength. We have revised our USD targets in general and the EUR/USD target to 1.06 for the 3-month and 1.02 for the 12-month horizon.

Factors Affecting Inflation and deficit

Factors	Inflation Impact	Deficit Impact
Implementation of Tariff Impact	↑	↓
Tax cut	↑	↑
Increasing Immigration	↓	↑
Increase in Oil Output	↓	↓
Stronger Dollar	↓	↓
Lower Commodity Prices	↓	↓
Cessation of War	↓	↓

Technical Analysis

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Technical Analysis

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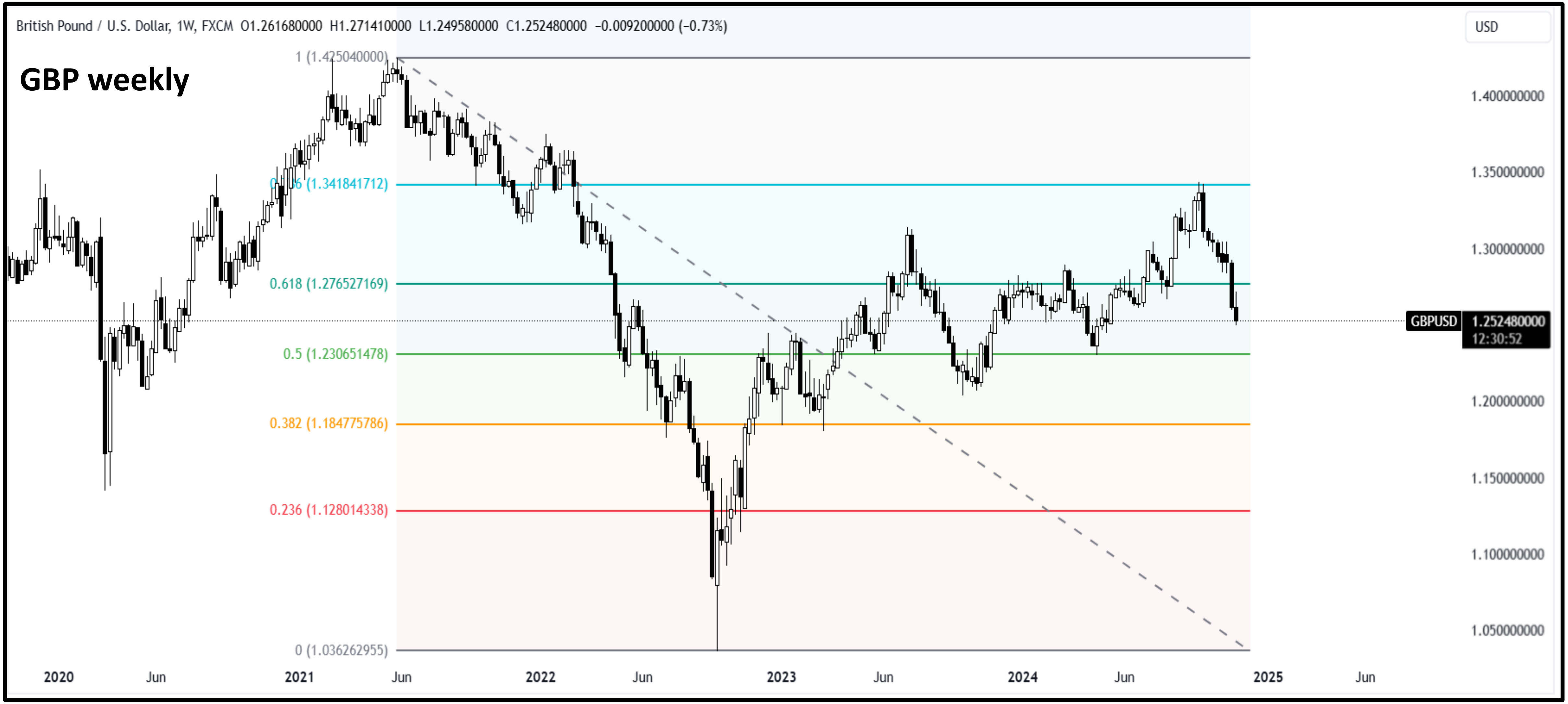
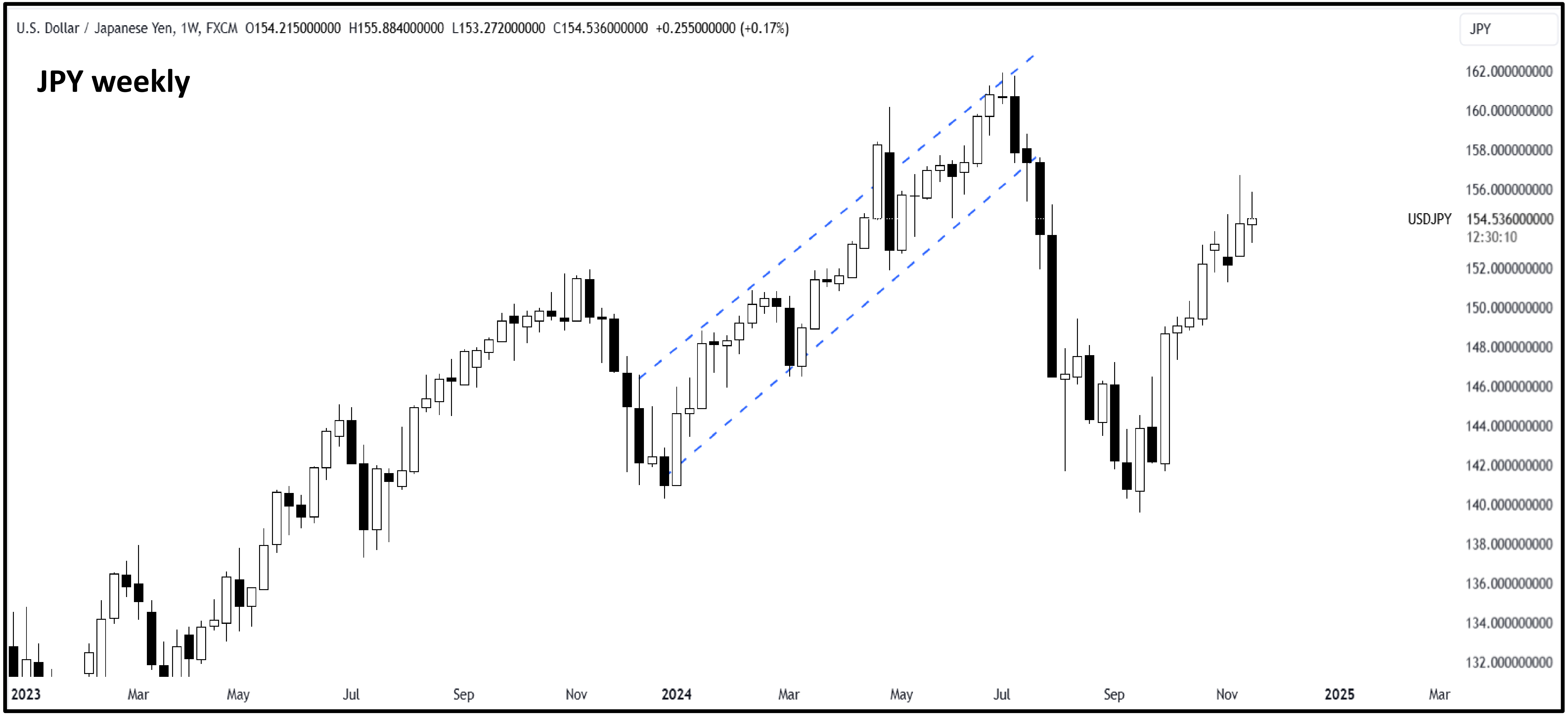
- ❑ The USD/INR is right now at the highest level- ever.
- ❑ The USD/INR is also now facing several cross currents.
- Oil price and supply issues
- FII and FPI outflows
- Less likelihood of further deep-US rate cuts
- Eurozone- deflationary conditions- reducing demand
- China deflation- Weaker Yuan and demand
- India in geopolitical engagements.
- Potential tariffs after Trump comes to the power.
- Security situation.
- Given the above and the trend we have seen so far and the most importantly RBI's handling of the situation.
- If the underlying conditions do not change by a large measure, we expect the Rupee to weaken gradually.

