Markets

How Trump’s election is forecast to affect US stocks

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Goldman Sachs Research’s forecast for the S&P 500 Index of stocks is broadly the same as it was before Donald Trump won the US presidential election. Beneath the surface, however, the outlook has changed substantially for some sectors.

The S&P 500 is still projected to climb some 9% to 6300 in the next 12 months, David Kostin, chief US equity strategist at Goldman Sachs Research, writes in the team’s report. Our researchers forecast growth in earnings-per-share of 11% in 2025 and 7% the year after, though Kostin points out that those estimates may change as more about the new administration's policy agenda is revealed. “Robust earnings growth should drive continued equity market appreciation into next year,” he writes.

The S&P 500 rallied to a record high the day after the presidential vote as uncertainty about the outcome faded.

"I don't think many people had it in their playbook that we would know the next president by 11 am on Wednesday," says Brian Garrett, head of Equity Execution on the Cross Asset Sales desk in Global Banking & Markets at Goldman Sachs. Previous US elections have taken days or longer to play out, and Garrett highlights that the two-day normalized decline in the VIX (the CBOE Volatility Index) was one of its largest in the past decade.

US stocks surged in part because many clients had reduced the amount of risk in their portfolio amid uncertainty about the results of the election, Garrett says on an episode of Goldman Sachs Exchanges. Investors have since re-engaged some of the trades that were successful after the 2016 presidential race, such as buying financials, small caps, technology, and energy stocks, he says.

The resolution of political uncertainty is a key, near-term driver for stocks and tends to drive strong year-end returns following a presidential election, Kostin writes. The S&P 500 index has historically generated a median return of 4% between Election Day in November and calendar year-end. Combined with the recent resilience in economic growth data and the expectation for more rate cuts by the Federal Reserve, the near-term outlook for US equities is "healthy," he writes.

How Treasury yields may influence US stocks

A sharp increase in 10-year Treasury yields, which would increase borrowing costs and impact valuations, would probably limit the magnitude of any potential rally in stock prices. Ten-year yields have risen to about 4.4% from a low this year of 3.6%. Kostin points out that such an increase in interest rates would usually be accompanied by a decline in equity prices. But in this case, stocks have been unperturbed by the rise in yields because it has mostly been driven by better economic data in the US.

While the US presidential Inauguration Day is still months away, investors are rotating their holdings within stock portfolios according to expectations for policy changes. Recent correlations between baskets of equities and election prediction markets indicate that financial, fossil fuel, and small capitalization companies will outperform the broader market, and renewable energy stocks will lag behind.

