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In Focus

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Trump reloaded - what we have to reckon with

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LBBW

01 Introduction

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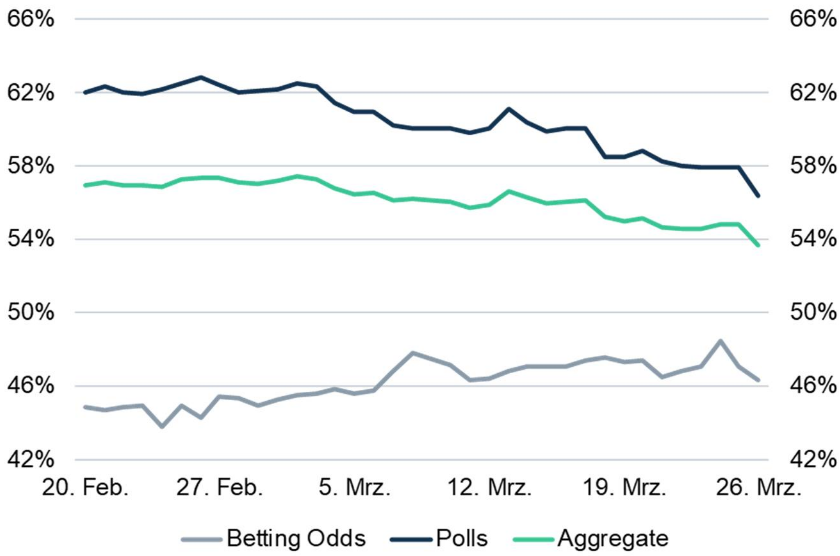
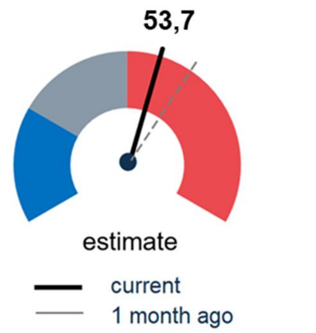
The U.S. elections in November will undoubtedly be the dominant theme of 2024. LBBW Research developed a model called the "Trump-O-Meter", which quantifies the probability of Donald Trump being elected U.S. President. The calculation is based on betting odds, surveys and assessments by our analysts. The model currently puts the probability of Republican candidate Trump becoming the next president of the U.S. at just under 54 percent. If this happens, the world will be faced with significant changes. We are taking a closer look at them in this special report.

Fig. 1: LBBW Research's Trump-O-Meter
Probability that Donald Trump will be elected U.S. President



Source: LBBW Research

Fig. 2: How likely is it that Trump will become the next president of the USA?



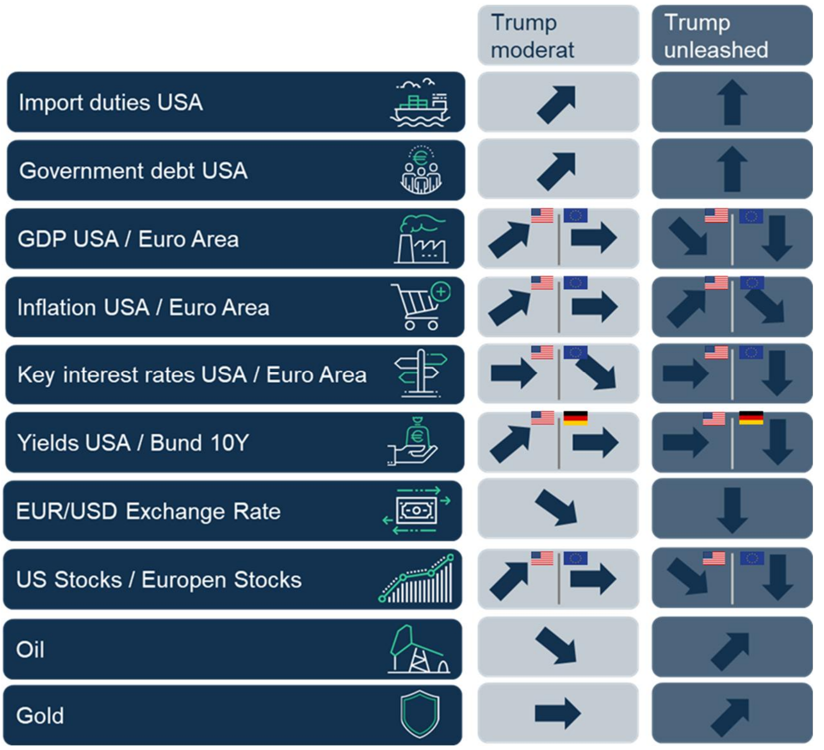
Source: LBBW Research

Given the quickly approaching U.S. elections, LBBW Research has added a negative scenario "Trump unleashed" to its scenarios. Given all this, we currently believe that the most likely scenario is a relatively moderate Trump term or a second Joe Biden presidency. In this main scenario, which we assess as having a 60 % probability of occurrence, the U.S. government pursues a protectionist trade policy with a moderate increase in import tariffs, while government debt rises moderately. Global economic development would be subdued, with above-average growth in the U.S. - fueled by stimulus. measures - while Germany's economy would continue to struggle. The world's leading central banks would lower their key interest rates, more hesitantly in the United States than in Europe.

In this **negative scenario ("Trump unleashed")**, we took a closer look at the consequences if Trump were to take more drastic actions. There are threats and proposals from the agenda "Project 2025" of the Heritage Foundation, a conservative think tank. We rate the combined probability of Trump being elected and then acting "unleashed" at 25 %. Tariffs on U.S. imports will rise to 10 % - for imports from China even up to 60 %. Trump's unclear stance in a NATO Article 5-event and a possible escalation in relations with China would contribute to an increase in political tensions around the world, for example in the Middle East, between China and Taiwan, and between the U.S. and Iran. Europe must also prepare for turbulent times. Given the higher change of a recession, the ECB would rapidly lower key interest rates. In conjunction with rampant economic fears, German government bond prices would soar.

Massive rise in tariffs and more geopolitical tensions

Fig. 3: At a glance - assessments of key parameters in the two Trump scenarios:



Source: LBBW Research

For more information on the scenario frameworks, please refer to the overview on page 18. The following assessment addresses the two scenarios considered most likely, which we refer to as "moderate" and "Trump unleashed" in the below sections.

The consideration of a possible second Trump presidency also necessitated forecast adjustments in our main scenario.

Detailed scenarios can be found from page 18

Fig. 4: Current forecast adjustments

Economy

		2022	2023e	new	2024e	new	2025e	new
Germany	GDP	1,9	-0,1		0,3		1,0	
	Inflation	6,9	5,9		2,5		2,1	
Euro Area	GDP	3,5	0,5		0,8		1,2	
	Inflation	8,4	5,4		2,2		2,1	
USA	GDP	1,9	2,5		2,0		2,5	2,0
	Inflation	8,0	4,1		3,0		2,0	2,4
China	GDP	3,0	5,2		3,5		4,0	
	Inflation	2,0	0,2		1,7		2,2	
World	GDP	3,5	2,9		2,8		3,3	
	Inflation	8,7	5,3		2,9		2,9	

Equity Markets

	Spot	30.06.24	new	31.12.24	new	30.06.25	new
DAX	18 261	16 800	17 500	18 000	18 500	18 500	19 500
Euro Stoxx 50	5 044	4 600	4 800	4 700	5 100	4 900	5 200
S&P 500	5 218	4 800	5 000	4 900	5 300	5 100	5 500
Nikkei	40 414	38 000		40 000		42 000	

Interest Rates and Spreads

	Spot	30.06.24	new	31.12.24	new	30.06.25	new
ECB Deposit Rate	4,00	3,75		3,00		2,50	
Bund 10 Years	2,35	2,00	2,10	2,10	2,20	2,10	2,25
Fed Funds	5,50	5,25	5,50	4,25	4,50	3,75	4,25
Treasury 10 Years	4,25	3,80	3,95	3,85	4,20	3,75	4,50
BBB Bundspread (bps)	129	130		120		110	

Currencies and Commodities

	Spot	30.06.24	new	31.12.24	new	30.06.25	new
US-Dollar per Euro	1,08	1,08	1,06	1,10	1,05	1,12	1,03
Swiss Franc per Euro	0,97	1,00		1,00		1,00	
Pound per Euro	0,86	0,82		0,82		0,82	
Gold (USD/Troy Ounce)	2176	2000		2100		2200	
Oil (Brent - USD/Barrel)	87	80		75		75	

Source: LBBW Research

02 Geopolitics

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Trump's foreign policy in the main scenario

In terms of foreign policy, Trump is likely to continue the "America first" policy of his first term in office if re-elected. He is convinced that the U.S. would benefit more from bilateral agreements than from multilateral alliances & cooperation. The West would not only continue to lose influence, but a power vacuum would be highly likely in regions where the U.S. is currently still involved. China and Russia could significantly expand their respective spheres of influence.

