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The likely impacts of President Trump’s victory

By Angelo Katsoras

President Trump has won the presidency, with his Republican Party securing control of the Senate. Republicans also appear poised to take control of the House of Representatives, albeit by a narrow majority.

Implementing executive orders

One of President Trump's first actions after being sworn in on January 20, 2025, will be to begin unilaterally rolling back certain environmental policies through executive orders. These include initiating withdrawal from the Paris Climate Accord, streamlining the permitting process for drilling on federal lands, expediting approval of natural gas pipelines and LNG export facilities, and removing emissions and clean energy targets. He will seek also to lighten the regulatory footprint in the financial, IT, energy, and mining sectors.

It is important to note that repealing, implementing, or rescinding new executive orders can be a lengthy process. It often takes months or even years to review and respond to potential legal challenges. Typically, these challenges are first heard in federal district courts. The more these cases are heard by judges appointed by Republicans, the better the chances that these executive orders will not be overturned.

Investors should also focus on who will be nominated to head key regulatory agencies (which will be easily approved by a Republican-controlled Senate). This is because the heads of regulatory agencies can often make changes without congressional approval. They may also choose not to strictly enforce existing regulations or laws.

Tariffs

Regarding tariffs, Trump is expected to continue down this road aggressively through executive orders. However, there is disagreement over whether he truly intends to impose a broad 10-20% tariff on all imports. If he were to move forward with such a plan, he would likely face legal challenges, significant political opposition from both parties—including Republicans from border states concerned about trade disruptions—and the risk of retaliatory tariffs from other countries. Further, concerns about inflationary pressures could drive bond yields up, which would counteract Trump's efforts to lower costs.

Some people in Trump's inner circle reportedly believe he will use tariffs to protect key sectors, pressure other countries to make specific trade concessions, or encourage them to join in trade actions against America's major geopolitical rivals.

While Trump is expected to be very aggressive with China on the trade front, whether he will follow through on his promise to impose a blanket 60% tariff on all imports from China in the shorter term is up for debate given the potential economic and inflationary consequences of such a move.

The escalating trade war between China and the United States could also influence how much Beijing decides to spend on fiscal stimulus to counter tariffs and revive the economy.

It is important to note that a tough stance on China is one of the few areas of bipartisan agreement between Democrats and Republicans. Biden not only left most of his predecessor's tariffs on China in place, but also introduced many new ones. These include much higher tariffs on imports of semiconductors, electric vehicles, steel, green energy and medical products.

Game changer: control of all levers of government

Historically, presidents who take office with full control of Congress have been most successful in advancing their legislative agendas during their first two years of their term, as their party often loses control of one or both houses at the midterm elections, making it more difficult to pass legislation afterwards.

Even with a slim majority, a president's party can pass spending and tax legislation through a process called reconciliation. This allows certain budget-related bills to be passed in the Senate with a simple majority (51 votes) rather than the usual 60-vote supermajority. However, reconciliation has one major limitation: Changes in fiscal policy cannot increase the federal deficit beyond a 10-year period. This explains why the Trump administration's 2017 tax cuts included temporary provisions that expired after a certain period of time.

His top legislative priorities are likely to be extending the individual tax cuts from the 2017 Tax Cuts and Jobs Act, which are set to expire at the end of 2025, and further lowering the corporate tax rate for companies that manufacture in the United States. He will also prioritize passing infrastructure legislation focused on the transportation and traditional energy sectors, as well as increasing defence spending. With Republicans holding narrow majorities in both houses of Congress, Trump will have to negotiate with his own party to pass legislation. This could potentially dilute parts of his agenda, especially regarding some of the various additional tax cuts he has proposed.

Full repeal of IRA not likely under Republican presidency

Then there is the question of whether Trump will attempt to repeal the Inflation Reduction Act, which has tilted the competitive landscape in favour of American industry by attracting investment and forcing the likes of Canada and Europe to massively increase their own state subsidies in order to remain competitive. In a recent speech, French President Macron described the U.S. Inflation Reduction Act as a measure designed to lure investment away from Europe.[1]

We believe a repeal would be very difficult because about three-quarters of the law's funds were allocated to congressional districts held by Republicans. Unsurprisingly, this has increased their support for the law. However, Republicans are likely to try to reduce or redirect some of the law's subsidies and taxes to other areas.

The next President will have to deal with the debt ceiling

As if things were not complicated enough, the United States will reach its official borrowing limit on January 1, 2025 amid heightened political tensions. As it has done in the past, the Treasury Department will undoubtedly resort to accounting manoeuvres to delay by a few weeks the point at which the country can no longer meet its financial obligations.

While the risk of a U.S. default is very low, negotiating additional financing without committing to debt reduction reforms could still be risky and lead to further credit downgrades. In 2023, Fitch lowered the U.S. long-term credit rating, and Moody's changed its outlook to negative from stable, citing concerns about the U.S. fiscal outlook and the lack of political resolve to address these issues. Like Harris, Trump opposes cuts to entitlements such as pensions and health care and has not explained how much higher debt levels could rise if his campaign promises were implemented.

Bottom line

With President Trump and Republicans controlling both houses of Congress, they have a significant opportunity to advance parts of their agenda, which includes extending and expanding tax cuts as well as implementing infrastructure and tariff policies. There will also be a lighter regulatory footprint in the energy, infrastructure, financial, IT, and mining sectors. However, the fiscal outlook, combined with the upcoming debt ceiling saga in January, could create a challenging environment for fiscal decision-making. As a result, Treasury markets are likely to remain nervous in the near term. Needless to say, Canada's long-term interest rates are closely correlated to those in the United States.

[1] "Emmanuel Macron: Europe—It Can Die. A New Paradigm at The Sorbonne," Emmanuel Macron, April 26, 2024

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