

US 2024 presidential election: The potential global impact

How a Harris or a Trump win could affect the global economy

Macroeconomic Research

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Key points

- The US presidential race has tightened since Vice President Kamala Harris became the Democrat nominee. She is now betting markets' favourite. But a win for Donald Trump would have the biggest impact on the rest of the world.
- Tariff policy under Trump would be a global shock. For China the proposed 60% tariff would impact growth materially. EM Asia would see mixed effects as demand for its exports may compensate. Europe should be less affected directly. While USMCA partners will watch renegotiations.
- Trump has also threatened less US security provision, both for NATO and in Asia-Pacific. This would impact defence spending, particularly for stretched European finances.
- Moreover, Trump's policies appear most likely to impact US growth, rates and the dollar, with global spillovers.

A tight race

Before the summer we reviewed the upcoming presidential election and its likely impact on the US economy¹. At that time, President Joe Biden had just bowed out of the race and been replaced by Vice President Kamala Harris. Former President Donald Trump initially led Harris by a modest amount in overall polling approvals, though by less than he had led Biden. Since then, Harris has seen an improvement in ratings. Rising from a deficit of 1.7 points, she now leads Trump by 2 points².

Exhibit 1 illustrates this polling boost has spilled to marginal states. Harris has significantly reduced Trump's lead in all marginals: all now appear competitive, with Harris leading narrowly in Nevada, Michigan and Wisconsin, and far ahead in New Hampshire. Only Florida remains staunchly pro-Trump.

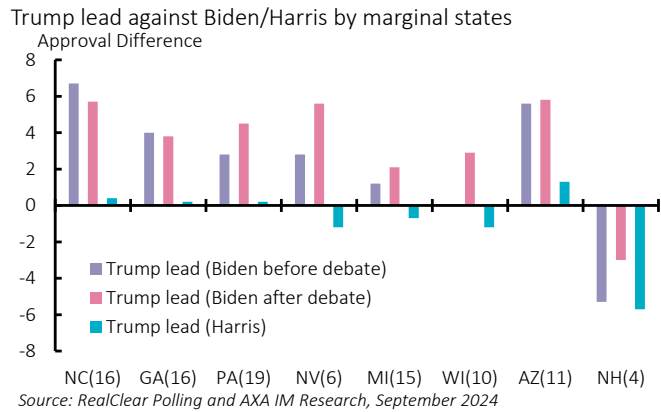
Exhibit 2, however, shows that based on this polling, Trump still wins the electoral college count, although we would argue that 7 of 8 key states are now within polling error margins. Allan Lichtman, the US historian who has correctly predicted each election since 1984, recently announced his prediction for a Harris win after Teddy Kennedy Junior's withdrawal.

¹ Page, D., "[US 2024 presidential election preview: Trump faces new adversary](#)", AXA IM Research, 26 July 2024

² Real Clear Politics, 17 September 2024

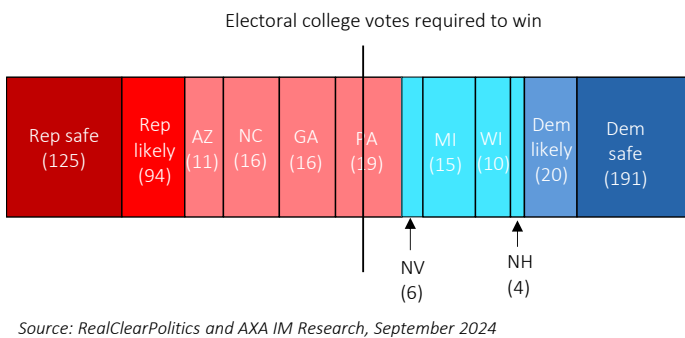
Exhibit 3 suggests the election is far from decided. Eight years ago, Hillary Clinton enjoyed far larger leads than Harris has over Trump but went on to lose. Four years ago, Biden also had a much bigger poll lead, but eventually only won with half the lead predicted and by 43k votes in three key states. Harris' convincing performance in September's televised debate has arrested a tentative softening in her lead after the initial honeymoon and post-Democrat Convention support.