Russia-Ukraine conflict

Ceasefire at the expense of Ukraine

For Trump, a solution to the Russia-Ukraine conflict is equal to ending support for the Ukraine. The country attacked by Russia would probably have to give up all occupied territories. The front line would become a new border where Russian and Ukrainian troops would face each other. The military confrontation would end, the political conflict frozen. Trump would sell this as success and present himself as a peacemaker. At the same time, he would be complying with the majority of the U.S. population's wish to withdraw support from Ukraine. Putin would be strengthened. Provocations against EU states and a resurgence of fighting would pose a permanent threat in Eastern Europe. Trump's supposed success could encourage Putin to destabilize NATO countries as well - such as Baltic states with a large ethnic-Russian minority. Europe would have to rearm even more than planned.

NATO defense alliance

NATO in rough waters

NATO's deterrent capability lies, above all, in its credibility to stand up for one another. Trump is openly calling this into question. Leaving NATO would not be in the interests of the USA. Such a step would cast further doubt on the globally weakening superpower's ability and willingness to form alliances and undermine its position in other regions of the world. Besides Putin, the main winner would be Trump's arch-rival China. Leaving NATO is also unlikely as Trump would need the approval of a reluctant Congress to do so. However, he could weaken the alliance in key areas by withdrawing troops from Europe. If NATO crumbles, political cracks will also appear inside the EU. Some Eastern European states, such as Hungary, could pursue a rapprochement with Russia, while others could align with Trump. This would make it even more difficult to implement a common EU foreign and security policy.

China

Intensified trade conflict with China

While a policy of rapprochement can be expected towards Russia, the opposite is likely to happen with regards to China. In Trump’s world, China is the enemy. The trade conflict in particular could escalate. Trump has announced tariff increases across the board - and against China in particular. The claim that China is “exploiting” the US is one of Trump's central narratives. His core voters, severely affected by structural change in the US, would expect such a signal. Further restrictions on the export of strategic goods and investment regulations for U.S. companies in China could follow. Moreover, there is bipartisan unity in the U.S. vis-à-vis China. Biden also has continued Trump's China-critical course.

We do not expect the U.S. to turn its back on Taiwan. As main supplier of semiconductors, the country is too important for the U.S. economy and U.S.-military. A move away from the island would also jeopardize the U.S. alliance system in East Asia/Pacific due to China's resulting supremacy in the South China Sea. Confidence in the U.S. as a protective power against China would be irreversibly damaged. Japan, South Korea and other countries might be forced to move closer to China. The U.S. would not only be marginalized politically in the region, but increasingly also economically and militarily. For Beijing, this would be an outright victory. This clearly clashes with Trump's ambitions.

Continued Support for Taiwan

Rest of the world

In the competition between the U.S. and China, the majority of emerging economies and regional alliances (ASEAN, Mercosur, etc.) will remain neutral in order to avoid becoming a target of one of the major powers. The directive is to position oneself on a case-by-case basis based on one's own interests and to develop relationships with one another. According to simulations, de-risking between China and the West would have moderate effects on the global economy. In the longer term, many emerging markets could even benefit if the major blocs diversify their supply chains away from China and towards these countries.

Emerging markets sitting on the fence

Much more negative consequences in the "Trump unleashed" scenario

Russia-Ukraine conflict / NATO

If the U.S. were to stop supporting Ukraine and strike a deal with Putin without taking European interests into account, this would lead to shockwaves in the West. In that case, Trump might withdraw the majority of U.S. troops from Europe and/or withdraw the nuclear umbrella. He could even try to persuade Congress to withdraw the U.S. from NATO altogether as other countries do not pay “their fair share”. Trust in the Western alliance would be demolished. Putin and China would be the clear winners. Putin would be encouraged to continue his aggressive expansion. There would be a risk of political division in Europe. The unity and ability of the EU to act would be at stake as some of the Eastern member states would not easily forgive and forget that the “old” Western member states did not offer enough military support to Kyiv to contain Russian aggression.

"Trump unleashed": The West falls apart

China

Trump may be tempted to escalate the trade conflict with his rival to the extreme by imposing prohibitively high export and import tariffs and forcing his allies to join the fight against China's rise. One lever could be the exclusion of European companies from the U.S. market or the withdrawal of the conventional and nuclear umbrella for Europe. A full decoupling from China would be an extremely costly undertaking for all parties involved (especially for Germany). Abandoning Taiwan would still be unlikely in this scenario – it would be to damaging to U.S. interests.

China winner - without any help

Rest of the world

The emerging economies would expand their mutual cooperation and keep distance from the disintegrating Western block. They would pragmatically adapt to the emerging new balance of power. There would no longer be any generally accepted international institutions. The transitional period until the emergence of a new world order would be characterized by rather anarchic features.

World order with anarchic features

03 Economic and trade policy

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Mercantilist positions

Donald Trump's possible return to the White House is causing unease in the EU. Trump's trade policy ideas are characterized by mercantilism: What brings money into the country is good. Ironically, he is not far away from the decades-old mainstream in the German media and politics, which had welcomed Germany's erstwhile export records as a sign of domestic economic potency.

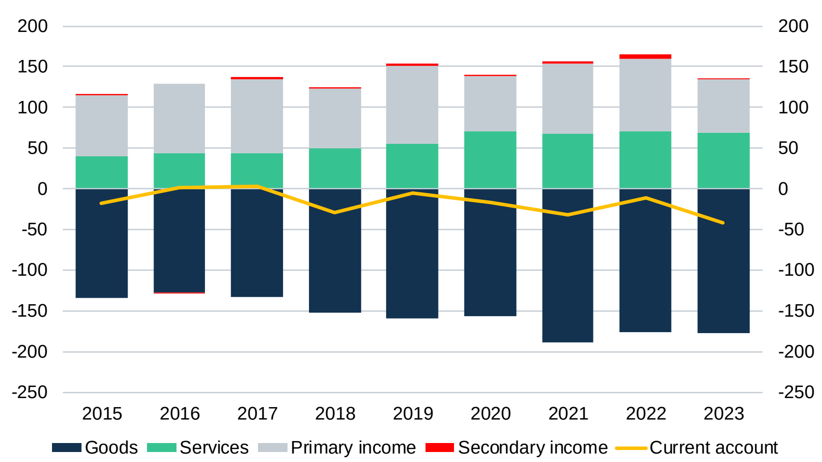
EU with surplus in trade in goods, ...

And yet, Trump's policy approach has a kernel of truth: A country cannot permanently consume more than it produces; otherwise it will end up over-indebted. With all this in mind, Trump's second term could see the start of another trade and economic policy odyssey. It can be assumed that Trump's ideas in this area have not changed significantly since his first term in office. At that time, tariffs were the protectionist instruments of choice in trade policy. From the outset, China was the primary target due to its very high surplus in goods trade with the U.S. Trump is also likely to target the EU again, and Germany in particular. The euro area posted a trade surplus with the U.S. of EUR 135 billion last year, with exports to the U.S. amounting to more than EUR 500 billion. In 2017, Trump's first year in office, the euro area (only) achieved a surplus of 99 billion euros. One fifth of EU exports go to the USA. Incidentally, his successor Joe Biden did not abolish the tariffs from the Trump era, but initially suspended them and replaced them with a quota system.

