MARKET INSIGHTS

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Market Highlights:

President Trump 2.0

7 November 2024

The US Presidential Elections held on the 5 November 2024 saw Donald Trump win his second term as President of the United States of America ("US"). Once again, polls were not accurate, and the race was not as close as forecasted.

Based on Trump's campaign promises, he advocated for free market capitalism, significant tax cuts, US-protectionist policies, tighter border controls, increased infrastructure spending and the right to bear firearms.

Of his campaign promises, the one that will likely be impactful to Asia in general would be the **tariffs of 10-20% on all imports**, and **for Chinese goods imported, tariffs of 60%**. This will likely create relatively more upside bias to inflation given the tariff tantrums, as imported goods become more expensive. In addition, his policies may have an inflationary bias given his stance on tightening immigration and mass deportation, which may lead to higher wages given the shrinking workforce. Potential for higher inflation in the US could also result in a stronger USD, as the US Federal Reserve may not be as aggressive with rate cuts, despite Trump's preference for lower rates.

In the short run, we think US importers may front load orders ahead of tariff hikes. We also expect **"China Plus One" to accelerate, companies will relocate more quickly out of China, and ASEAN (including Malaysia) will benefit from this move**. The US-China trade war and the evolving global supply chain have positioned Malaysia as a preferred hub, attracting increasing levels of foreign direct investments ("FDIs") from global Multi National Companies ("MNCs"). According to Malaysian Investment Development Authority ("MIDA"), Malaysia has secured RM85 billion in foreign investments during 1H 2024. **Sectors that will continue to benefit are technology, data centre, green energy sector (renewable energy and solar), property (industrial parks, logistics and warehouses), as well as banks**.

The US tariff policy against China may be very challenging to China manufacturers and exporters. When China's economy is weak, sectors that could be negatively impacted include commodity, tourism and consumer discretionary. However, we will monitor China's counter-policies closely. China may respond with fiscal stimulus and further monetary easing to support the economy.

Some risks to consider for Malaysia in this second Presidential term for Donald Trump. The proposal by Trump also includes a **blanket tariff of 10-20% on all imports**, which will have an impact on Malaysia, given US is the third largest export destination (11.3% of exports in 2023). Under Trump's previous administration, Malaysia was highlighted on the US currency manipulation watch list in May 2019, although Malaysia is not featured in the June 2024 review. The expansion of the Foreign Direct Product rules would allow the US to stop exports of semiconductor manufacturing equipment (if made using US Tech/ software) from foreign countries to Chinese chipmakers, although the impact could be limited as Malaysia's involvement in advanced chip-making is minimal.

With easy regulation on oil & gas developments and possible exit from Paris Agreement again under Trump administration, coupled with weaker demand from China, w**e expect oil, gas, and coal prices to be soft (negative for energy sector)**, unless the Middle East tension worsens or there is serious threat of supply disruption.

With regards to global geopolitical tensions, President Trump will likely have a better chance in resolving the Russia-Ukraine war, which will probably be due to cutting aid to Ukraine. For the Israel–Palestinian conflict this could be trickier, although Trump has been unambiguously in support of Israel. The Russia-Ukraine war has been mostly contained within the two countries' borders, whereas the Israel-Palestinian conflict has roped in other countries. Malaysia has been very vocal in support of Hamas, and there is a risk of potential backlash from Trump's potentially confrontational "shoot from the hip" style in his attempt to find a resolution.

Malaysia equity strategy

We are constructive on the domestic market which will continue to be supported by the strong economy, strong FDI, corporate earnings growth, flushed liquidity and tourism rebound. We will selectively rotate from stocks which have done well and deploy into laggards with potential catalysts, such as companies benefitting from the investment upcycle, US-China trade war and high dividend yielding stocks. In the short term, we may see stronger USD, and this will be positive to Malaysian exporters such as gloves, plantations, technology and selective industrial companies. In the longer term, there could be more market volatility from a Trump presidency.

Malaysia fixed income strategy

Trump's proposed policies could lead to higher fiscal deficits, and inflationary pressures in the US, which could also contribute to inflation and economic uncertainty domestically. This might result in surging bond yields as investors demand more return to compensate for increased inflation risk. The recent surge in bond yields could reverse itself as the U.S. Fed continues cutting rates into next year and macroeconomic growth settles back to long-term trends in 2025 and beyond.

Tactically, Ringgit bonds will continue to be driven by domestic liquidity. Nonetheless, sentiment will be led by surging U.S. bond yields and a stronger Dollar, which will soften offshore demand for Ringgit debt in the short term, thus propelling Ringgit bond yields higher. In the medium term, we anticipate that corporate credit spreads will normalize from historically tight levels as domestic liquidity is drained. Therefore, we will partake in primary corporate bond offerings which offer a decent credit spread for the level of risk taken.