What the US Election Means for Business and the Economy

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The US has elected Donald Trump to become its 45th president, and the Republican Party has swept both houses of Congress.

This result will bring the US federal government under a single party for the first time since the election of President Obama in 2008. The results of this election caught financial markets by surprise as preelection polling predicted a Hillary Clinton win, with probabilities in the 70% range and with consensus polls indicating a 3–4 percentage point lead for the Democratic Party candidate.

As Trump's win became more likely, major US equity market futures fell nearly 5%, and the Mexican peso fell as far as 12% at its low point in overnight trading. Financial markets gyrated rapidly across the evening and early-morning hours, but in contrast with market reactions after Brexit, they quickly retraced losses to less than half of their worst levels following Trump's acceptance speech. Whereas the British pound fell nearly 8% immediately after the Brexit vote and kept falling, the swing in the US dollar (except for the dollar to Mexican peso rate) had largely moderated itself overnight.

It is extremely premature to assess the full financial market reaction to the election results and their implications for the broader macroeconomy. Our greatest immediate post-election concern is spillover distress from financial markets into the real economy. The rapid signs of moderation in the financial markets are encouraging initial indications that financial market shock may not spread to become a driver of distress to the real economy.

If a new cycle of financial panic starts in the coming weeks or months, especially affecting risk spreads in the corporate bond market, then the negative pressure on business investment could overwhelm the US economy at a relatively vulnerable stage in its business cycle and pull forward a recession to as early as 2017. While not our base case scenario, this is the most likely among our alternate downside scenarios.

As a reminder, the president-elect enters office January 20, 2017, and the new Congressional term commences January 3, 2017. Whatever the change in policy direction between the current administration and the incoming one, nothing will happen for two months, giving ample time to more fully digest the potential implications of this election result. More informed speculation on policy direction will become possible as the incoming president's Cabinet takes shape.

This election result represents a fairly material change in the potential direction of US policy on multiple fronts. Beyond the obvious areas that dominated the election debate (e.g., trade, immigration, taxes and foreign policy), industries that could see outsized impact include healthcare (Affordable Care Act), energy, financial services and technology. We will carefully monitor and assess these potential changes, but unless financial markets create a situation of crisis, there is time to make these evaluations as more information becomes available.

To that end, a few key points are important to keep in mind when considering the immediate impact of this election on the macro business environment for our clients operating in and around the US:

- The US federal government is intentionally designed to generate significant gridlock and policy inertia when compared with most other advanced economy democracies such as the UK, Germany and Japan. In particular, the US president is generally less free to act independently of the other branches of government than his or her parliamentary counterparts.

- The Republican sweep across both chambers of Congress plus winning the presidency somewhat reduces the likelihood of outright gridlock, but compared with previous single-party wins, the president-elect and Congress come from different wings of their party and will likely enter their offices with less initial policy overlap than would normally be the case. The need to negotiate with Congress to achieve any new legislation will likely have a moderating effect irrespective of campaign rhetoric. Lower taxes and reduced regulation are the areas of greatest alignment, but even in these areas, there will be many details that need to be worked out.

- One stated objective of President-elect Trump—even mentioned at the top of his acceptance speech—is a large infrastructure investment program. Given the relative popularity of such a program across large segments of both parties, a relatively large infrastructure stimulus program could be a possibility in early 2017. If sufficiently large and front-loaded, such a policy would be stimulatory to the US economy and may even delay the end of the current growth cycle. This delay would be a positive variance from our US base case scenario.

- Business leaders and observers outside the US have expressed particular concern about the potential inflections to US trade and national security policy and their ramifications for the global business environment. Unfortunately, there are relatively few concrete details on proposed policy changes and even less clarity about whether such changes could be quickly enacted without Congressional support. Nonetheless, along with financial market movements, this is an area of potential downside risk for our base case scenario and one that we will monitor closely.

- It is worth noting that changes in global wage differentials, manufacturing technology, customer demands and supply chain resilience concerns already appear to be moderating the growth of international trade in manufactured goods. Global trade data over several years indicates that trade is becoming less important to global growth. As a practical reality, policy changes in trade may end up chasing an existing trend rather than driving it.

- More generally, the range of policy positions from President-elect Trump is less explicitly articulated than has been the case in recent presidential elections. The ascent of an anti-establishment candidate to the presidency with limited stated policy beliefs and a wide-swinging campaign rhetoric raises the range of uncertainty beyond what has been seen from any previous candidate in recent memory.

- Policy outlines spoken during a campaign are blunted or reshaped by the weighty realities of governance once a candidate takes office. It is not obvious that President-elect Trump will achieve greater concurrence between campaign promises and policy reality than the well-established pattern of his predecessors.

- Besides generating a wide range of uncertainty, the relatively less developed policy positions of President-elect Trump will also likely push back their implementation as they still require significant time to be crafted and driven to the required level of specificity for implementation. So while the range of outcomes may be wider than normal, there is likely to be more lead time to analyze and assess any policy changes and to make adaptations as necessary.

Bain's Macro Trends Group will continue to monitor the situation and issue further Briefing Points as information and analysis warrants over the coming weeks and months.