...but the current account is close to balance

Apart from the fact that the influx of goods into the U.S. is the only way to increase the level of consumption there, trade in goods is only half the story. If you look at the overall current account balance, the United States is not doing too badly at all. Even in the 2016 election year, the current account was almost balanced. This is because the U.S. regularly posts a surplus in services (in addition to travel, in particular software, patents, trademarks and copyrights) and in primary income (e.g. from corporate investments). That is why the balance of the current account was almost zero.

Fig. 5: U.S. current account balance with the euro area (billion U.S. dollars)



Source: LSEG, LBBW Research

Continuity of trade policy in the U.S.

Trump will presumably not be impressed by such figures. In this respect, the European economy can expect a certain continuity in the conflict. During Biden's term of office, economic policy was also flanked by “America first”-subsidies, namely in the context of the Inflation Reduction Act (IRA). However, the Trump camp has already indicated that a re-elected President Trump would abolish the IRA, whatever the details of that might be. It is well known that Trump does not think much of climate policy. From the EU's point of view, this would be a mixed blessing. On the one hand, this would stop the subsidy race in some areas. But, on the other hand, the EU would have to discuss with the rest of the world what a global climate policy without the U.S. could look like.

Juncker's reminder

The former President of the EU-Commission, Jean-Claude Juncker, recently alerted European leaders of the need to prepare for a Trump comeback. He should know. Juncker had negotiated with him in 2018 on the issue of punitive tariffs on European cars imported into the U.S., successfully dissuading Trump from introducing these tariffs. At the end of 2019, the two reached an agreement for automobiles aimed at relocating part of production directly to the U.S.

It could be similar this time. That would be the **moderate Trump scenario**. Ultimately, he is interested in demonstrable results for the benefit of his voters, many of them industrial workers.

Of course, there are two imponderables:

Republicans are divided on trade

Firstly, a second term would be Trump's last term. The first was possibly based on the premise of securing re-election. He will not have to worry about that this time. What could be the motto of a second term of a **"Trump unleased"** presidency? This could have a significant influence on his goals and possibly radicalizing his tactics. Would Trump follow the Heritage Foundation's script to pursue "conservative" policies? That would be difficult. The two articles in the think tank's programmatic blueprint are almost diametrically opposed when it comes to trade policy. While author Peter Navarro ("The Case for Fair Trade") focuses primarily on Chinese trade practices and brands them as unfair, Kent Lassman ("The Case for Free Trade") argues for a return to the principle of free trade and warns against burdening trade policy with objectives other than free trade.

China as a common opponent

Secondly, Trump's and the U.S.'s main strategic opponent is China. In this, more than in any other area of politics, he agrees with the Republicans just as much as with the Democrats. How should the EU position itself in the U.S.-Chinese conflict over foreign trade? Closer to China, i.e. with a focus on free trade? Or would it be better to join forces with the U.S.? This could also be the preferred strategy in light of the war in Ukraine and the potential threat of a Russian attack on other Eastern European countries. At the same time, however, this would drag the EU deeper into a possible trans-Pacific trade conflict between China and the U.S.

In view of these challenges, it cannot be wrong to strengthen Europe as a business location. According to a survey by the IW Institute, lower labor costs (pay attention to social security contributions!) are at the top of the wish list for German companies, followed by reduced bureaucracy, availability of skilled workers (to be ensured through better training and immigration), an affordable and reliable energy supply, a modern digital infrastructure, moderate tax rates, upgraded transport infrastructure and attractive financing costs. In contrast, investment promotion and subsidies do not figure prominently as important location factors.

Improve Europe's business conditions

It follows from this: Europe should not put up with punitive tariffs made in the USA, but should work towards the lowest possible tariffs by threatening countermeasures. Moreover, the best policy the EU can pursue is to improve conditions for domestic companies.

04 Fiscal policy

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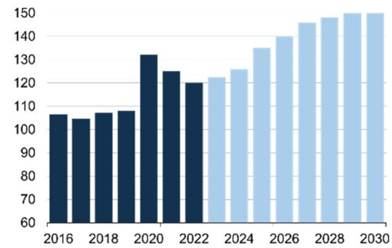
At the beginning of his presidency, Donald Trump launched a tax reform (Tax Cuts and Job Act) that included a permanent reduction in the top corporate tax rate from 35 % to 21 %. In the current presidential election campaign, he has announced that he plans to reduce the rate further to just 15 %. In the **scenario** "**Trump unleashed"**, we assume that Trump will also extend the temporary tax cuts from his last term in office, which would otherwise expire at the end of 2025. The cuts agreed in December 2017 led to higher budget deficits in the following years. At the time, however, entrepreneurs were full of praise for Trump's economic policy. In view of this experience, Trump, the self-declared "king of debt", is likely to shrug off an increase in the government deficit. According to our calculations, the budget deficit already amounted to 8.0 % last year - despite the strong economy.

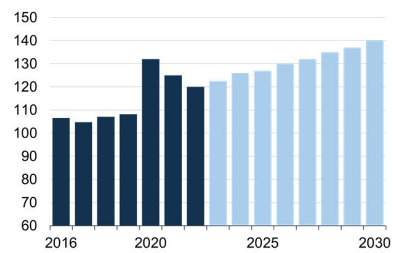
Trump supporters argue that the planned tax cuts can be financed by new import tariffs of 10 %. However, we assume that the burden of import duties will ultimately be borne by the U.S. consumer rather than the foreign exporter. The government will therefore probably endeavor to create compensation for particularly affected population groups. This applies in particular if foreign countries react in kind by imposing counter tariffs against American exports. One example from the past is the Trump administration's support payments to farmers affected by the China boycott in 2018 to 2020. These payments ate up almost all of the revenue from customs duties on imports from China.

Fig. 6: (Gross) national debt of the USA in % of nominal GDP In the negative scenario. . .



Source: LSEG, Federal Reserve, LBBW Research

Fig. 7: . . . and in the Trump moderate scenario



Source: LSEG, Federal Reserve, LBBW Research

Sell-off on the U.S. bond market unlikely to materialize

If his tax cut plans trigger turbulence on the stock markets, Trump may be inclined to abandon his plans again. In the UK, similar plans by Liz Truss's hapless government led to a devaluation of the pound sterling and a sharp rise in government bond yields. However, as the U.S. dollar is the world's reserve currency, unlike the pound sterling, we suspect that even in the **"Trump unleashed" scenario** there will be no sell-off on the U.S. bond market. Nevertheless, rising term premiums for long-term U.S. government bonds are to be expected in this negative scenario. Volatility should also increase.

In the **moderate Trump scenario**, the Democrats could win a majority in the U.S. House of Representatives and use this to block the planned reduction in the corporate tax rate to 15%.In any case, the corporate tax regime has lost its relevance. In contrast to 2016, companies currently see the lack of qualified workers as the biggest problem, but not an excessive tax burden. This is not surprising, as our calculations show that the effective corporate tax rate averaged just 11 % in 2022. The tax burden of U.S. companies is also extremely low by international standards. According to calculations by the OECD, the ratio of corporate tax revenue to economic output in the United States in 2020 was significantly lower than the average for OECD member states.

Entrepreneurs complain about skills shortages, not taxes

05 Inflation and central banks

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Inflation

Trump triggers higher inflation worldwide

The direct impact of a Trump presidency on the development of inflation results in particular from trade policy. Indirect consequences result from national and global economic stimuli. In the **moderate Trump scenario**, U.S. inflation is likely to be only slightly higher than in our previous base case scenario, especially in the short term, as broad-based import tariffs make imports more expensive. Growth stimuli for the U.S. economy through tax cuts also have an inflationary effect. However, a moderately stronger dollar will partially cushion the effects. In the euro area, we believe that price-dampening effects (negative impact on the global economy) and inflationary effects (possible EU counter-tariffs and a weaker euro) will roughly balance each other out.

In the "**Trump unleashed"**-scenario, a global trade war triggers massive inflationary surges on both sides of the Atlantic. In the U.S., a strong appreciation of the dollar partially offsets this. However, a forced deglobalization trend is leading to sustained increases in U.S. inflation. As the global economy loses momentum at the same time, deflationary counter-pressure mounts. This is having an impact in the euro area in particular due to the openness of the external economy and is causing inflationary pressure to fall more sharply compared to our previous assumptions.

