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SPECIAL FLASH: US ELECTIONS COMMENTARY

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The Republican candidate's victory has now been confirmed. D. Trump becomes the 47th president in the history of the United States. He particularly benefited from the crisis of confidence among Americans regarding the economic situation in their country, with over 50% of them indicating it was their main concern, according to exit polls.

The Republicans have also secured control of the Senate, which will make it easier to appoint federal judges and heads of government agencies, including possibly J. Powell's successor at the helm of the Fed in 2026. On the other hand, it is still too early to identify the winning party in the House of Representatives, with Democratic candidates so far showing greater resilience than K. Harris' scores in their respective states. Uncertainty could last several days if the majority is to be decided by the outcome of elections in the West (California, Arizona), as some states accept absentee ballots arriving up to 4 days after the election. Given the crucial importance of this issue for the implementation of Mr. Trump's agenda, investors are likely to await the results before increasing their positions on the financial markets. Control of both houses of Congress will determine the future of his tax reform, which is set to lower the corporate income tax rate from 21% to 15%, and the anticipation of which largely explains the rise in US equity markets today. However, D. Trump should at least extend the tax cuts for households and businesses agreed in 2017 beyond 2025.

Two scenarios remain on the table at this stage:

1. **A Republican Senate but a Democratic House of Representatives**
2. **Total Republican control of all three chambers.**

In the first specific case of a divided Congress, and in the absence of ambitious tax reform, the hopes of additional support for the US economy on which some investors are counting are likely to fade, and put the brakes on the upward momentum of equity markets. This will be all the more marked as Trump will then focus all his attention on the other aspects of his program, which are likely to fuel further inflationary pressures.

More generally, inflation is already struggling to return to the Fed's target, and could even accelerate under Trump's presidency. While investors are keeping a close eye on the risk of tariffs, the most inflationary aspect of D. Trump's program is his desire to withdraw millions of immigrant workers from the job market, which is already under pressure. The ratio of open jobs to unemployed workers is still above 1, and is likely to rise again if this policy is implemented, helping to sustain wage increases and thus underlying inflation. D. Trump's trade war against China (60% tax on all products) and the rest of the world (universal 10% tax on all products) is also likely to fuel a new wave of inflation. Historically, tariffs have always led to price rises on the products concerned, including during the 2018-2019 episode, with the difference that the US economy now has a far greater capacity to generate inflation.

All these factors are likely to call into question the Fed's success in controlling inflation, and could lead it to slow its current monetary easing. The US central bank is unlikely to take political issues into account at its November 7 meeting, preferring to wait until it is clearer about the winner's economic priorities, and will therefore proceed with a 25bp cut in its key rate. However, as the inflationary impact of the Trump program becomes clearer, the FED could partially abandon the 100bp cut anticipated in its latest report. However, we must remain alert to the risk to the Fed's independence, given D. Trump's stated desire to interfere in the institution's decision-making, although it will be difficult for him to challenge J. Powell's presidency before the end of his term in 2026.

This significant adjustment to the Fed's monetary policy was only partially anticipated by the financial markets, and its incorporation will continue to fuel volatility in sovereign rates, through both the inflation and real-rate components. While US equity markets will be able to count on the positive effects of tax reform on earnings to continue rising in the case of a Republican Congress - at least in the short term - the impact will be more ambiguous in the event of power-sharing. On the other hand, the rest of the international equities market is likely to remain under pressure in both cases, particularly those in Europe faced with the risk of tariff barriers. On the other hand, the spectre of a trade war should support the dollar against all currencies, as should Fed repricing.

We are therefore reducing our investments in the EM global zone, while maintaining a more constructive view of China, where the coordination of fiscal, budgetary and monetary stimulus could support this zone. We are also maintaining our neutral stance on equity markets, in a period marked by increased volatility in interest rates and geopolitics. Lastly, the downtrend in oil is set to accelerate, weakened by the new US President's determination to increase US oil production. The impact will not be direct, as US producers remain primarily guided by their objective of generating higher returns for shareholders, but the abolition of environmental standards and authorizations to drill on federal lands should have a marginal upward effect on production. This could further precipitate a fall in oil prices, as OPEC may choose to retaliate with a volume war to avoid losing additional market share.

Rothschild Group therefore recommends that investors obtain the various regulatory descriptions of each financial product before investing, to analyse the risks involved and form their own opinion independently of the Edmond de Rothschild Group. Investors are advised to seek independent advice from specialist advisors before concluding any transactions based on the information contained in this document, notably in order to ensure the suitability of the investment with their financial and tax situation.

Past performance and volatility are not a reliable indicator of future performance and volatility and may vary over time, and may be independently affected by exchange rate fluctuations.

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