(UBS)

What are the investment implications of Trump's victory?

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Markets have started to digest Trump's victory, with the initial response pointing to expectations of stronger growth, higher inflation, a slower pace of interest rate cuts, and trade tariffs.

As more detailed policy proposals emerge from the Trump transition team, investors should brace for further swings ahead. We advise investors to be ready to use any outsized market reactions to build stronger long-term portfolios.

In equities, we expect the S&P 500 to reach 6,600 by the end of 2025, driven by solid US growth, lower interest rates, and enthusiasm over AI. Technology, utilities, and financials are among our preferred sectors. The key potential beneficiaries of deregulation—financials and energy—led the S&P 500 to a fresh record high on Wednesday. That was in line with our view that these sectors would likely outperform in the event of a Trump victory. The tech sector also advanced.

The industry could face headwinds from trade tensions, but we do not believe this will outweigh the structural growth story over the medium term, including optimism over the accelerating commercialization of AI.

The risk of higher tariffs on Chinese exports to the US pushed the CSI 300 and Hang Seng benchmarks lower on Wednesday—though declines were relatively modest. While we acknowledge the headwinds that tariffs could create, we note that China stocks are already inexpensive, and it is possible that Beijing may frontload stimulus spending more aggressively in response.

In fixed income, investors have initially focused on the potential that a more expansionary fiscal policy will contribute to higher inflation and a slower pace of Fed rate cuts. The 10-year Treasury yield has climbed from around 3.8% at the start of October to 4.43% as of Wednesday. In our view, the increase in yields has gone too far and offers a chance for investors to lock in attractive yields as the easing cycle continues.

In currencies, the US dollar gained renewed momentum from Trump's win, with Wednesday's gain in the DXY index the largest one-day advance in two years. However, we expect such gains to fade over the medium term. The dollar's overvaluation and the US's significant twin fiscal and current account deficits are likely to weigh on the currency over time. Investors should therefore consider using current dollar strength to diversify into other G10 currencies.

The price of gold eased from recent record highs. But looking ahead, we believe that higher deficits, geopolitical uncertainty, and continued central bank buying should lead to upside over the coming months. We have a USD 2,900/oz target for September 2025.

For more, see the **US Daily - Equities rally on Trump victory**, 7 November, 2024.