Monetary policy

Fed likely to slow down or suspend interest rate cuts

The implications for inflation in turn have a significant influence on the reaction of monetary policy to a Trump 2.0 presidency. The growing risk of geopolitical escalation also plays a role through the uncertainty factor. In the **moderate Trump scenario**, the U.S. Federal Reserve is likely to suspend its interest rate cutting cycle, which it will initiate in July 2024, at the beginning of 2025. Announced tax cuts and Trump's inflationary tariff policy are fueling doubts among central bankers as to whether the disinflation trend can continue. For 2025, we would only expect interest rates to fall by a total of 50 basis points, only half the pace from our previous base case scenario. For the euro area, we assume no net impact on the course of monetary policy. If the trade conflicts come to a head, this could drive up prices again and prevent the ECB from achieving its inflation target. On the other hand, doubts are growing about the economic upturn hoped for in 2025. The ECB will therefore continue its easing course in 2025 with interest rate cuts totaling 100 basis points.

"Trump unleashed": ECB eases more and faster

In the **"Trump unleashed" scenario**, central bankers on both sides of the Atlantic are concerned about the threat of a surge in inflation. However, fears of a global economic crisis and its deflationary consequences in the medium term prevail. Both the ECB and the Fed will therefore initially accelerate their monetary easing course in 2025.

In the U.S. in particular, the risk of an erratic monetary policy is increasing significantly. Firstly, the Fed could be forced to revise previous interest rate cuts later in 2025 because inflation is rising again. Secondly, repeated attacks from the Trump-White House on the independence of the Federal Reserve could undermine confidence in its adherence to principles and monetary policy. We believe that the political and legal hurdles to bringing the Fed under the control of the U.S. government are high. The considerations of individual conservative hardliners to reintroduce the gold standard seem extremely fanciful. However, constant verbal intimidations and attempts to exert influence could wear down the monetary authorities in the long term. Trump had already launched during his first term of office multiple verbal attacks on Fed

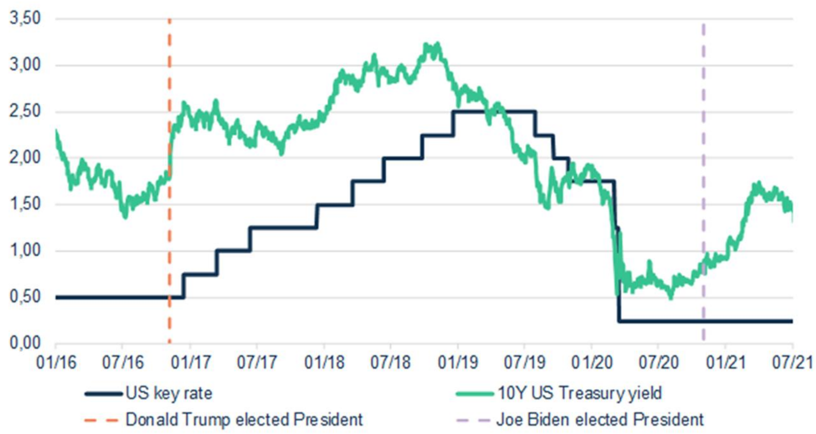
Chairman Powell. When Powell's term at the helm of the Fed comes to an end in February 2026 at the latest, the appointment of a successor who is sympathetic to Trump could lead to a growing congruence between the course of monetary policy and the wishes of the Trump administration. Volatility would greatly increase as uncertainty about the Fed's future course would soar.

Trump could put the Fed under increased fire

Long-term interest rates and bond market

In 2016, Trump's election caused yields on 10-year U.S. government bonds to rise by more than 50 basis points within a few weeks. The main driver was the expectation of an economic boost from tax cuts, accompanied by a return of the very low inflation rates to the 2% target. The latter was evident from the strong upward trend in long-term market-based inflation expectations. The gap between the short and long ends of the USD yield curve also grew initially, but soon leveled out as the Fed began to gradually raise key interest rates almost at the same time as the Trump administration took office.

Fig. 8: USD key interest rate and yield on 10-year U.S. government bonds in the context of the 2016 and 2020 elections



Source: Bloomberg, LBBW Research

2016 as a blueprint for the bond market?

In the **moderate Trump scenario**, 2016 could be a blueprint for the U.S. bond market. In particular, the trend towards a divergence between the short- and long-term USD yield curve is likely to be accelerated, as market participants' concerns about the future sustainability of U.S. government debt are growing. Investors are therefore demanding higher term premiums for long-dated U.S. government bonds. Subliminal fears of greater political influence on the Fed could further reinforce this trend. However, the implications for the euro government bond market are likely to be limited. A moderate upward trend on long-term inflation expectations and fears of sustained burdens for the economy in the euro area would balance each other out.

Bunds could benefit from the search for safe havens

In the scenario "Trump unleashed", German government bonds are likely to be in high demand as investors seek security. U.S. government bonds are also initially benefiting from the search for safe havens across the entire maturity structure due to geopolitical uncertainty. However, this effect is likely to be (partially) reversed in the medium term for long-dated U.S. government bonds. This leads to an even more significant increase in the difference between short and long-term interest rates than in the moderate scenario. High issuing pressure on the U.S. government bond market, which coincides with politically induced bond purchases by the Fed, could massively impair the functioning of the Treasury market in the medium to long term. As a result, yield swings are becoming increasingly unpredictable due to dwindling market liquidity.

06 Euro and U.S. dollar

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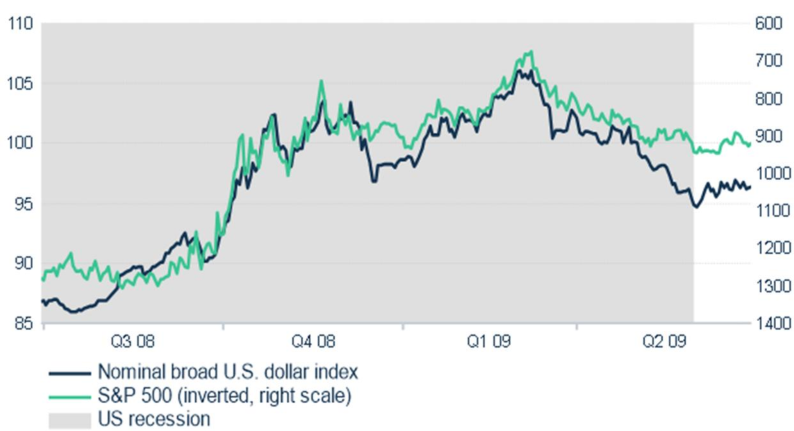
In the **"Trump unleashed"** scenario we expect an expansive fiscal policy and wide-ranging and steep import tariffs. This is putting upward pressure on prices in the U.S. from two sides, while the euro area is mainly feeling the negative economic consequences. As a result, the yield advantage of short-term U.S. government bonds over their euro area counterparts is increasing. The U.S. dollar is therefore likely to appreciate noticeably against the euro. Another driver of the exchange rate is added in this scenario: This is because we assume that Trump will also question the U.S.'s duty to militarily assist NATO partners. This unconstructive stance is likely to fuel fears of an escalation of geopolitical conflicts on the currency markets - in an environment in which concerns about conflicts are already high.

Appreciation of the U.S. dollar to be expected

In the past, the U.S. dollar has tended to appreciate in times of crisis due to its safe haven status. This was true even if the source of the uncertainty was to be found in the U.S. itself. For example, the U.S. dollar appreciated noticeably during the financial market crisis (see Fig. 9) emanating from the U.S. housing market and after the outbreak of the global coronavirus pandemic. Accordingly, in our **"Trump unleashed"**-scenario we expect the U.S. dollar to appreciate sharply against the euro.

Fig. 9: External value of U.S. dollar against a broad basket of currencies and U.S. equity index S&P 500



Source: LSEG, LBBW Research

In the **moderate Trump** scenario, we assume that Trump will not implement his plan for a blanket 10% tariff on all imports. This could be due to his preference for "deals", such as the 2018 Juncker-Trump agreement. Or the Democrats win a majority in the U.S. House of Representatives. Under the Constitution, the power to set tariffs lies with the U.S. Congress. Over time, however, Congress has ceded regulatory powers to the U.S. President. Trump is likely to use these laws, stretching his discretionary powers to the maximum, and quite possibly beyond, to increase selected import tariffs. However, it is our legal understanding the president does not have the authority to raise tariffs on all imports - as announced during the election campaign.