The impact of US tariffs on stocks, M&A, and IPOs

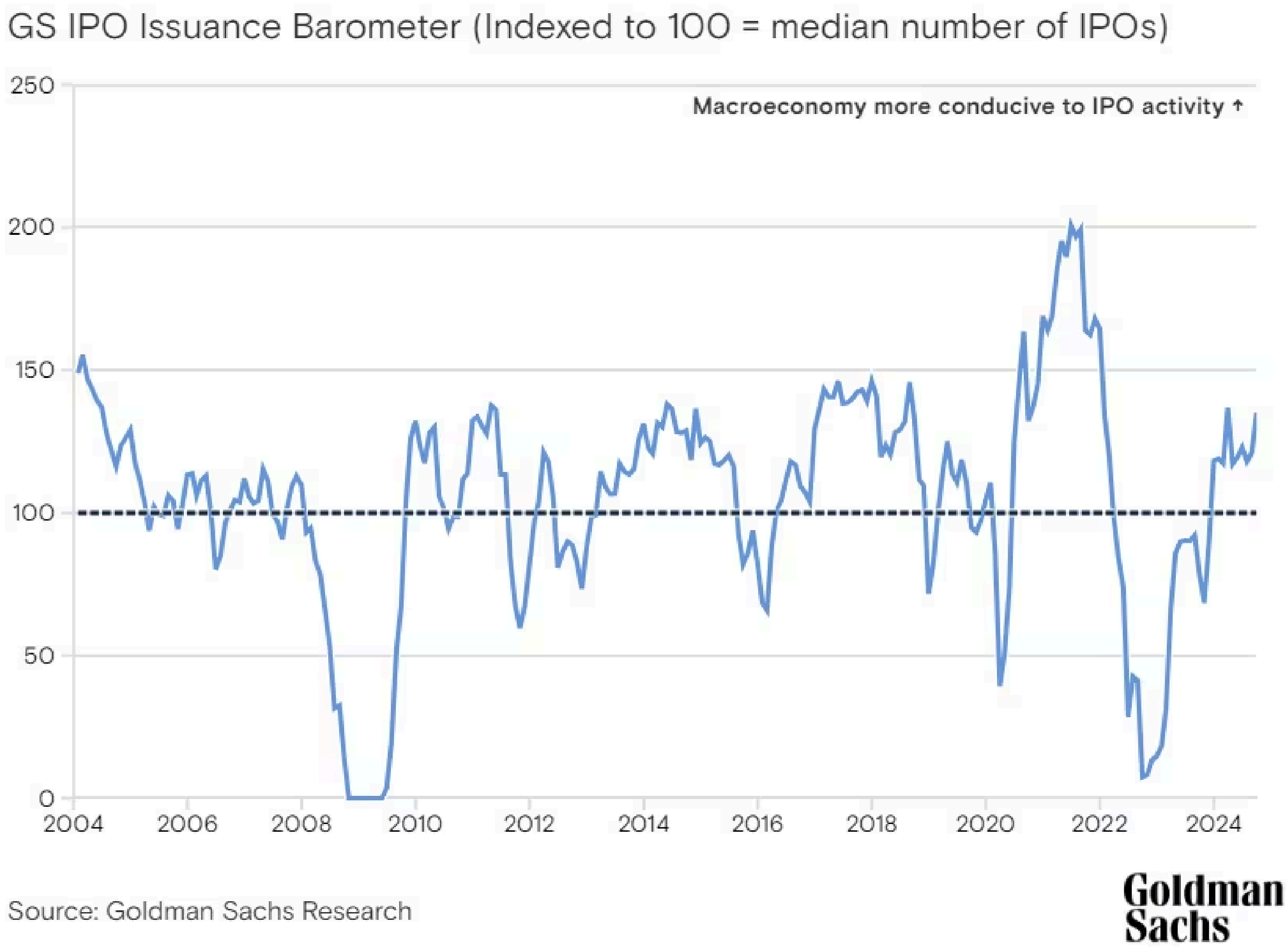
Many investors are focused on trade policy, and Trump may implement some tariffs without legislation. Our economists expect the president-elect will impose tariffs on imports from China that average an additional 20 percentage points. European companies may also face tariffs, and the impact of trade uncertainty could cause a larger economic hit than the tariffs themselves, according to Goldman Sachs Research.

During the trade conflicts in 2018-2019, in Trump's previous administration, domestic-facing and defensive industries such as utilities, telecom services, and real estate tended to outperform, while automobile, capital goods, and technology hardware stocks underperformed.

There are reasons to think mergers and acquisitions will increase under a Trump administration. While it will take time for policy uncertainty to recede, antitrust regulation could be more relaxed under the Republican president. Continued economic expansion and an increase in confidence among CEOs may also underpin a rise in corporate combinations.

Goldman Sachs Research estimates that $4 trillion of corporate spending in 2025 will be roughly evenly split between returning cash to shareholders (buybacks and dividends) and investing for growth (capex, research and development, and M&A).

The number of IPOs may rise. Goldman Sachs Research's IPO Issuance Barometer assesses how conducive the macroeconomic environment is for new equity issuance.



A reading of 100 represents an environment that is consistent with the typical historical frequency of IPOs. The barometer rose to 201 in June 2021 at the peak of the post-Covid issuance boom and fell to a nadir of 7 in September 2022. It now stands at 137, reflecting the solid macroeconomic environment for new issuance, according to Goldman Sachs Research.

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