



To the point!

Cross-Asset- and Strategy-Research

Trump reloaded: what to expect if he returns

The consequences are hard to predict, but they could be severe

No other day in 2024 will be as decisive for the future of the global economy, or the world, as November 5. On that Tuesday the United States elects its new - or old - president. Well, old are both leading candidates. According to an election model developed by LBBW Research, the probability that Donald Trump will defeat the incumbent Joe Biden is currently above 50 %, although his lead has been declining a little lately (see chart). So, it's no wonder that no other question has been posed to me more often recently than the one about the consequences of a second Trump term in office. And understandably so! Rarely have the policy approaches on the ballot been so far apart between the candidates than this time round.

LBBW Research has produced a comprehensive [study](#) on the possible consequences of the US election for the economy, for geopolitics and for the capital market. This column offers a flavor of our findings. I invite you to look at the full report for much more detail and prognosis.

An unsteady mind is difficult to predict

Even if Donald Trump returns to the White House, his future economic policy course is difficult to predict. This is mainly down to his volatile character, as his pronouncements sometimes seem very flighty and controlled by his moods of a particular moment. It is therefore quite possible that a Trump 2.0 presidency will not be as radical as he seems to be announcing in his peppery campaign speeches. Trump sees himself as a "dealmaker". Instead of unilateral actions, it is also conceivable that he seeks negotiated solutions, for example in trade policy.

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The Trump-O-Mat:
The probability that Trump will win the upcoming election



Source: LBBW Research. The Trump-O-Mat will be regularly updated and is accessible on www.lbbw-markets.de

"Trump unleashed": our negative scenario

Yet, it is equally likely that Trump, if elected, will actually implement the things he announces (threatens?). This would lead to a much more radical policy orientation than during his first term in office. This is supported by the fact that Trump would no longer have to worry about gaining a broad enough level of popular support to win re-election. Because the 22nd amendment to the US constitution stipulates a strict two-term limit. A more radical policy approach would also be supported by Trump's inner circle that seems to consist without exception of loyal sycophants. The so-called "adults in the room", who had a moderating influence on Trump after 2016, are likely to be banned.

Europe threatened by recession

Trump's cocktail of measures in the unleashed scenario will consist of a mix of tough protectionism and an increase in government deficits due to unfinanced tax cuts. Trump's biggest concern is undoubtedly to correct "unfair" international trade. The focus is not only on America's huge trade deficit with China. The eurozone also regularly generates large - and growing - surpluses (see chart). An untenable situation for someone who sees international trade as a zero-sum game.

The USA will erect customs walls to curb imports. This is hitting Europe particularly hard, as the USA is the main destination for our exports. The Euro area could fall into a recession of 1.5 % next year. The European stock markets would suffer and the ECB would have to aggressively cut interest rates.

Still, it doesn't have to come to this. The combined probability that either Biden will win or Trump will not govern like a Rumpelstiltskin after all is still our base case. But it is high time to prepare for a negative scenario. In politics, but also in your portfolio.

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Tariffs and national debt on the rise

US trade deficit with the Euro area (quarterly, \$bn)



Source: Bureau of Economic Analysis