Exhibit 1: Harris makes marginal states races competitive



In this paper we consider the impact the US election could have globally. We believe a Harris win could have a material impact on the outlook for domestic activity – particularly distributionally – albeit our expectation remains she would face a split Congress, which would hamstring bolder policy. Her victory's impact on the world would thus likely be limited to the not inconsequential spillover effects from US growth.

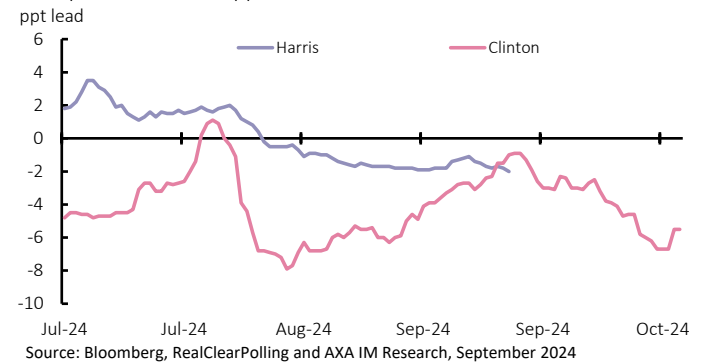
Exhibit 2: Trump currently still wins electoral college vote
US - States with electoral college votes ranked by current polling



Yet a win for Trump would have more direct impacts for many economies and could start a chain of events that could lead to many indirect effects. In particular, we consider the impact of Trump's proposed tariff policy. While we have explained that in price terms this is something we would expect to be felt more

by US consumers than foreign producers, in volume terms this is likely to have a material impact on China – the focus of Trump's campaign ire – with a proposed 60% tariff. By contrast, while the Eurozone would face a plausibly smaller 10% tariff – from the roughly 5% weighted tariff currently – trade tensions could rise further in the face of any European Union (EU) retaliation or from the EU's separate efforts to address carbon emissions through its Carbon Border Adjustment Mechanism.

Exhibit 3: Harris leads Trump, but Clinton led by more and lost
Trump lead in overall approvals



These policies are likely to drive US interest rates and the dollar higher – despite Trump's protestations to the contrary. This would impact the global economy, particularly emerging markets.

We also consider the implications of Trump's statements on security. His antipathy to North Atlantic Treaty Organization (NATO) and suggestion of a settlement in Ukraine could signal a period of security withdrawal from Europe. In the face of persistent Russian aggression, Europe could have to revert defence spending to levels that prevailed before the post-Soviet Union 'peace dividend' – which is something few European economies are well placed to fund. In Asia, Trump has also threatened less security provision, or a more transactional relationship. This could also see a reduction in US security presence here, with implications for many nations in Southeast Asia.

More broadly, we examine Trump's likely environmental stand. Reneging on the Paris Agreement in his first term, we expect Trump to weaken climate change avoidance policies. While we have argued that Trump is unlikely to reverse Biden's signature spending bills³ completely, he is likely to oversee deregulation of oil and gas production, boosting output for both. In the short term this is likely to lower energy costs, softening inflation outlooks globally. However, over the medium to long term this is likely to keep US greenhouse gas emissions high.

We consider the possible impact on Europe and China, before broadening our outlook to consider Emerging Asia, Japan, Mexico, Canada and Emerging Europe.

³ Page, D., "Will the US presidential election endanger an investment boom?", AXA IM Research, 27 May 2024

Eurozone – High stakes amid political fracture risks



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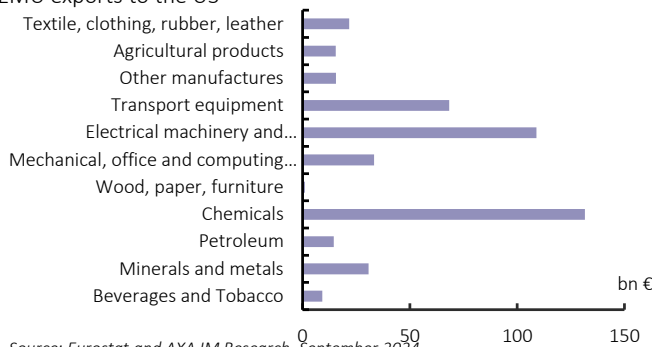
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- The direct impact of higher US tariffs on the Eurozone would likely be limited
- Of more concern would be an escalation of the trade war with China hampering domestic investment in the bloc
- Increased geopolitical tensions risk EU political fractures amid high public indebtedness vulnerability

Trade tariffs: Marginal direct impact

The US election’s potential impact on the Eurozone is rather binary – a Kamala Harris victory is unlikely to have a material effect but a Donald Trump win would. Trump wants to narrow the US trade deficit and the Eurozone is a key contributor to this. The bloc exported €450bn of goods in 2023 (or 3.1% of GDP) (Exhibit 4), yielding a surplus to the US of €133bn.