The dollar gained strongly in times of crisis

As a result, the argument set out above in the "Trump unleashed" scenario only applies to a lesser extent here. The appreciation of the U.S. dollar should also be correspondingly lower in the moderate Trump scenario.

07 Stock markets

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The consequences of a second Trump presidency on the stock markets are particularly difficult to assess. Opposing effects partially offset each other and the impact may vary from region to region. As Trump sees himself as a businessman, he will certainly attach importance to rising share prices on Wall Street in the spirit of "America First". He is actually one of the few commentators left referring to the Dow Jones Industrial index, rather than the broader and more common S&P500.

Trump will keep an eye on the Dow Jones index

In any case, we expect that he will make many political decisions with a focus on short-term effects. In the medium term, the opposite of the intended effect may occur, as the experiences of 2017 to 2020 show. The rapid tax cuts boosted profits and share prices in 2017. At the same time, however, they caused a certain amount of inflationary pressure, which prompted the Fed to raise interest rates. In addition, Trump's trade policy had a negative impact on the global economy, which led to a slump in the following year. Prices rose again during the economic downturn in 2019, until the coronavirus. year 2020 brought the recession (which was due anyway). However, this last phase, characterized by the pandemic, is naturally not suitable as a blueprint.

Fig. 10: Stock market and dollar under Trump until 2019

Source: LSEG, LBBW Research

A moderate scenario would have parallels to 2017 to 2019

Continued latent uncertainty to be expected

Populist politics is characterized not least by the fact that it is in permanent election campaign mode. The short election cycle in the U.S. is likely to exacerbate this phenomenon. Trump's sometimes erratic statements are likely to inject uncertainty in the markets. In a **moderate scenario**, in which Congress, partly controlled by the opposition keeps the White House in check, the parallels to the 2017 to 2019 episode would dominate. Further tax cuts and deregulation would benefit U.S. companies and give them certain competitive advantages.

Populism means permanent electioneering and uncertainty

Import tariffs would slow down European exporters and also have an impact in other regions via the communicating tubes of world trade - stronger price wars or burdens through counter-tariffs for companies that also produce in the USA. In this scenario, the U.S. equity market should benefit on balance, and the current focus on the few A.I.-stars would then lead to a broader bull market. Some compensation for Europeans would be provided by an appreciation of the U.S. dollar, which is expected to result from the shift in trade and capital flows in favor of the U.S. Euro-based investors could gain simultaneously from rising stock prices and a stronger dollar.

A moderate scenario would initially result in price gains

However, the profits would be built on shaky foundations, as the international specialization would suffer overall, resulting in rising prices. The higher deficits could lead to an overheating of the market in the U.S. and the new tariffs could cause prices to rise. Both of these factors together would possibly bring the Fed onto the scene - with consequences for European markets as well. Europe must also reallocate budget funds in order to emancipate itself from the U.S., particularly in the area of defense. In such a constellation with shrinking scope for political action, it will be difficult to pursue an economic policy that promotes growth. In the medium term, the threat of European stagflation would rise, with correspondingly poor stock market performance.

Positive stock market momentum only on Wall Street

Trade wars would significantly damage Europe's equities

If, on the other hand, President Trump were to push through his agenda unimpeded, the stock market is likely to fluctuate significantly at first. In the **“Trump unleashed”** scenario Europe's companies would find themselves in a whole new world. In a looming trade war between the U.S. and China, Europe could be forced to choose between the two camps. China would take massive countermeasures and impose export restrictions, for example on critical raw materials. Any initial positive stock market momentum would therefore be limited to Wall Street.

In this scenario, a strong appreciation of the U.S. dollar is conceivable, which would then possibly result in windfall profits for some euro area-based companies. However, this appreciation would be accompanied by a rise in interest rates caused by an escalating U.S. government deficit and a renewed uptick in inflation. As the Fed comes in to stamp out the inflationary sparks, the Wall Street party would come to a quick end.

In the negative scenario, a political and economic downward spiral threatens

In such a scenario, economic developments would also be embedded in a broader context, which would be an even greater cause for concern. If President Trump were to withdraw support from America’s traditional allies, the world would become a much less secure place. Russia would attempt to completely crush Ukraine and threaten to use nuclear weapons if it resisted. Europe would have to rearm quickly and massively. Hybrid attacks by Russia would continue to increase: Destabilization campaigns, cyberattacks and attacks on critical infrastructure outside the country's own territory. In this context constructive, growth-promoting policies would become harder to agree to and almost impossible to implement. A downward spiral also loomed on the stock markets.

08 Commodity markets

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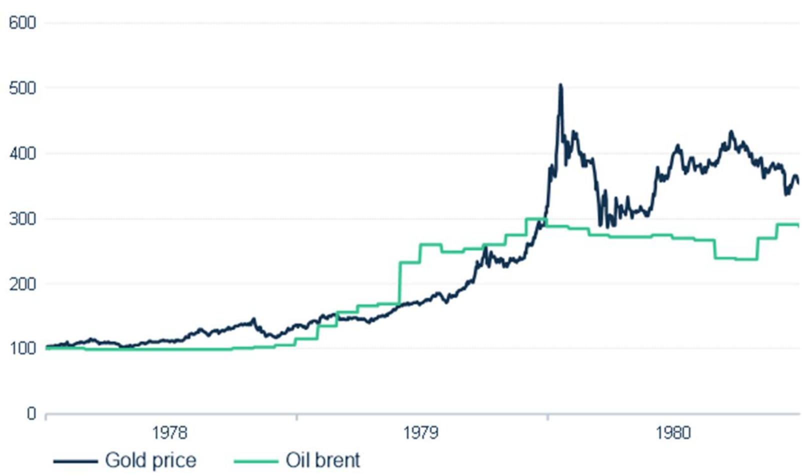
In the **"Trump unleashed"** scenario, we assume that the global economy will have to adjust to trade wars and increasing protectionism. The resulting sharp economic slowdown is likely to prompt the central banks to cut interest rates massively. Geopolitically, an escalation of the Middle East conflict and a confrontation between the U.S. and Iran would be in the cards. This situation could be compared to the second oil crisis in 1979/80, which was triggered by oil production shortfalls and political conflicts following the Islamic Revolution in Iran (1979). Oil and gold each recorded an increase of around 150 % in 1979 alone.

Trump unleashed: oil and gold gain

In our "Trump unleashed" scenario, we anticipate similar developments. The gold price would rise due to the increasing political tensions and accelerated interest rate cuts by the central banks. Oil supplies would become constrained by production shortfalls in the Middle East. Accordingly, we expect a sharp rise in oil prices. However, this would most likely be less drastic than during the second oil crisis, as dependence on oil from the Middle East region has decreased significantly over the last 45 years.

Fig. 11: Second oil crisis: Development of oil and gold (in USD indexed to 01.01.1978)



Source: LSEG, LBBW Research

Trump moderate: Gold sideways, oil down

In the **moderate Trump** scenario, we assume a rapprochement between the U.S. and Russia - in the case of China, however, the opposite would is likely. NATO's cohesion is likely to weaken and rising political tensions would characterize the EU. The U.S. economy is likely to perform better than the Europe's. Accordingly, the Fed would cut interest rates more slowly than the ECB - resulting in an appreciation of the U.S. dollar.

In this scenario, the gold price would probably trend sideways. Increasing political tensions would give the precious metal a boost, but the firm U.S. dollar and hesitant interest rate cuts by the Fed would limit the upside potential. A gloomier global economic environment would dampen demand for oil, while a comeback in Russian oil exports and an increase in U.S. oil production would also be likely. Against this backdrop, oil prices are likely to fall.

09 Effects on corporate sectors

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A second term in office for Donald Trump could certainly have an impact on European and German companies. Here we pick out the five sectors that seem most interesting to us.

