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"Trump 2.0" impact from a Japanese Economist's Perspective

On November 5, 2024, a presidential election was held in the United States, with Republican Trump defeating Democrat Harris. In addition, elections for the Senate and the House of Representatives were held at the same time, with a Republican victory in the Senate and an increasing likelihood of a Republican victory in the House of Representatives. In other words, a "red sweep" is expected to be realized, with the Republican Party dominating the U.S. presidency and the majority in the Senate and House of Representatives. This would be the first time since the 2016 U.S. presidential election that Trump won. Since the market had been partially factoring in the "red sweep" scenario in advance, the election results were considered to be largely within expectations.

Looking ahead, we expect the U.S. stock market to continue on an upward trend for the time being due to expectations for the large fiscal policies that Trump advocates (corporate tax cuts, making the Trump tax cuts permanent, etc.) and deregulation of some companies (Exhibit 1). According to estimates by the Committee for a Responsible Federal Budget (CRFB), if the large fiscal policies advocated by Trump are realized, it is expected to use a larger amount of money than Harris's plan, with tax cuts and spending increases of $10.4 trillion over 10 years (Exhibit 2). By 2026, when midterm elections are scheduled, Trump is likely to focus on deciding on a large fiscal policy in a "red sweep" situation, where congressional approval is relatively easy to obtain.

On the other hand, compared to after the 2016 U.S. presidential election when Trump won (Exhibit 3), this time the upside potential of the U.S. equity market will be limited, as the stock market had already partially factored in Trump's victory beforehand and stocks were rising. The following three factors are likely to limit the upside potential of the U.S. equity market: (1) In 2016, U.S. equity valuations were at around 16x P/E (Bloomberg basis), while they are currently overvalued at around 21x P/E (Bloomberg basis); (2) In 2016, the global economy was in the recovery phase from the bottom, while it is now in a gradual slowdown phase, and (3) While the corporate tax rate was reduced from 35% to 21% under the previous Trump administration, the current plan is to reduce the rate from 21% to 15%, making the scale of the tax cut relatively small. Furthermore, if the protectionist trade policy advocated by Trump (Exhibit 1) is implemented, the U.S. stock market will gradually become more volatile as real income declines due to higher inflation, which will put downward pressure on the economy.

Looking ahead to the U.S. bond market, the yield on the 10-year U.S. Treasury note is likely to rise moderately due to the expected increase in U.S. Treasuries issuance on the back of the large-scale fiscal policy advocated by Trump and concerns about renewed inflation due to his protectionist trade policy. On the other hand, compared to the aftermath of the 2016 U.S. presidential election in which Trump won (Exhibit 3), a sharp rise in interest rates in the U.S. bond market will be avoided this time, given that the Fed is currently in a rate-cutting phase, in addition to the fact that interest rates were rising due in part to Trump's victory beforehand. For the time being, we expect the dollar/yen to rise moderately against the backdrop of a gradual widening of the Japan-US long-term interest rate gap.

Looking ahead, we expect the Japanese stock market to move higher on the back of a weaker yen and higher U.S. stock prices, similar to the market development after the U.S. presidential election in 2016 (Exhibit 4). Given that valuations of Japanese equities are not overheated relative to U.S. equities, we believe that there is still some upside potential. On November 11, Japan is expected to hold a special parliamentary election to nominate a prime minister, and it is increasingly likely that Prime Minister Ishiba will be nominated again. With the House of Councillors election coming up in July 2025 in Japan, "fiscal expansion plus accommodative monetary policy (≒ gradual interest rate hikes)" is likely to be favored to support the weak government base, which will also provide support for Japanese equities.