Exhibit 4: Products exported by the Eurozone to the US
EMU exports to the US



If he were to secure a second term, Trump has proposed a blanket 10% tariff on the rest of the world, including the Eurozone. The weighted average of US tariffs on EU exports is around 3%, according to World Trade Organization data, implying a further 6.8% rise in export prices. Assuming an historical elasticity of around -1, we estimate it would reduce total Eurozone goods exports by €30bn (0.2% of GDP) – a rather limited direct impact. We note, that the bulk of eurozone exports gross value added to the US mainly consists of intermediate goods which may suggest some downside to historical elasticity. Such an impact should be further moderated by a depreciation of the euro against the

dollar in response to domestic tariffs and other policy adjustments limiting the Federal Reserve’s space for cuts. This would likely lower the price of Eurozone exports, also potentially benefitting the bloc from increased competitiveness in non-US countries if they retaliate with increased tariffs on the US, but not on the Eurozone. Since the start of 2023, net trade has already added 0.2 percentage points (ppt) per quarter to Eurozone growth (0.0ppt in 2014-2019), with share of US exports up 8% – tariffs present a direct risk.

We see a bigger indirect risk if a second-term Trump trade policy starts a trade war between the three main economic blocks. Trump has been even more aggressive towards China, threatening 60% tariffs. At the risk of oversimplifying, Chinese exporters would likely try to find a substitute market with similar consumers to the US; Europe would be the natural target. A number of European industries, already in a tumultuous state, would face greater competition from Chinese producers, raising expectations of EU intervention with its own tariffs. Yet the current negotiation on Chinese electric vehicle tariffs has revealed challenges on this path. Reaching an EU majority is complex, as each country’s interests differ. Furthermore, political stability in the Eurozone has significantly eroded since Trump’s first term and key elections loom in Germany (2025), Italy (2026) and France (2027 at the latest).

For the Eurozone, global protectionist policies, together with associated economic uncertainty would likely affect domestic and foreign investment. The impact is difficult to estimate but would be crucial for both short and medium-term growth.

European security tensions

US support for Ukraine and implications for NATO are also a concern. Trump has claimed he would secure a swift peace deal in Ukraine. The fear is that this is an implicit threat of withdrawing support to Ukraine. The EU would not be able to replace the scale of US support – especially in the materials. This would raise concerns about US commitment to NATO and European security more broadly. In recent years, European countries have increased their defence spending, though still not all match their NATO pledges. A Trump presidency would likely push for this at least, but a perception of broader US security withdrawal may lead countries to raise defence spending more materially, something that would additionally strain vulnerable EU public finances and relations.

Fluctuations in energy prices may also impact the Eurozone. Increased US production and a deal with Ukraine may lower gas prices, but elevated Middle East tensions could boost oil costs.

China – Eyes on trade fragmentation

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- The expected increase in tariffs on Chinese goods would weaken China’s exports and threaten an already slowing growth outlook
- Depreciation of the Chinese yuan, increased export diversion and deeper supply chain integration offer some protection

Tariffs would threaten economy

The upcoming US election could significantly affect China’s economy, primarily through trade fragmentation. Both presidential candidates have discussed tariffs, though Donald Trump has threatened much larger increases than Kamala Harris – up to 60%. Exports have been a crucial driver of China’s economic growth, especially considering its several domestic challenges. The possible increase in US tariffs on Chinese goods could exert considerable pressure on China, subsequently dampening overall economic growth. Moreover, further disruptions in US-China trade relations could erode investor confidence. In recent years, China has become less attractive to foreign investors due to increased government intervention. Additional tariff hikes would heighten uncertainties, threatening to further reduce foreign investment in China.

