At the margin, the Fed may slow the pace of rate cuts if it believes that potential changes to migration, trade, or fiscal policy may lead to higher inflation. (UBS)

What to watch next following President-elect Donald Trump’s election victory

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US equities rallied last week after President-elect Donald Trump’s election victory removed a key uncertainty for investors and fueled expectations of deregulation and tax cuts. The S&P 500 gained 4.7%—its best weekly performance of 2024—and closed at its 50th all-time high of the year. Small-cap stocks surged, with the Russell 2000 index gaining 8.6%.

Treasury yields initially rose sharply following the election—as investors anticipated a wider deficit, higher inflation, and a slower pace of rate cuts—before moderating toward the end of the week. The 10-year yield closed the week 8 basis points lower, though the rate-sensitive 2-year yield was up 5 basis points. The dollar strengthened against major peers. The VIX index of implied equity market volatility dropped to its lowest level since the end of September, reflecting market relief over a swift and decisive election result.

Trump was elected to a second, non-consecutive term with 312 Electoral College votes compared to 226 for Vice President Kamala Harris, and also won the popular vote. Republicans gained control of the Senate for the first time in four years. At the time of writing, the Republicans look likely to command a majority in the House of Representatives, although the precise outcome has yet to be determined.

What to watch next?

Final seats in Congress. The Republicans have already regained control of the Senate, securing 53 seats (51 needed to win), with one more race still to be called at the time of writing. With 417 of 435 races for the House of Representatives called, the Republicans have won 214 seats and the Democrats 203. Investors will now be watching to see whether a Republican majority in the House is confirmed. Narrow majorities could make it more difficult to pass fiscal legislation and raise the probability of gridlock following the 2026 midterm elections.

Policy statements from President-elect Trump. The outcome of the election has answered some questions but raised others. The uncertainty of a contested election, and the potential for higher corporate taxes and greater regulation has been removed. But investors now face fresh uncertainty on trade tariffs, immigration policy, and geopolitics. President-elect Trump is likely to elaborate on his policy intentions in the coming days and weeks, which could create market volatility. However, it is worth remembering that during his first term, he used the performance of the S&P 500 as a barometer of his success.

Further signals from the Federal Reserve. The Fed cut interest rates by 25 basis points last week in response to a cooling labor market and moderating inflation. Chair Jerome Powell emphasized the Fed's data-dependent approach, and said near-term policy decisions would not be swayed by the recent presidential election. We expect the Fed to continue to move toward a neutral policy stance, and we do not expect it to immediately change its outlook since uncertainty around policy execution remains high. We expect another 25bp cut in December and 100bps of easing in 2025. At the margin, the Fed may slow the pace of rate cuts if it believes that potential changes to migration, trade, or fiscal policy may lead to higher inflation.

China's fiscal stimulus. A Trump victory raises the probability of very large tariffs on Chinese exports to the US and challenges the outlook for Chinese stocks. The latest stimulus measures announced by the National People's Congress Standing Committee last week also underwhelmed investors. However, guidance from Chinese policymakers suggested that previously announced measures and a multi-year fiscal expansion are still being developed. In our view, this deferral indicates that China's leaders may be choosing to keep some policy options in reserve until Trump's tariff strategy becomes clearer. Investors will therefore be watching to see whether there is more to come from China's policymakers in the coming months as they seek to stabilize economic growth and shore up the country's struggling property sector. We keep a Neutral stance on Chinese equities for now.

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