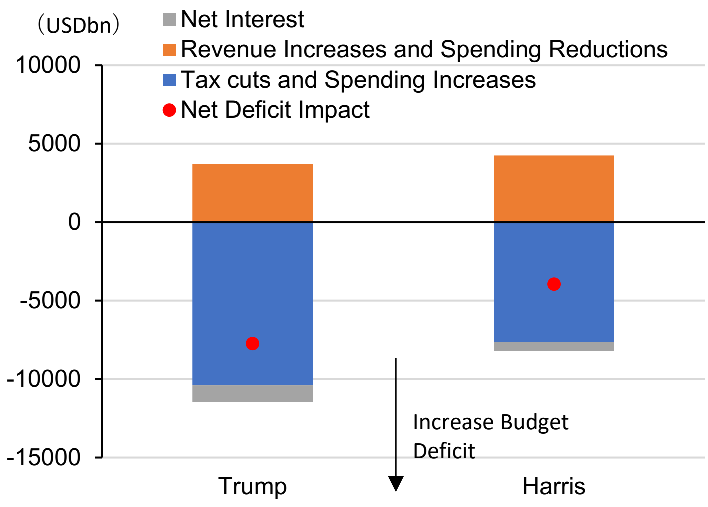
In terms of the Japanese stock market, we expect the environment to remain positive for manufacturing and foreign demand stocks in general, as the yen is likely to remain weak against the dollar in the forex market for the time being. In an environment where U.S. interest rates are likely to come under upward pressure, value stocks such as financial stocks are likely to outperform growth stocks. In addition, cryptocurrency-related stocks will likely attract attention as regulations on cryptocurrencies are expected to be eased under Trump. Furthermore, defense-related stocks are likely to outperform as Trump is expected to demand increased defense spending from Japan while emphasizing the importance of the Japan-U.S. alliance. Japanese automakers with strengths in hybrid vehicles will also be in the spotlight as Trump's easing of environmental regulations is expected to slow the pace of EV adoption. On the other hand, U.S. policy toward China is expected to become stricter under Trump, so China-related stocks will need to be on the lookout.

Exhibit 1: Trump's Main Policies

Fiscal Policy	Corporate tax reduction (21%→15%)
	Income tax cuts (Trump tax cuts) made permanent
Business Policy	Deregulation of cryptocurrencies and AI
	Revival of the manufacturing industry
Trade	10% tariff on all imported goods
	60% tariff on imports from China
Security	Reduction of aid to Ukraine
	Calls on allies to strengthen joint defense obligations
Immigration	Deportation of illegal immigrants
	Suspension of automatic granting of citizenship to children born in the U.S.
Energy	Investment in fossil fuels (re-withdrawal from Paris Agreement)
	Ending the Biden Administration's Climate Change Policy

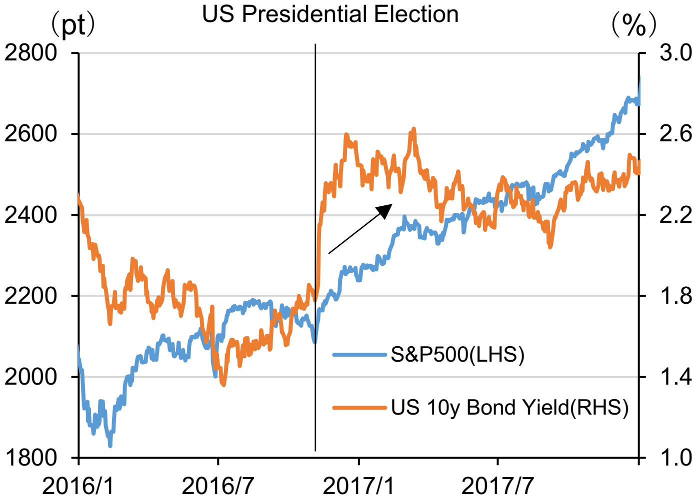
Source: Various press releases, MUFG: Trust Bank

Exhibit 2: Fiscal Impact of Trump and Harris' Policies



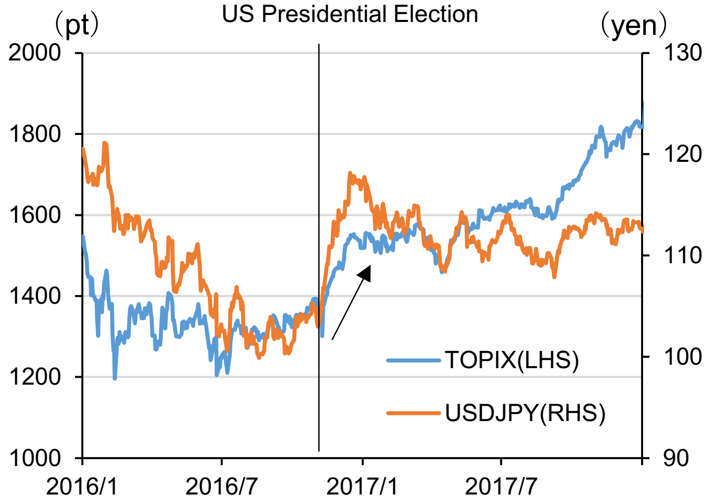
Note: The 10-year period from FY2026 to FY2035 is the target period.
Source: CRFB, MUFG: Trust Bank

Exhibit 3: U.S. Stocks and U.S. Interest Rates before and after the 2016 U.S. Presidential Election



Source: Bloomberg, MUFG: Trust Bank

Exhibit 4: Japanese Stocks and the Dollar/yen before and after the 2016 U.S. Presidential Election



Source: Bloomberg, MUFG: Trust Bank

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