In Trump’s first term average US tariffs on Chinese goods surged from around 4% in early 2015 to 21% by late 2019, settling at 19.3% following the Phase-One agreement in early 2020. As a result, Chinese exports to the US dropped sharply in 2019, partially recovering in 2020. On average, exports to the US declined by 3% annually between 2018 and 2020, partially mitigated by the yuan’s depreciation. The yuan fell by 11.3%, from 6.3 to 7.1 against the US dollar (Exhibit 5), as the People’s Bank of China allowed devaluation in line with market forces.

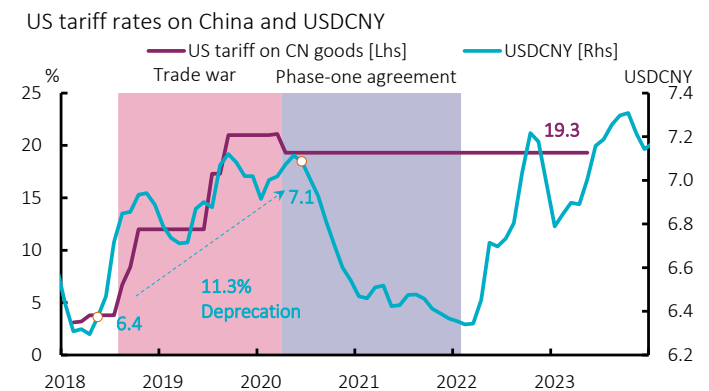
If a blanket tariff of 60% on Chinese goods were imposed, based on 2023 export values, Chinese exporters would face over \$200bn additional tariffs annually, equating to 1.2% of China’s GDP. As in the previous trade dispute, such a tariff increase would likely lead to a natural appreciation of the US dollar (depreciation of the yuan), which could mitigate some pressures. Nevertheless, the impact could still be significant and poses two major challenges.

A persistent negative output gap in China’s economy has led to a low-inflation environment, increasing the risk of entering a

debt-deflation loop. A decline in external demand due to higher tariffs would slow growth, exacerbate this output gap and reinforce disinflationary pressures, including an increase in unemployment, particularly in export-dependent sectors, further weakening the labour market and dampening consumer confidence further.

Higher US tariffs could also trigger capital flight from China. The yuan is already weak due to a strong US dollar and China’s economic slowdown. Further tariff hikes could push the currency to new lows with significant yuan depreciation possibly triggering capital flight, particularly if combined with slower economic growth, stock market declines and worsening risk perceptions. Both domestic and international investors may seek more stable/profitable opportunities elsewhere, particularly if they anticipate prolonged economic challenges. The scale and immediacy of capital flight would also depend on the severity of any tariff increases, the broader economic environment, and the Chinese government’s response to these pressures, but could further destabilise China’s economy.

Exhibit 5: Yuan depreciation as US tariffs hiked in 2018



Source: Peterson Institute for International Economics (PIIE), CEIC and AXA IM Research, Sept 2024

Despite these challenges, the impact of tariff increases could be less pronounced than in 2018. China has increasingly diversified its exports away from the US and strategically enhanced a deeper integration into key global supply chains – such as semiconductors, batteries and solar panels – which may offer some protection against future trade disruptions. However, these new supply connections could be more vulnerable to sanctions, with third parties encouraged to observe – which US Democrats have made more use of – than pure tariffs, which Trump favours.

The US election therefore poses a risk to the fragile outlook for China’s economy whatever the outcome. However, the suggested scale of tariff increases proposed by Trump pose the biggest risks. Proactive and adaptive policy responses will likely be crucial in navigating these uncertainties as well as delicacy in handling other geopolitical developments.

EM Asia – Picking a side



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- EM Asia gained from the US-China trade war, widening US surpluses and attracting Chinese investment. If he wins, Trump may punish South-East Asia’s role in enabling Chinese firms’ indirect exports to the US
- Korea and Taiwan could face a more challenging environment in any change of US security arrangements

A friend of the enemy

Emerging markets (EM) Asia will be closely watching the US presidential election. While we see few direct impacts from a Kamala Harris win, a Donald Trump victory would likely pose several challenges for the region.

EM Asia broadly benefited from the 2018-2019 US-China trade war, not only enjoying a more competitive position vis-à-vis Chinese exporters to the US but also attracting foreign investment from firms engaging in “China + 1” strategies and investment from Chinese firms seeking to diversify their supply chains (and circumvent US tariffs).