Technical Analysis



Technical Analysis



Hedging Strategy

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Currency	Support	Resistance	Strategy
USDINR **84.47**	84.00/84.30	84.50-60/ 85.00	Buy on dips. sell 3-to-6-month core amount
EURUSD **1.0416**	.9550/.9850	1.0985	Sell rally between 1.0550/1.0650 for 3-mos to 4-mos sell 3-to-6-mos core amount
USDJPY **154.29**	140	154/155.50	Buy Yen between 155 and 160 as- seen for 3-mos imports.
GBPUSD **1.2532**	1.2025/1.2325	1.2650/1.2730	Buy import 1.2050/70 and sell export 1.2750/1.3000

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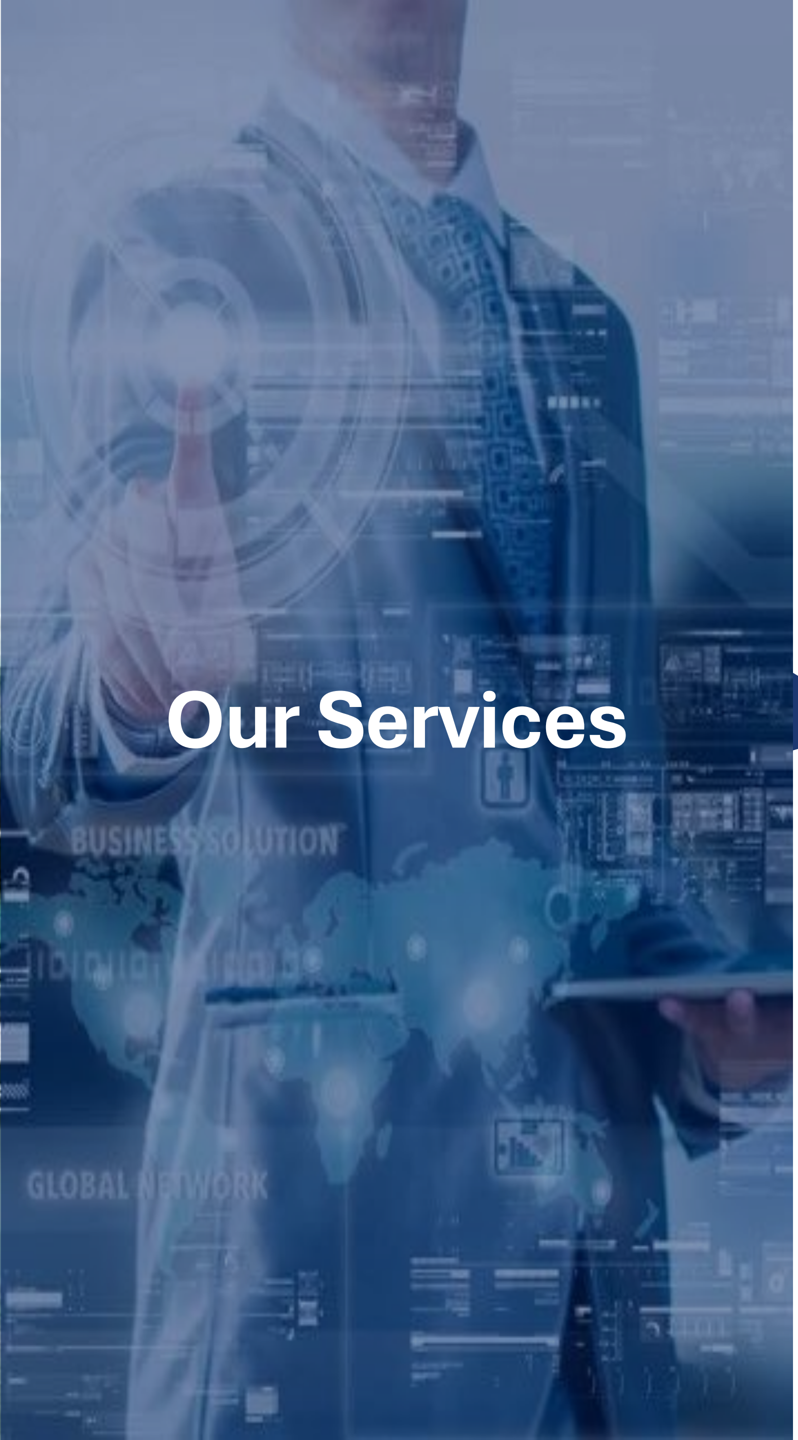

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