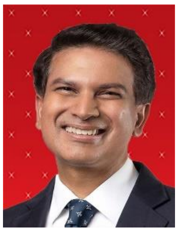
Macro Insights Weekly
US elections and the 2025 macro narrative

Group Research **November 4, 2024**



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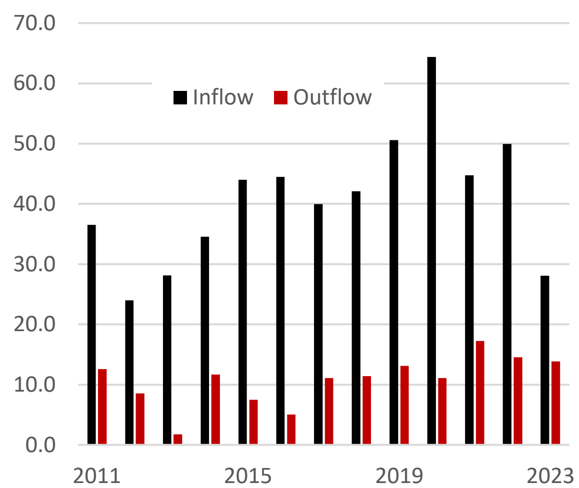
- *After record breaking campaign spending and considerable drama, the US presidential elections take place. Is the 2025 US macro outlook heavily dependent on the outcome? We don't think so.*
- *The near-term outlook is favourable, with 2%+ growth and dissipating goods inflation.*
- *But behind the cyclical comfort lies major structural challenges.*
- *From fiscal to trade, dollar to China, the US faces major policy decisions.*
- *Social cleavages run deep along partisan lines in the US.*
- *But we suspect that lack of clarity on economic policies is bipartisan.*

Chart of the Week: India's investment trend

Annual FDI inflows to India has exceeded 2% of GDP for nearly a decade. A dip in 2023, and so far this year, has been noticeable, but investments in services and technology in particular would likely turnaround shortly, given the announced strategies of numerous MNCs. What is remarkable is the steady rise in outflows, which indicate successful exit from earlier investment rounds of VC and PE firms. A soaring stock market has helped this dynamic, which we see favourably. Successful exits are the seeds of the next round of inflows.

India FDI, USD bn



Source: World Bank, DBS

Commentary: US elections and the 2025 macro narrative

After record breaking spending and considerable drama, the US presidential elections take place on Tuesday, November 5. Along with picking a President and Vice President, Americans will also vote for a range of other bodies, including the US Senate, House, state governorships, and state legislatures.

This is a coin-toss election, with polls suggesting leads and lags within the margin-of-error. But **given the vagaries of the electoral college system, the ultimate verdict need not be narrow. All seven swing states could end of up going in one direction, however narrowly, thus giving the winner the veneer of a landslide**. Regardless of the outcome of the elections, the US will remain a deeply divided nation on its choice of leadership. Lack of consensus on immigration, tax policy, entitlements, public debt, immigration, education, healthcare, and foreign policy will remain the hallmark of the US under either Harris or Trump.

The elections are taking place at calm economic times, unlike four years ago when pandemic related distortion and uncertainty clouded the horizon. This time, the economy is maintaining strong growth momentum despite a multi-year monetary policy tightening cycle. High rates have not dented the asset markets, which have been buoyed by strong corporate and household balance sheets, a major investment cycle around AI, and substantial fiscal support. Goods inflation has dissipated, while numerous geopolitical risks have come and gone without hurting domestic activities or sentiment.

The president taking office on January 20 next year will not be able to rest easy though, as **behind the cyclical comfort lies major structural challenges**. The fiscal situation, characterised by net public debt amounting to over 100% of GDP and USD1trln+ in annual interest payments, is increasingly untenable. **Foreign investors' inclination to hold US treasury as the world's premier AAA-rated asset runs deep, but it is not unconditional**. Stubborn services inflation, lack of fiscal consolidation, weaponisation of the USD, all are a source of rising discomfort, something that would need to be addressed sooner than later.