The region’s favourable position can be attributed to its success in avoiding picking a side. However, if Trump wins, the risk of an escalation in the US-China trade war could see key markets in the region find it difficult to continue to reside in this sweet spot. Trump would be unlikely to tolerate what he may deem an increasingly one-sided relationship with markets that have seen trade surpluses with the US widen and benefited from US regional security backing but simultaneously have built closer economic ties with China. EM Asia could therefore face a tougher trading environment with the US and a reassessment of existing security arrangements if Trump is re-elected.

The region now has a much wider trade surplus with the US than in Trump’s first term (Exhibit 6). While some of EM Asia’s gains have come at the expense of China, this also reflects a rewiring of Chinese supply chains to circumvent US protectionist policies, with South-East (SE) Asian nations being notable conduits. This has already played out in solar panels – a decade or so after the 2012 US tariff hike on Chinese solar panels, SE Asia now accounts for around 80% of all US solar panel imports, much of which is linked to Chinese firms. In August 2023, the US Department of Commerce (DoC) announced the final determination of a circumvention inquiry that found Chinese producers were shipping solar products

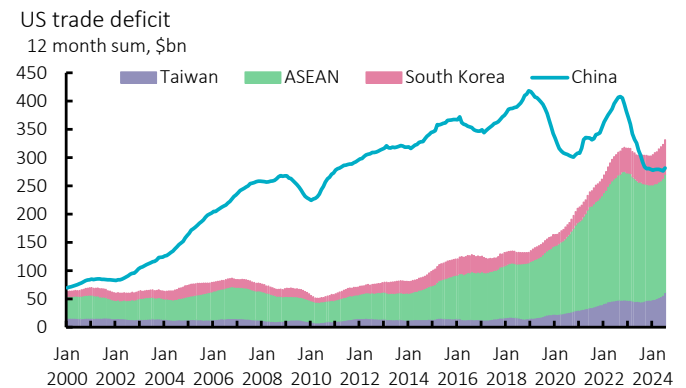
through these markets for minor processing to avoid paying anti-dumping and countervailing duties.

China’s investment in SE Asia manufacturing facilities has also picked up in recent years. Its total outward direct investment position in Vietnam, Thailand and Malaysia combined rose from US\$16bn in 2018 to US\$37bn in 2022, according to International Monetary Fund data. More recently, fDi Intelligence reported that in 2023 China pledged US\$26.4bn in greenfield projects in the Association of Southeast Asian Nations, up from an annual average of US\$7.7bn in 2014-2022. This makes it challenging for the DoC to identify and contain Chinese efforts to circumvent trade tariffs. Tougher anti-China policy could include blanket tariffs on nations deemed to be benefiting from close ties with China (particularly those enabling China’s tariff evasion) – and EM Asia will be a prime target. Complicating further, EM Asia will also need to be wary of cheap Chinese imports; Indonesia has already taken action, imposing tariffs of up to 200% on some Chinese goods.

In addition to hiking tariffs on so-called unfair trade covering China-linked imports, there is a broader risk any future trade negotiations or disputes with a new Trump administration could include threats to withdraw US security commitments, or demand greater contributions towards existing arrangements.

In particular, Korea and Taiwan have also seen trade surpluses with the US widen and these could attract a protectionist response, given Taiwan’s dominant position in semiconductor manufacturing and Korea’s rising vehicle exports to the US. A harbinger of a more complicated relationship with the US was Trump’s comments in July that Taiwan should pay the US for protection from China, while also bemoaning Taiwan’s dominance in global semiconductor trade. Tellingly, in his first term, Trump accused South Korea of free riding on US security support and renegotiated the Korea-US Free Trade Agreement (KORUS) accordingly.