Automotive industry

Car manufacturers would have to prepare for tariffs

Even if we assume that Trump acts moderately as president, the European automotive industry could once again come into his sights. Although some of Europe's car manufacturers already produce in the USA, they remain heavily dependent on exports. German carmakers are exporting SUVs from the U.S. to China. Additional tariffs and trade barriers between Europe and the U.S. and vice versa would therefore have slightly negative consequences for manufacturers. After the experiences of Trump's first term in office, however, the automotive industry should be more robust and better prepared. The investment decisions under the Inflation Reduction Act (IRA) have already been made. Adjustments or outright abandonment of the IRA would therefore have no further negative effects in this context. The electrification of transportation will massively lose momentum under Trump. As German car manufacturers are currently investing heavily on e-mobility, a Trumpian U-turn would leave its mark on corporate bottom lines. If the focus is on internal combustion engines, U.S. companies would benefit. A **Trump unleashed** scenario would be much more dangerous for the car industry. Very high trade barriers and an escalating trade war with China are likely to result in significant sales losses.

Chemical industry

Companies with local production have advantages

The European chemical industry will probably have to prepare for worse conditions even if U.S. President Trump takes a moderate approach. The industry is a supplier to almost all sectors of the economy worldwide. Expected additional tariffs and restrictions on free trade are likely to contribute to weaker economic development. Large corporations, which often produce and sell locally (local for local), are better prepared and could probably better cushion the effects of tariffs and trade barriers. The victims are likely to be the numerous smaller chemical companies without their own foreign sites. Turning away from the USA's climate protection efforts once again would put a strain on the industry, as it manufactures many products that help to reduce emissions or achieve sustainability goals. These include insulating materials, lightweight components, wind turbines, photovoltaic modules and much more. A **Trump unleashed** world, companies could be left with the choice between the American and Chinese markets. An increasing escalation of the trade conflict between the United States and China is also likely to lead to increased problems in supply chains.

Industrial goods

Pure net exporters need to worry

In this sector, it is particularly worth taking a look at the IRA. Even in the **moderate Trump** scenario, the incoming White House tenant would probably curtail it and even overturn it in the negative scenario. The biggest losers would then be those industrial companies whose products serve to reduce CO_2. First and foremost, there are manufacturers of electrolyzers and wind turbines. For companies that are already active in the major sales markets with a high regional added value, the impact is likely to remain manageable. A number of major players are already setting up completely independent companies in the U.S. in order to be considered U.S. companies. Pure net exporters have much more to worry about, especially when it comes to smaller companies.

An **unleashed Trump** might want to implement a more comprehensive "Buy American" policy, no matter what the cost. The U.S. headquarters of the parent company could then become the measure of all things. This would hit European industrial goods manufacturers particularly hard.

Mechanical engineering

Small scale could prove to be an advantage

If Trump is re-elected, **moderate or unleashed**, this is unlikely to have a significant impact on the European or German mechanical engineering sector as a whole. Small-scale mechanical engineering flies under his radar and does not generate the desired media attention when Trump imposes sanctions or punitive tariffs. In addition, there is often insufficient U.S. competition, so that German machines are necessary for re-industrialization. If the war in Ukraine ends, the German mechanical engineering industry could benefit from considerable investment in Ukraine, particularly in infrastructure and construction machinery.

Defense industry

Positive effects expected in both scenarios

Both a **moderate** and an **unleashed** President Trump are likely to have a positive impact on the European and German arms industry, although the trend towards higher arms spending in Europe should also continue if Joe Biden is elected president again. However, Trump is critical of NATO and will very likely - at least as a prerequisite for U.S. support - demand a permanently higher financial commitment from European NATO partners more aggressively than Biden. The Europeans are likely to invest these additional funds mainly in their own defense industry. However, some states could also commission U.S. companies to buy Trump's loyalty. In this case, at least the suppliers to the U.S. arms industry in Europe are likely to benefit.

Fig. 12: Impact on industries under a possible President Donald Trump

	Trump moderate	Trump unleashed
Auto	↘	↓
Chemistry	↘	↓
Industry	→	↘
Manufacturing	→	→
Defense	↑	↑

Source: LBBW Research

10 Climate and energy policy

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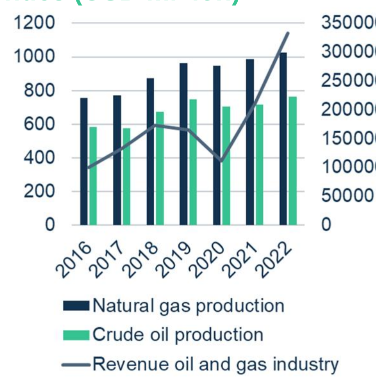
Climate and energy policy are closely intertwined. The energy industry is one of the main sources of CO_2 emissions. In order to comply with the Paris Climate Agreement, it must massively reduce its emissions. The switch to renewable energies is reducing demand for fossil fuels - with corresponding consequences for the U.S. oil and gas industry. Trump wants to prevent this scenario at all costs. He also denies man-made climate change. He therefore considers the Paris Climate Agreement to be superfluous and putting unnecessarily shackles on American producers. Washington's exit from the Paris agreement is therefore all but certain.

This would very much set the wrong signal for the rest of the world. But remember that Biden's government has also promoted fossil fuels. Oil and gas industry revenues increased between 2021 and 2022 (see chart). Daily oil production even reached an all-time high of 13.3 million barrels in December 2023. The U.S. has approved further drilling projects and built LNG terminals to supply Europe. Contracts with Germany that were concluded after the outbreak of the Ukraine war, with a term of up to 20 years, make economic sense and also explain the increased production volumes. Although Biden signed the Paris Agreement, this is not consistent with his actions. The question is therefore: how much more oil and gas can Trump produce?

U.S. oil and gas industry on course for growth

Fig. 13: Production volumes in the oil and gas industry in Mt or billion m³⁾ and revenues (USD million)



Source: Statista, Enerdata, LBBW Research

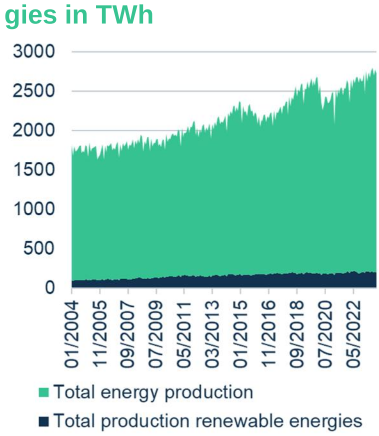
More support for the oil and gas industry

Climate change is not at the top of either candidate's agenda. However, Biden recognizes the opportunities that arise from the new technologies - both in production and in use. Trump, on the other hand, is steadfast in his opposition to promoting renewable energies and electrically powered vehicles. Instead, he wants to support the oil and gas industry and impose less regulation on it. Under the name "Project 2025", the arch-conservative Heritage Foundation published a blueprint for a Trump 2.0 administration. As a result, the measures from Biden's Inflation Reduction Act (IRA) would be completely scrapped. Ironically, Republican-led states have been the main beneficiaries of the IRA to date. This is where most of the funding went and most of the new green jobs were created. In a "Trump unleashed" scenario, however, it cannot be ruled out that Trump will find ways and means to abolish the IRA.

Renewable energies

By 2035, the current U.S. administration aims to cover 100 % of its electricity needs from climate-friendly sources, including nuclear power. The use of renewable energies, particularly wind and solar, has markedly increased over the past decade. However, their share was still only around 13 % in 2022. Trump will not pursue the expansion of renewables and will even openly work against it by cutting subsidies. The Republican-governed federal states in particular are making very good progress with the expansion of renewable energies.

Fig. 14: Energy production and share of renewable energies in TWh



Source: U.S. Energy Information Administration, LBBW Research

Invest sustainably

In the USA, there are already heated discussions about investments based on ESG criteria. The Republican-dominated U.S. state of Tennessee, for example, recently sued the largest asset manager in the U.S. because it believes its implementation of environmental, social and governance factors violates consumer protection laws. The Republicans want to minimize the issue of sustainability and protect the unsustainable oil and gas industry. Expect anti-ESG regulation under Trump.

11 Scenarios and forecasts

60%
Main scenario

1) "Business as usual" with Biden or "moderate Trump scenario" (higher import tariffs and rising national debt,...),
   Ukraine war: Conflict freezes after Russia gains territory.
2) Muted global economic environment, Germany still underperforming, USA above average.
3) Falling inflation and a weak economy are prompting central banks to cautiously cut key interest rates. Fed eases more hesitantly than ECB, growing interest rate differential strengthens the US dollar.
4) Stable capital markets (Shares and credits remain in demand, residential real estate prices bottom out in 2024).

