Trump returns: Priorities are growth and winning

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IN A NUTSHELL

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Trump returns: Decisive election win for Trump and Republicans – a mandate!

The decisive win for Trump and Republicans lends support to their policy proposals and empowers them to act. Markets now expect deregulation and some tax cuts. Investors also understand that the election appears to consent to Trump's plan to use tariffs as a geopolitical tool and indicates that the electorate is concerned about unlawful immigration. These latter two issues pose risks to the economy and markets, but there is optimism that a balance in actions will be found and perhaps improvements for the longer-term will be made by addressing these matters head-on. The central view is more positive for the economy and stocks, but likely comes with greater tail risks. In our view, the country seeks new solutions to festering problems. For new leadership, it's a big opportunity, responsibility and risk.

Tariffs & Taxes: Tariffs likely by executive action, tax cuts by an act of Congress

We expect new and higher tariffs to be imposed on China. Probably not as high as 60%, at least not at first. We remain doubtful of tariffs on all imports. We believe the US will seek a more cooperative relationship with China on geopolitical matters. Signs of cooperation could help avoid an escalation of tariffs. If tariffs must escalate on China, then the US will likely seek that its allies also tariff China's exports; those that don't could face US tariffs. The President and administration will likely have wide latitude in these matters, especially with a Republican Congress, because it ties to national security and foreign policy interests.

Extending Trump household tax cuts beyond the 2025 sunset and changing corporate taxes will require an act of Congress. We think this will be a first 100-day legislative priority for the administration. We're unsure how significant any net tax reductions might be from 2024 levels, but we think the priority will be to avoid higher personal taxes for all. If new tariffs take effect, we think it will be a priority to cut taxes for manufacturing firms. This would likely take the form of a percentage of pretax profits deduction for domestic manufacturing derived profits and probably leave the U.S. corporate tax rate unchanged at 21%. Other changes are possible, but a substantial hit to federal revenue that exacerbates the deficit runs the risk of upsetting the bond market. The bond market holds the veto here.

Deregulation & energy: New agency heads likely have pro-growth orders

Leadership at federal agencies will change. Priorities of deregulation, agency efficiency and new tone from top of cooperation with private industry. This alone is something fueling an enthusiastic sentiment to the election so far in most of corporate America. Financials, Healthcare, Communications and Tech are encouraged. The energy sector will likely be allowed and likely prodded to produce more and more in the U.S. If companies take new land leases they will be expected to produce even if oil prices fall. We think oil prices are likely range bound at the lower end of inflation adjusted past 20-year norms. Because transport fuel costs are likely to be benign and many manufacturers and good retailers are likely to build up inventories ahead of tariffs, we think transports and logistics firms could soon exit their post pandemic volume and profits recession. Despite pro fossil fuel energy policies, the country's trend toward more electricity usage will continue owing to datacenters. We think pursuing all-of-the-above energy policies will be favored. Ramping up electricity generation will be expensive and poses inflation risk. The administration might consider structuring and granting carbon credits to utilities and others for the private sector to voluntarily buy to meet their climate goals. That said, we see pricing power at electric, not oil and gas.

We raise our 2025E S&P EPS to $275 from $270, 2026 S&P EPS likely $300

Given the likely continuation of healthy US economic growth, the potential of deregulation and the potential for corporate tax cuts, we raise our 2025 estimated S&P earnings per share (EPS) to $275. We believe that S&P EPS will likely be between $270 to $280 in 2025, 10-15% year-over-year (y/y) growth, depending on how well optimized the mix of lower taxes and higher tariffs plays out. As before, we continue to expect 20% y/y growth from the Great Eight digital companies of the S&P 500. 2026 is uncertain, but $300 or slightly more is within reach if AI boosts trend productivity.

We take neutral S&P 500 tactical view after exceptionally strong but justified year

We think S&P 500 stays in a 5700-6300 range until worst of tariff risks appear diminished and material corporate tax cuts appear likely. The deficit is likely to reach records outside of a recession, it's important that 10-year Treasury yields do not exceed 4.5% to support the roughly 21.5+ current forward S&P price-to-earnings (P/E) ratio. Our strategic 12-month targets are under review.

Glossary

A budget deficit is created whenever the spending in a public budget exceeds the income within a given time period

Earnings per share (EPS) is calculated as a company's net income minus dividends of preferred stock, all divided by the total number of shares outstanding.

Geopolitical risk is a risk that an investment's returns could suffer as a result of political changes or instability in a country.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

The price-to-earnings (P/E) ratio compares a company's current share price to its earnings per share.

A recession is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

The Republican Party (Republicans), also referred to as Grand Old Party (GOP), is one of the two major political parties in the United States. It is generally to the right of its main rival, the Democratic Party.

The S&P 500 is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

A tariff is a tax imposed by one country on the goods and services imported from another country.

The United States Congress is the legislature of the federal government. It is comprised of the Senate and the House of Representatives, consisting of 435 Representatives and 100 Senators.

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