Exhibit 6: US deficit with EM Asia greater than that with China



Source: LSEG Datastream and AXA IM Research, September 2024

Canada – Next door to the elephant



David Page
Head of Macro Research
Macro Research

- Tariff policy is critical, but the expected impact should be limited to USMCA renegotiation, not direct tariffs
- Indirect impacts are expected on the EV supply chain industry; oil production; and more unskilled migration
- Spillovers are expected from a US slowdown after 2025

Tariffs first concern

As Canada's largest export destination, US trade policy will form a major part of the election's potential impact – and this will be more pertinent if Donald Trump is re-elected. Canada exports around 75% of its goods and services to the US, worth 25% of GDP. Trump has not discriminated in campaign speeches between current trade partners in threatening a blanket 10% tariff. Such an increase would have a material impact on Canada's exports, though this would affect all trade partners, with US industry struggling to replace all the more expensive imports quickly. The Business Development Bank of Canada estimates a 0.3ppt impact on Canada's GDP, but this seems low to us. We would also expect a weakening in the Canadian dollar to increase the Bank of Canada's (BoC) inflation concerns.

In fact, we expect Canada, as part of the United States-Mexico-Canada Agreement (USMCA) trade deal (CUSMA in Canada), to escape a 10% 'blanket' tariff. This would make Canadian exports *relatively* cheaper to the US and should boost demand for Canadian products as much as for domestic US producers, lifting the 2025 outlook. Yet the USMCA deal itself is up for renegotiation in July 2026. Much as Canada was forced into concessions in initial negotiations in 2017, including on data storage, intellectual property and dairy market access, we expect similar concessions this time. That said, Canada is unlikely to be high in Trump's trade concerns. Canada recently invoked 100% tariffs on Chinese electric vehicles (EVs) – a clear suggestion of where Canada's loyalties lie. And even within USMCA, renegotiation is likely to be more difficult with Mexico – albeit that changes would also affect Canada's trade with Mexico, accounting for 8% of total Canadian trade.

In his first term, Trump used trade policy to extract other concessions, something we expect to be repeated. Canada may face renewed pressure on defence spending. It has not met its 2% of GDP North Atlantic Treaty Organization (NATO) pledge since 1990, being closer to 1% for most of the last 30 years. The latest pledge to increase spending would only reach 1.76% by

2029-30. In May, 23 bipartisan US senators wrote to Prime Minister Justin Trudeau about this shortfall; Trump could be more forceful. Yet most of the impacts on Canada are likely to be felt indirectly. While we have argued that Trump will not renege on the entirety of US President Joe Biden's Inflation Reduction Act, US EV production faces greater risks. This could impact Canada which has invested in EV battery and supply chains in anticipation of increased US production. Relatedly, US oil and gas deregulation under Trump would likely boost US oil production. This may depress margins on Canada's own oil production, albeit that this disinflationary boost may ease other pressures for more restrictive monetary policy.

Both US candidates are likely to tighten migration but Trump's suggested deportations may also impact Canada. This might result in some of the US's 11mn undocumented migrants fleeing north. Canada has recently been relatively welcoming to migration but such a wave may be treated differently. First, Canada is paring back its temporary migrant workers amid some signs of a net inflationary impact. Second, Canada's migration has to date been controlled – with few unchecked crossings – and so migration has been targeted and traditionally high-skilled. A surge from the US could change this. Also, depending on US policy, some argue that Canada's safe third-party country agreement with the US could be challenged legally, which could grant some migrants legal refugee status. Finally, US policy may also encourage increased third-party migration, for example increasing student applications.

A Trump presidency may also play a role in Canada's domestic politics. Trudeau faces re-election in October 2025, but his Liberal Party is currently trailing the Conservative Party in the polls. Trudeau has demonised Conservative leader Pierre Poilievre as a northern Trump – which will be increasingly awkward if Trudeau faces delicate negotiations with Trump. Moreover, Trump's populist policies could inflame similar tensions in Canada, adding to the rightward lean in Canada's own politics, particularly if they prompt further migratory flow.

Finally, Canada is also likely to face a material indirect spillover from US economic impacts. While we believe that escaping broad tariffs would provide a boost to Canadian GDP, we do expect US growth to slow next year under a Trump presidency and more materially in 2026. And while energy disinflation may ease the net effect, if the Federal Reserve provides less policy easing that would in turn pin the BoC to relatively more restrictive policy, via Canadian dollar weakness versus the greenback. When Trudeau's father Pierre was Prime Minister, he observed that living next to the US economy was like sleeping with an elephant: "One is affected by every twitch and grunt" – we expect such twitches to be meaningful over the coming years.