25%
Negative scenario I

"Trump unleashed"

1) US election: Trump goes full-on (trade war: Import tariffs rise to 10%, against China 60%), sharp rise in US debt, uncertainty about NATO committment, conflict with China escalates.
2) Geopolitics: China-Taiwan tensions increase; Middle East conflict widens, direct confrontation with Iran.
3) Recession: ECB cuts key rates rapidly, additional liquidity injections, Bunds fall sharply due to economic fears and interest rate cuts by central banks. US fiscal imbalance rises: Yield long-term US government bonds rise sharply, yield curve steeper.
4) "Risk off": European shares fall sharply, US stocks hold up better, credit spreads rise significantly.

10%
Negative scenario II

"Inflation"

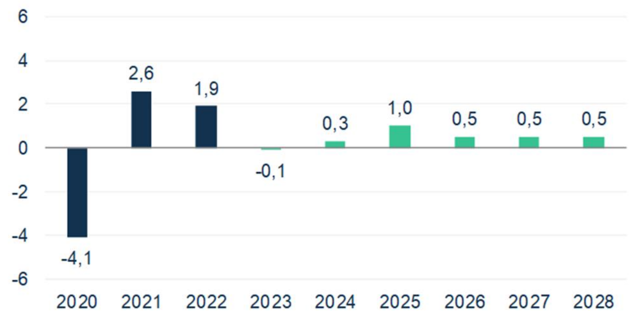
1) Inflation is falling more slowly than hoped or rising again. Second-round effects, price-wage spiral.
2) Central banks are leaving key interest rates unchanged or even raising them further despite the economic slowdown.
3) Yields on the bond market rise again due to central bank policy and rising inflation premiums.
4) "Risk off": Correction on the stock markets. Credit spreads rise significantly. Sharp price slump on the real estate market.

5%
Positive scenario

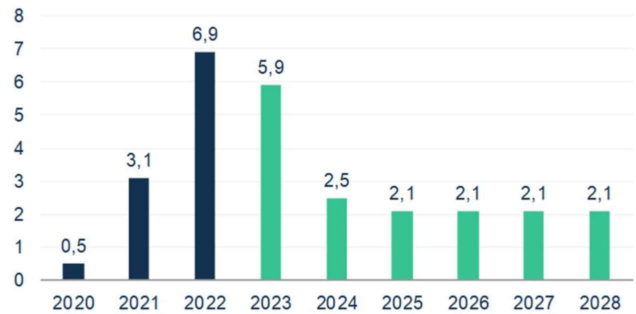
1) Inflation rates in the are falling rapidly, central banks lower key interest rates, the economy is picking up speed again.
2) Ukraine war ends; easing of tensions in the Middle East conflict.
3) Rapid AI development leads to investment boom and significant productivity improvements.
4) "Risk on" on the capital markets (credit spreads fall, share and real estate prices rise).

Base Case Scenario = “Trump moderate” (60 %),

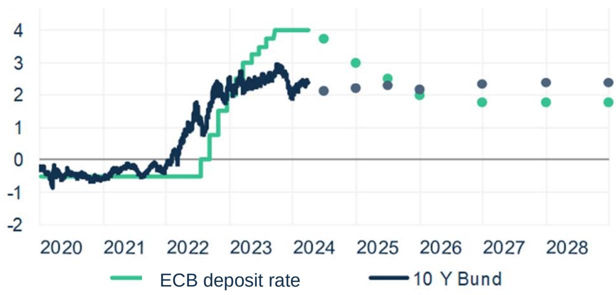
Germany GDP growth (y/y)*



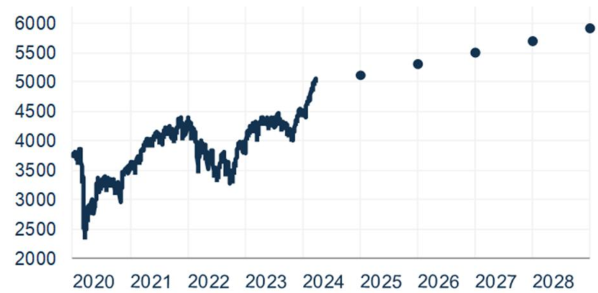
Germany inflation (y/y)*



ECB deposit rate & 10 Y Bund*



Euro Stoxx 50*



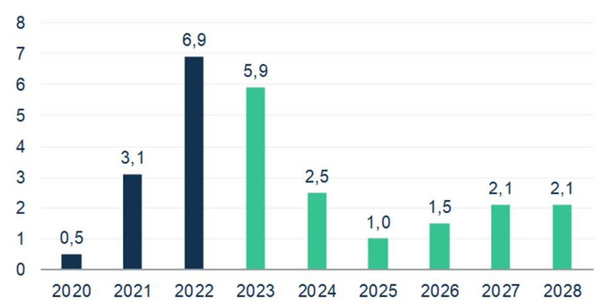
*GDP and inflation are annual averages; interest rates and Euro Stoxx 50 are year-end values in the forecasts

Sources: Bloomberg, LBBW Research

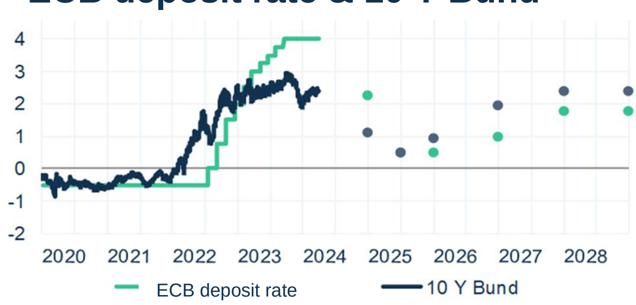
Negative Scenario 1) "Trump Unleashed" (25 %)

Germany GDP growth (y/y)*

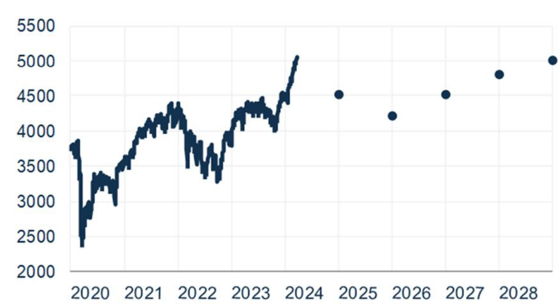
Germany inflation (y/y)*



ECB deposit rate & 10 Y Bund*



Euro Stoxx 50*

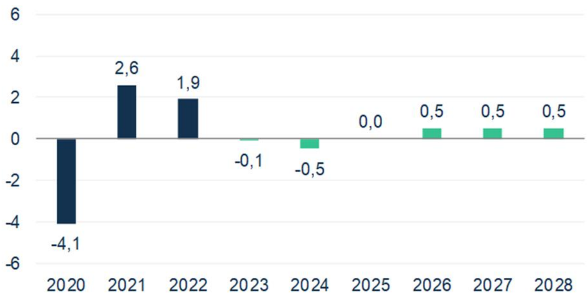


*GDP and inflation are annual averages; interest rates and Euro Stoxx 50 are year-end values in the forecasts

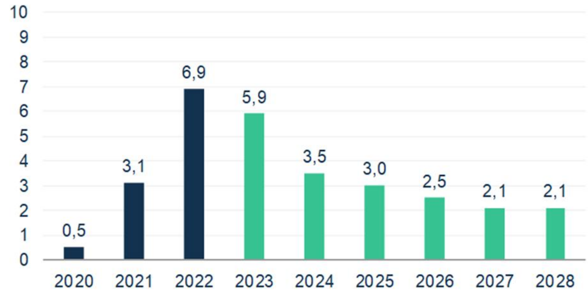
Sources: Bloomberg, LBBW Research

Negative scenario 2) Inflation more persistent (10 %)

