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 disproportionally 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