Mexico – Time, patience and cold blood



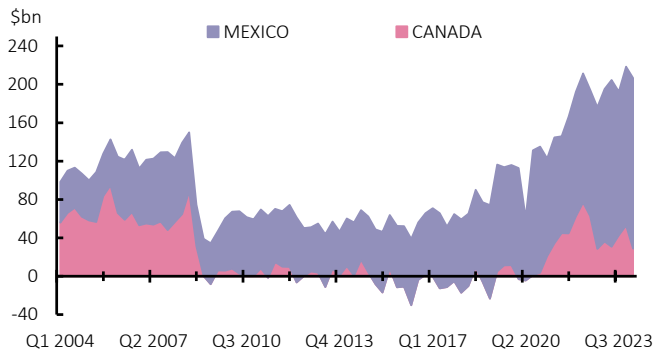
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- Trade policy is critical given the scale of trade share but difficult after surplus increases and Chinese investment
- Other policy areas including fentanyl, judicial reform and migration to complicate trade negotiations
- Spillovers expected from any associated US slowdown

A complicated relationship

Mexico accounted for 16% of US exports in 2023 – second only to Canada and on a par with total exports to the Eurozone – and one quarter of the entire US trade deficit, while the US accounts for 83% of Mexico’s exports. As such, trade developments will again be the number one post-election issue for these two countries. This suggests a bigger impact if Donald Trump beats Kamala Harris. As part of the United States-Mexico-Canada Agreement (USMCA) trade deal, we would expect Mexico to be exempt from any blanket 10% tariff as threatened by Trump, in theory boosting US demand for Mexican exports as alternatives become more expensive.

Exhibit 7: US trade deficit with Mexico has soared
US USMCA economies bilateral trade deficit



Yet there are several frictions from a Trump perspective. The US deficit with Mexico has doubled over the last five years and is now close to China’s as a proportion of the total US shortfall (Exhibit 7). Moreover, China has materially increased investment in Mexico, pouring investment into manufacturing facilities to produce goods for export into the US that bypass direct tariffs. Trump has stated he will impose a 100% tariff on Chinese produced electric vehicles (EVs) from Mexico, seemingly despite the trade deal, while Trump’s broader antithesis to US EV adoption presents a further risk. Both are

likely to cause Mexico difficulties when it comes to the USMCA trade deal renegotiation in 2026, which could be difficult under either candidate. In 2017, the USMCA identified “non-market economies” (China) and restricted trade agreements allowed with them. More recently, the Inflation Reduction Act identified (although did not precisely define) “foreign entities of concern” (China). The USMCA renegotiation could well include provisions along these lines, leaving Mexico in a tricky position with regards to Chinese investment, particularly if geopolitical tensions between the US and China deteriorate. Additionally, any restrictive changes to the USMCA would also impact trade with Canada – Mexico’s second largest export market.

Previously, Trump has used trade negotiations as leverage over other policy areas and we envisage two flash points. Fentanyl is the largest cause of death of US in 18-to-45-year-olds and most is believed to arrive from Mexico. US Republican senators have suggested bombing Mexican drug laboratories and/or using Special Forces to operate in Mexico. In 2020, Mexican President Andrés Manuel López Obrador restricted US Drug Enforcement Agency (DEA) operations in Mexico, but recently tightened controls and legislation, joined the United Nations (UN)’s anti-trafficking campaign and increased co-operation with the DEA again. We expect further progress to be part of a trade deal. Moreover, Mexico has just passed judicial reform to elect judges. This was opposed by the Mexican judiciary and has raised concerns in the US, which may restrict future US investment in Mexico.

On migration, both Harris and Trump would likely slow immigration, but Trump would likely do more so and threatens deportations, which would be more disruptive. PEW Research shows in 2022 of 11mn undocumented migrants, 4mn were Mexican and 4mn Latin American (LatAm). Mexico will be wary of a revival of Trump’s first-term Migrant Protection Protocols – the “Remain in Mexico” policy. A reduction in migrants may also reduce remittances to Mexico, worth 4% of GDP – with a larger impact across the rest of LatAm – something that would also be impacted by threatened taxes. However, migration is an area where Mexico can help the US: alleviating US southern border pressure, by better controlling its own. This is leverage that might help in negotiations.

