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Global Takeaways of the U.S. Election

Summary

In this report, we examine some thematic and global takeaways from the U.S. election. We view a second Trump administration—and more specifically his proposed tariff policies—as a catalyst for further deglobalization and global economic fragmentation. Tariffs could also act as an inflection point for China to approach stimulus efforts differently, while the nature of U.S. involvement in foreign affairs also has scope to take a new path relative to the Biden administration Lastly, we maintain our view for a stronger dollar over the medium term, and believe any attempts from Trump to manufacture dollar weakness will prove to be futile.

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Deglobalization and fragmentation are likely to gather momentum in a Trump 2.0 administration. In our view, Trump winning the White House and having a largely unilateral ability to implement tariffs and shift U.S. trade policy in a more protectionist direction is yet another deglobalization force. During his first administration and over the course of his latest campaign, Trump has been unwavering in his commitment to tariffs. Time will tell how tariff policy ultimately evolves, but as our U.S. economists note in a post-election report, Trump's tariff threats should be taken seriously. Global trade cohesion has suffered since the Global Financial Crisis and deteriorated further as a result of COVID. Erecting new barriers to trade will place additional pressure on the interconnectedness of the global economy, which can have longer-term negative implications for global economic growth, especially if retaliatory tariffs are imposed on the United States. Fragmentation (i.e. countries choosing to strategically align with either the U.S. or China) is a product of deglobalization, and as U.S. trade and broader economic policy becomes more uncertain, strategic alignments could shift back toward China. We observed a noticeable shift in alignment patterns toward China during Trump's first term, driven by countries opting for stronger trade relations with China, participating in China's foreign investment programs and voting in unison with China on geopolitical issues at the United Nations General Assembly. With U.S. trade policy likely to turn more contentious and inward-looking, countries around the world could look to strengthen economic and geopolitical ties with China.

Trump's tariff threats could be China's stimulus inflection point. China's National People's Congress Standing Committee will meet this week, which was of interest pre-election, but has become more meaningful post-election. Authorities announced fiscal stimulus in September and October, and while details are scarce and likely to be at least partially revealed this week, the old playbook of directing support toward the real estate sector and manufacturing capabilities could now be abandoned. With Trump set to significantly raise new tariffs on China, authorities may take the stance that directing stimulus toward manufacturing could be counterproductive. Trump's proposed global tariff would also diminish China's ability to circumvent U.S. tariffs through proxy nations such as Mexico. Meaning China's export sector—which has been the primary bright spot of China's economy this year—could face heightened vulnerability under the next Trump administration. Ultimately, the U.S. election could become the tipping point for when authorities' direct fiscal stimulus toward stimulating domestic demand and having household consumption play a larger role in the economy. Authorities have warned against China moving toward "welfarism" and not wanting to offer "Western style" fiscal stimulus, especially when the public sector balance sheet is already over leveraged. While we do not believe Chinese authorities will deliver fiscal stimulus to spark domestic consumption this week or in the immediate-term, authorities could look at the U.S. election as the catalyst for adjusting how China approaches stimulus efforts over the longer term. Without a shift in stimulus thinking—away from real estate and manufacturing—China's economy could slow more rapidly than we currently expect, placing risks to global and developing economy growth squarely to the downside.

U.S. approach to foreign policy is likely to become more transactional. With hot wars on two continents, and cold wars taking shape globally—with most indirectly or directly involving the U.S.—we expect Trump to maintain the United States' posture of having a role in foreign affairs; however, the nature of the U.S. role may change relative to the Biden administration. Trump has signaled a willingness to negotiate with both President Putin and President Zelensky to end the conflict. Could Trump use Ukraine's military vulnerabilities and Russia's sanctioned economy as means toward a peace deal? In the Middle East, Trump has pointed to the Abraham Accords—finalized during his first administration—as evidence of his ability to maintain security in the region and normalize relations between Israel and select Arab nations. At the same time, Trump has stated his unwavering support for Israel and an intention to revert to maximum pressure policy on Iran. Can Trump reset geopolitical relations in the Middle East again with another "deal"? Trump has also questioned the United States' commitment to NATO as well as defending Taiwan from any potential invasion attempt by China unless European Nations and Taiwan pay a larger financial cost for defense arrangements. Would Trump abandon NATO allies and Taiwan if financial benefits do not present themselves? Point being, U.S. involvement in foreign affairs will likely become transactional and negotiable going forward. We fully believe Trump's overall aim is worldwide peace, but how peace is potentially achieved seems likely to change.

Trump will not be able to manufacture dollar depreciation. In our October International Economic Outlook, we noted how a Trump White House would lead us to become more positive on the U.S. dollar. Now that Trump has indeed won the election, we reinforce our view for a strong dollar over the course of 2025 and into 2026, and will become more positive on the dollar outlook in our next forecast update. As far as the dynamics surrounding a more constructive dollar view, in their post-election report, our U.S. economics colleagues noted the extension and possible expansion of the expiring provision of the Tax Cuts and Jobs Act (TCJA) in addition to the likelihood of higher tariffs. Over the next few years, tariffs and looser fiscal policy could lead to higher U.S. inflation, and through reduced purchasing power of U.S. consumers and businesses, could also contribute to slower U.S. growth. With the Federal Reserve potentially cautious about the overall inflationary implications of the new administration's policies, the U.S. central bank may lower interest rates more gradually than we currently expect. While there may also be some influence on foreign central bank monetary policy, we think the impact would be far more limited. Slower U.S. growth and tariffs would likely spillover to foreign economies, placing both growth and interest rate differentials in favor of the U.S. dollar over the longer-term. Sporadic bouts of markets volatility could also provide the dollar with safe haven tail-winds over the next 18 months. Also, despite any rhetoric aimed at weakening the dollar, Trump will be unable to influence the long-term direction of the dollar. In our view, Trump's preference for a weaker dollar would have to be accommodated by and in coordination with the Federal Reserve, which we view as unlikely. We view the Fed as a monetary authority that is unlikely to pursue a weaker dollar at the direction of the President nor have its independence questioned by global financial markets.

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