The US, over the past eight years, have made a decisive switch from promoting free trade to resorting to increasingly protectionist policies. **Tariffs against China in particular, and the rest of the world in general, would rise under Trump, but they won't be reduced under Harris either**. Restriction on China's access to high tech continues to be ratcheted up, with those who trade with China also facing scrutiny; we expect no relent to this dynamic under either president in the coming years.

On USD and rates, would the outlook be different under the marginally more rules-based policy of Harris as opposed to the transactional and mercurial Trump? Perhaps one can make the case that Trump's policies of tax cuts and tariffs would be more inflationary; but it is also not the case that Harris has major anti-inflation plans in her arsenal. Are rates likely to be higher as fiscal issues are left unaddressed? We think that's true for both.

Social cleavages run deep along partisan lines in the US. But having assessed the last two electoral cycles, we suspect that lack of clarity on economic policies is bipartisan.

Taimur Baig

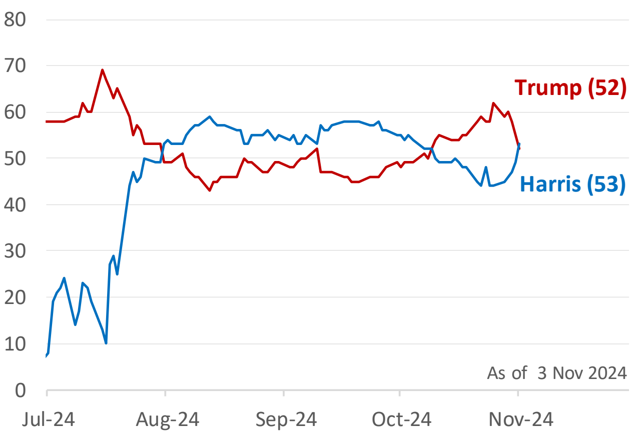
FX: US election uncertainties and FOMC and BOE decisions

The factors that drove the USD's recovery in October are reversing.

First, the confidence in a Trump victory in the US Presidential elections on November 5 has waned. The outcome of the closely contested race remains uncertain, raising the potential for significant market volatility. News reports suggested that the Republicans could help former president Donald Trump overturn the election results if vice president Kamala Harris wins. Trump's scheduled sentencing on November 26 for his 34 felony convictions could also sow confusion if he wins.

Polls see Trump losing his lead against Harris

Who will win the 2024 Presidential Election?



Source: US PredictIt

Hence, markets are hedging their "Trump Trade" bets. For example, the VIX Volatility Index is close to this month's high above 20 again, and Bitcoin retreated to 69,114 yesterday after nearing its lifetime high of 73,798. The DXY Index has struggled to keep pace with rising US bond yields amid worries about US fiscal sustainability. USD/JPY was capped at 154 after Japan's snap election on October 27 stripped the ruling LDP-Komeito coalition of its majority. However, the political resistance to the Bank of Japan's rate hikes supported USD/JPY around 152.

Second, we see the Fed Funds Rate (FFR) declining by 25 bps to 4.50-4.75% at the FOMC meeting on November 7. US nonfarm payrolls were significantly weaker at 12k in October vs. the 100k consensus; September was revised to 223k from 254k. Fed Chair Jerome Powell will reiterate that further labour market weakness is unnecessary to lower inflation. With the economy and labour market in better balance vs. two years ago, amid low global energy prices, Powell will likely be confident about inflation returning to the 2% target next year. Hence, the Fed will keep the door open to lower interest rates towards neutral. Our view remains that the FFR will decline to 3% by 3Q25.

We also anticipate the Bank of England lowering its bank rate by 25 bps to 4.75% on November 7. CPI inflation fell to 1.7% YoY in September, below the 2% target for the first time since Covid. However, core inflation remained high at 3.2% in September. BOE Governor Andrew Bailey should address monetary policy in light of the controversial Budget announced on October 31. While the IMF backed Chancellor Rachel Reeve's economic plan to boost public investment to drive growth, Moody's warned that frequent changes to the fiscal rules could erode credibility. The Office for Budget Responsibility (OBR) reckoned the additional spending could provide a short-term lift to growth before crowding out business activity and investment and lifting inflation. Following its knee-jerk sell-off to 1.2844 on the announcement, GBP/USD has stabilized above 1.29 on expectations of cautious BOE rate adjustments.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)