Finally, Mexico will be particularly vulnerable to US economic spillovers. Our expectation for higher US inflation, a stronger dollar and less monetary policy loosening under Trump would increase pressure on the Mexican central bank, Banxico, which has only lowered rates by 50bps from its 11.25% post-pandemic peak. This would further weigh on the Mexican growth outlook, as would the slowdown in US activity expected under a Trump presidency and any reduction in Chinese investment in the event of more restrictive conditions in a renegotiated USMCA.

Japan – Exposed by trade deal-lite



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- Trump tariffs would affect most Japanese exports
- A more dovish Federal Reserve in 2026 would weigh on BoJ policy increases
- Harris would be broadly neutral for growth and the Bank of Japan

Trump negative, Harris neutral

As elsewhere, if the US election outcome is a Harris win, we see a broadly neutral impact for Japanese growth and the Bank of Japan (BoJ). But we would expect greater cooperation on trade and defence.

We expect a Trump presidency, by contrast, to weigh on Japan's growth as any new tariffs would hit exports. Japan has two bilateral trade agreements with the US and recently agreed to remove the previous Trump-era steel tariffs on around 1.25 million metric tonnes per year. But only around 5% of Japanese goods are covered by this agreement, with notable sectors untouched, particularly autos, which would be vulnerable to broader tariffs. Japan would also probably benefit less than other Asian countries from the substitution of production of certain electronics away from China due to differences in the manufacturing basis. Japanese exports are also heavily exposed to potential China and US economic slowdowns, which account just under 40% of total exports. We thus expect to see export growth slow materially in 2025. Note that in Trump's first term annual export growth slowed to 0.5% on average in 2018 and 2019, well below the 5% average in the first half of the 2010s.

A Trump presidency may also increase Japanese defence spending. During his last presidency, Trump required Japan to quadruple payments for the some 54,000 US soldiers stationed there, a cost to Japanese tax payers, with no benefit to growth. Given recent rhetoric, further sacrifices will be likely needed if it wants to maintain this presence. And while Trump's demand for increased independent security across the rest of the region may boost defence spending elsewhere, Japan are already prioritising this area, so a similar boost to growth looks unlikely.

Further, if a Trump victory leads to a more hawkish Federal Reserve (Fed), this would support the (BoJ) monetary policy increase towards neutral in the near term. Yet weaker domestic growth and a more dovish Fed amid a US slowdown for 2026 would likely put pressure on such a move and may even require some loosening.

Emerging Europe – Trapped



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- US trade policies could weigh on the region via indirect effects on Eurozone growth and the euro
- The region's geostrategic importance has increased, independent of the US election outcome, through increased reliance and cooperation with the EU

Potential ricochet from US protectionism

Protectionist temptations will be closely watched after the US election, again separating a Harris/Trump outcome. Central and Eastern European (CEE) countries rank very highly in terms of trade openness. In 2023, trade (exports and imports) accounted for as much as 175% of GDP in Slovakia and close to Singapore levels of 100%-120% for the Baltics. Among the bigger economies in the region, Poland's trade is still more than 90% of GDP, compared to only 25%-40% of GDP in China, India, Indonesia, Brazil or Russia. The European Union (EU) is by far the CEE's largest trading partner, accounting for 60%-80% of total exports, while the 3%-5% export share to the US is still above China's 1%. But a further rise in US protectionism could affect the region indirectly via the effect on the Eurozone economy and the euro, rather than directly or via its impact on China.

Nervous neighbours

Yet beyond trade concerns, a second mandate for Donald Trump brings risks to financial and military assistance in the region. It remains to be seen whether Trump would end US aid to Ukraine if elected as part of a "settlement in a day". Still, it appears increasingly clear that Ukraine and the whole CEE region would have to rely more on Europe – and itself – for security. Most of these countries perceive Russia's Ukraine invasion as an existential threat and have stepped up defence spending by 100%-270% since 2014. The national military budget reached 4% of GDP in Poland, while Latvia aims to reach 3% of GDP by 2027 and most CEE countries exceed the North Atlantic Treaty Organization (NATO) 2% of GDP pledge, a level that Trump has suggested could grant US protection "from a Russian invasion". However, Trump is also supported by populist leaders such as in Hungary and Slovakia, whose pro-Moscow tilt continues to stir frictions within the EU. However, these economies also seem to be a gateway for Chinese investments into the EU, which in turn could bring trade tensions with the EU and US alike.

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