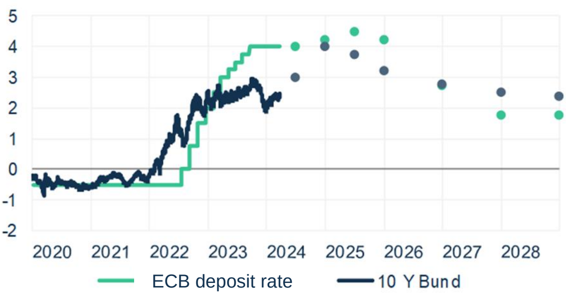
Germany GDP growth (y/y)*



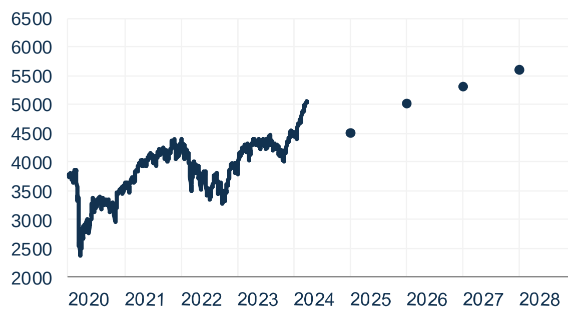
Germany inflation (y/y)*



ECB deposit rate & 10 Y Bund*



Euro Stoxx 50*

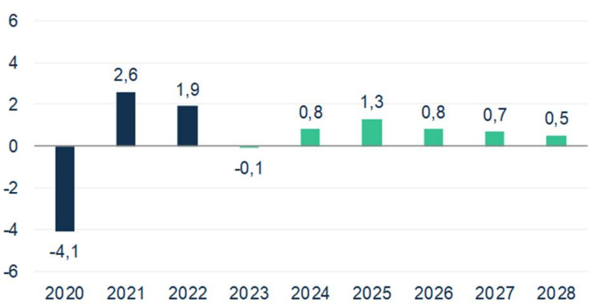


*GDP and inflation are annual averages; interest rates and Euro Stoxx 50 are year-end values in the forecasts

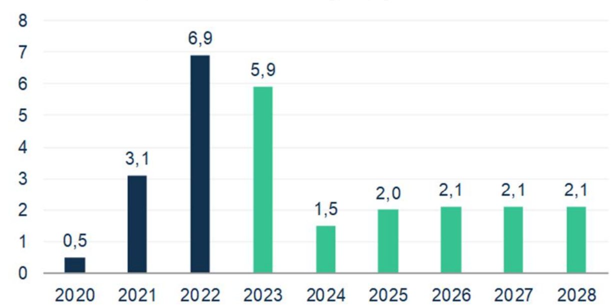
Sources: Bloomberg, LBBW Research

Positive Scenario (5 %)

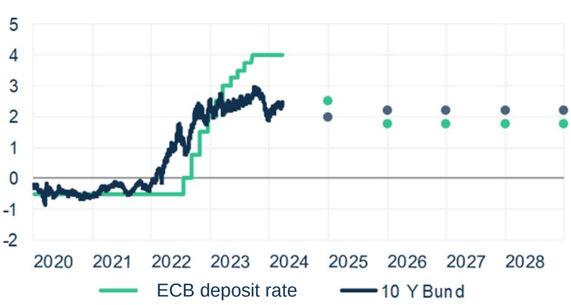
Germany GDP growth (y/y)*



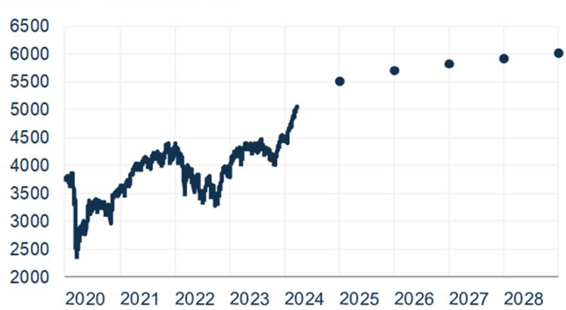
Germany inflation (y/y)*



ECB deposit rate & 10 Y Bund*



Euro Stoxx 50*

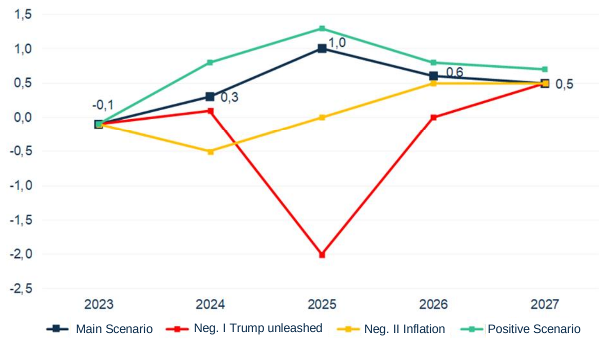


*GDP and inflation are annual averages; interest rates and Euro Stoxx 50 are year-end values in the forecasts

Sources: Bloomberg, LBBW Research

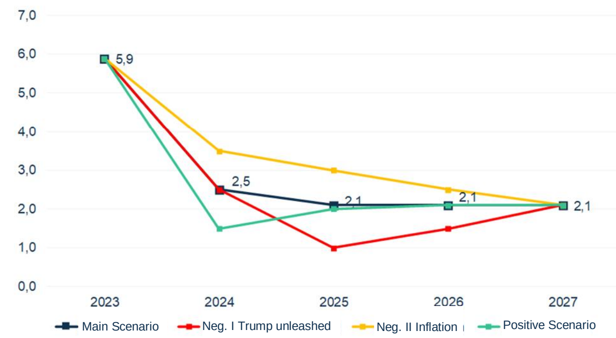
GDP & Inflation Scenarios

Germany GDP growth (y/y)*



*GDP and inflation are annual averages; interest rates and Euro Stoxx 50 are year-end values in the forecasts

Germany inflation (y/y)*



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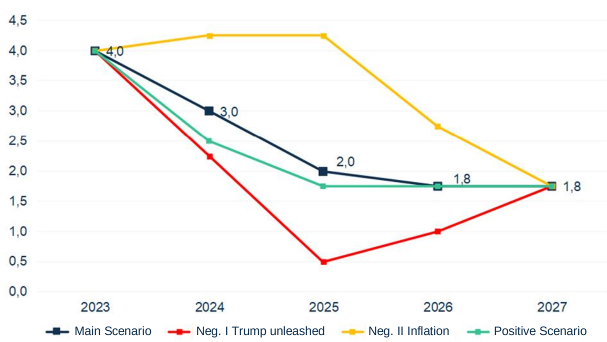
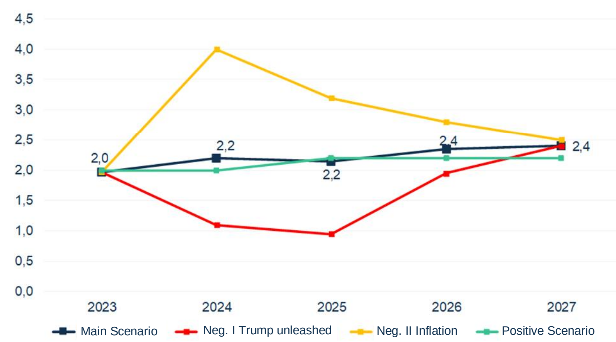
Scenarios deposit rate & 10-year Bunds

ECB deposit rate in %

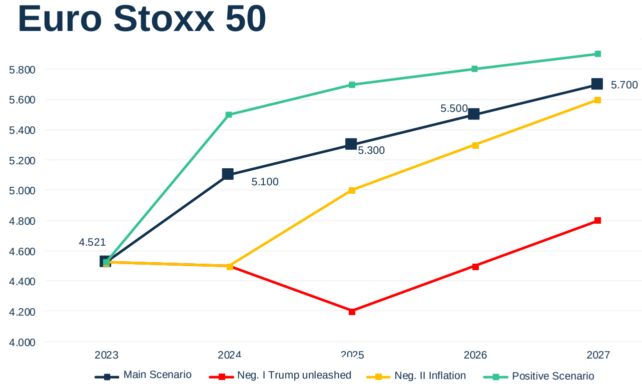


10-year Bunds in %



Scenarios Euro Stoxx 50

Euro Stoxx 50



Source: LBBW Research

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