

Carsten: What a second Trump term means for you

Trump's victory means there are more 'known unknowns' than even that other Donald, Mr Rumsfeld, could ever get his head around. But I'm going to try to cut through the bluster and the electioneering promises to sketch where we're headed next. One thing's for sure: an emboldened Donald Trump is not good news for Europe



Now's not the time to be naive

At least it's over. An election full of superlatives, over-analysis and bombast that would embarrass even the most committed World Cup football commentator.

And we have a winner...Donald Trump. Inflation and immigration seem to have been the deciding issues, so we'd expect him to do everything he can to deliver on his promises. My dear colleague James Knightley has done a great job in following the US elections and we [sent out this](#) instant reaction note on Wednesday. Our November Monthly is now a first attempt to put the implications of the US vote into numbers for the global economy. These forecasts will surely change in the coming months once we know more about actual policy announcements by the new Trump

administration and the potential policy responses by other countries.

Don't be too naive, though. We shouldn't take Trump's election promises as a starting point for his policy agenda. And let's not forget he's much better prepared for his second term in office than he was for his first. Leaving the nitty-gritty number forecasts aside for a moment, I do see a couple of economic themes in the US and Europe, which will shape both economies over the coming years.

Something of a nightmare for Europe

In America, we will see another episode of 'trying trickle-down economics in real life'. An economic policy experiment, also known as Reagonomics or Trumponomics, uses the infamous Laffer curve to back up the theory that lower taxes will eventually lead to higher government revenues as they disproportionately stimulate the economy. So far, the score between theory and successful practice is, unfortunately, 2 to nil. The idea that tariffs can help reduce US government debt misses the point because they're not surcharges that foreign governments pay the US government but are higher costs that eventually have to be paid by consumers.

It will also be interesting to see how tax cuts and deregulation can simultaneously lead to higher growth and lower inflation. I wish the Fed good luck in cutting rates in what could soon become another supply-side shock combined with a potential battle for its own independence.

In Europe, the Trump win means that the worst economic nightmare comes true. His second term in office hits the European economy at a much less convenient moment than the first. Back in 2017, the European economy was relatively strong. This time around, it is experiencing anaemic growth and is struggling with lost competitiveness. A looming new trade war with tariffs of 10 to 20% on European goods could push the eurozone economy from sluggish growth into recession. Germany, which heavily relies on trade with America, would be particularly hard hit by tariffs on European automotives.

Additionally, uncertainty about Trump's stance on Ukraine and NATO could undermine the recently stabilised economic confidence indicators across the eurozone; deregulation in the US of both the tech and financial sectors will make an already unlevel playing field even more undulating. Trump's economic policies could further cannibalise European competitiveness.

Interesting policy experiments to come

European politicians claim to be prepared for a second Trump presidency. However, even with talks about an existing list of potential trade retaliation measures, it would be the very first time in Brussels that such a list has not leaked to the media. And that's an indication it might not even exist. Trump hits Europe not only at a time of economic weakness but also one of political instability.

During the first Trump term, Emmanuel Macron and Angela Merkel were a strong political axis. Today, France is struggling, and the German government has just collapsed. There's not exactly a strong bulwark. It really casts doubts about Europe's ability to find adequate responses to Trump. Actually, finding these answers is not the problem. They're already at hand in September's [Draghi report](#), calling for reforms, deregulation, cross-border activities, and large-scale investments to improve growth, productivity, and competitiveness. Sure, it's easier said than done, but 'if not now, then when?' is, once again, the question for Europe.

Trump 2.0 will bring interesting policy experiments to the US and Europe. I always knew it: *May he live in interesting times* is not just a simple Chinese proverb; for this economist, it's becoming a curse.

Our key calls following the US election

- US growth is likely to be higher in the first half of next year than previously expected. Donald Trump's decisive victory and the prospect of a smooth political transition should unlock delayed investment spending.
- The Trump administration's initial focus is likely to be on domestic policy, including immigration and extending/expanding tax cuts. We think the earliest timing for tariffs to be implemented is the third quarter of 2025. China would likely be impacted first, with a gradual series of tariffs introduced on different products from other countries coming in later.
- A stronger near-term growth outlook and the prospect of tariffs and labour supply constraints may make the Federal Reserve more cautious on rate cuts than we previously anticipated. We still expect another cut in December, but we think it may choose to pause in January and go more slowly. We expect rates to peak slightly higher than we previously thought, at 3.75%.
- Risks to the eurozone growth outlook have clearly shifted to the downside and a 50bp rate cut at the December meeting has again become more likely. We now expect the European Central Bank to cut interest rates to around 1.75% by next summer, below neutral levels.
- We are revising our EUR/USD forecast lower following the Republican clean sweep. That translates into a 1.00-1.05 EUR/USD range over the next quarters, with peak downside risks around the start of 2026.
- US 10-year yields are set to end the year at 4.25% but rise significantly through 2025 to end next year at 5.50%.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial

Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.