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What can investors expect from Trump 2.0?

With President Trump's new term underway, Chief Strategist, Guy Foster examines the administration's priorities and their potential impact on the global investment landscape.

The President Trump reboot has well and truly arrived. We may be just a few days in, but the implications for the global economy and investors are already starting to take shape.

As we navigate this new landscape and a flurry of executive orders are signed, it's first worth remembering what powers the President has and how he might like to wield them.

The power of the President

As President, Trump leads the executive branch of government, which is responsible for enforcing laws. Congress writes those laws, although in modern times, the President has a significant influence over their drafting. If Congress drafts a law without the President's input, he can veto it.

This separation of powers checks the President's power. However, Trump's Republican Party controls Congress and in his first term he also gained significant influence over the third branch of government, the judiciary (courts), therefore reducing the check's effectiveness.

The President also uses executive orders, instructions from the President to a federal agency to undertake a specific action. Unlike laws passed by Congress, executive orders can't spend money or change taxes, but do offer Presidents significant power over non-budgetary matters.

These arrangements haven't changed since President Trump's first presidency. What has changed is his team...

Team Trump unites

There is a greater cohesion at the start of this Trump presidency. In 2017, members of his own team sought to water down or delay some of his initiatives. In 2025, the Trump administration seems to be pulling in the same direction.

But what is that direction?

Since the election, the three main categories the administration has been targeting have remained broadly the same.

Trump and taxes

- **Policy direction**

  Trump's first term saw sweeping tax cuts across personal and corporate taxes, some of which are due to expire during 2026. Given he campaigned on a pledge to lower taxes for this election, his priority will be to ensure that those existing cuts are made permanent or extended. He may even try to cut taxes further, particularly for companies producing goods in the U.S.

- **The reality**

  As mentioned, these budgetary processes need to pass through Congress, which will probably feel compelled to rollover existing tax cuts. One major obstacle to further tax cuts is the U.S.'s substantial budget deficit, which stood at over $1.8 trillion for the 2024 financial year and took U.S. national debt to over $35 trillion. Given this challenge, achieving additional tax cuts appears to be a difficult goal.

- **The impact**

  If taxes can be cut, it could encourage consumers to spend more, which would bolster U.S. growth. Typically, this would lead to increased employment. However, with low unemployment there's limited scope for this, so tax cuts might instead lead to inflation. Considering these factors, the most likely outcome seems to be a continuation of existing tax cuts, with only minor additional cuts. Whatever the decision, it will likely take weeks if not months of negotiation.

On his other goals, President Trump has been able to act faster...

Trump and immigration

- **Policy direction**

  Trump has been outspoken about the need to rein in immigration and has also discussed deporting millions of unauthorised migrants (estimates assume there are over 11 million in total).

- **The reality**

  Trump has already taken several steps to reduce the number of immigrants and prepare to deport unauthorised migrants. Much of this has been achieved through executive order, but legislation passed through Congress within days, requiring the detention of migrants suspected of crimes, even if they haven't been charged. This legislation was passed swiftly because it was supported by some Democrats. Ultimately, President Trump's efforts in this area are likely to continue.

- **The impact**

  There is undoubtedly a substantial human cost associated with deporting unauthorised migrants, one that should be deeply considered. It will also come at a significant monetary cost and pose considerable logistical challenges. However, the greatest economic concern is that a substantial reduction in workers could risk causing inflation, particularly in sectors with high immigrant workforces, such as agriculture.

  Allowing immigration policy to drive a significant increase in food prices due to a shortage of workers would be a substantial own goal. This concern is just one reason why the administration is likely to fall short of its unauthorised migrant deportation targets.

Trump and tariffs

- **Policy direction**

  One of Trump's key objectives is to win benefits for America by imposing taxes on imports (tariffs).

- **The reality**

  President Trump immediately ordered a series of investigations; which are a precursor to imposing tariffs. On his first day in office, he claimed 25% tariffs would be imposed on Canada and Mexico by 1 February 2025.

  Tariffs serve multiple purposes within Trump's world. In his first term, tariffs on Chinese imports aimed to reduce imports from a strategic rival, with debatable success. Alternatively, Trump has used tariffs as bargaining chips to renegotiate trade agreements, as demonstrated against Mexico and Canada in his previous term. So, tariffs can be threats, temporary measures, or structural impediments to trade.

- **The impact**

  The direct economic impact of tariffs is to discourage trade. This means in the first instance, it's likely to reduce economic activity for net exporters and increase it for net importers. This has been reflected in stronger U.S. economic growth expectations for the U.S. relative to other regions.

  Tariffs will also increase prices. A price increase is inflationary, but only for imported goods. Typically, this effect is temporary as tariffs are a one-off increase in cost. Tariffs may be charged on imports, but those higher prices are paid for by consumers and, with inflation high on voters' priority lists, excessive use of tariffs could be unpopular.

  Generally, if one country imposes tariffs, the target of those measures will impose countervailing (retaliatory) tariffs. So far, countries have been cautious about responding to Trump's threats, waiting for a clearer sense of what will be enacted and what is mere rhetoric. For the UK, it's unlikely to be a major target of the Trump administration's trade policies given its trade deficit with the U.S.

  In a speech to the World Economic Forum last week, Trump also complained about European sales, or value added, taxes. These are often seen as barriers to trade, as imports are subject to the local sales tax, while exports aren't. The interactions between VAT and trade are complex, and research has cast doubt on the intuitive belief that VAT enhances export competitiveness. However, Trump is an intuitive individual and may threaten tariffs until European sales taxes are dropped. This might seem like a welcome outcome for UK consumers, but like all taxes, if VAT was cut, something else would need to rise to replace lost revenue.

What about deregulation?

Underlying the President's agenda is a broad thrust of deregulation, including environmental policy. This aims to ease investment in the U.S. and boost American economic capacity.

The President has ordered Federal waters to be made available for oil drilling, which could add to U.S. growth and help to moderate inflation. Meanwhile, Trump has once again ordered that the U.S. withdraws from the Paris Climate Agreement.

Perhaps the biggest surprise of the new Trump administration has been the announcement of a major investment in artificial intelligence (AI) infrastructure, led by U.S. firm OpenAI and backed by Japanese firm Softbank and Abu Dhabi's AI investment fund. The U.S. government is not funding the project but is clearing regulatory hurdles for the deal, which is valued at up to $500bn.

A new era of uncertainty?

In the weeks leading up to and following President Trump's election victory, financial markets anticipated higher inflation, and the early days of his presidency have done little to dispel this expectation.

Trump's economic policies aim to stimulate growth through deregulation and tax reform. However, this growth may come at the expense of other regions due to the implementation of tariffs.

The upshot is that U.S. stocks or companies exposed to the U.S. economy are likely to enjoy the thrust of the new government's policies more than other regions (perhaps unsurprisingly). According to the International Monetary Fund (IMF), among advanced economies, the U.S. is stronger than previously projected on continued strength in domestic demand. The IMF raised its growth projection for the U.S. this year by 0.5%, to 2.7%, as a result.

However, overly vigorous immigration policy and tariff enforcement could potentially restrict economic growth or exacerbate inflationary pressures. In this context, the President's repeated threats to influence interest rate policy have been unsettling to bond markets. For now, this has resulted in higher yields than those seen in the months preceding the election, making them attractive to investors. Nevertheless, just how fast and loose President Trump is willing to play with inflation will need to be monitored closely.

While most actions taken so far align with pre-election expectations, the early days of the administration have not resolved many of the uncertainties either.

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