



United States: Republican victory

- The Republican Party is the big winner of the elections.
- The Presidency, House of Representatives and Senate are all controlled by the Republicans, who will have free rein to implement their policies.
- Yet the exact nature of their policies must still be defined. There is a consensus on certain points, such as cutting taxes and repealing Obamacare.
- There are divergences on other issues, including spending, the minimum wage and existing free-trade agreements.
- The financial markets' immediate reaction was clearly negative, but it is also harder to interpret than it might seem. Did market players fear a repeat of the 2000 elections, when the outcome was not known for 5 long weeks? Or were they reacting to the uncertainty over which policies would be implemented? It will take some time before these questions can be answered.

The Republican Party's stunning victory is undisputable. In addition to the Presidency, the Republicans will hold onto their majorities in both the House of Representatives and the Senate, even though all of the results are not official yet. They will have free rein to implement their policies, although Senate operating rules will make this task harder since the Republicans will have only a slim majority. It would take 60 seats to overcome a Democratic filibuster, but currently the Republican majority is estimated at 51 seats at the time we went to press.

What about the Republican platform? For the president-elect, the answer is not so simple, given the numerous contradictions and inconsistencies expressed over the long months of the campaign. Nonetheless, there are some similarities between his campaign promises and the platform advocated by the Republican officials, notably in the House. These points of convergence shed light on what we can expect.

There is a general consensus on taxation. The number of income tax brackets would be reduced from seven to only three, with broad cuts in the marginal tax rates. Capital gains taxes would be reduced and estate taxes would be virtually eliminated. There is also an agreement in principle on corporate taxes, although a reform seems less probable. Numerous attempts have been made in past decades, and despite bipartisan consensus on reducing tax rates and eliminating tax shelters (at least in part), various draft bills have never been enacted.

Another strong point of agreement between the various Republicans is repealing the Affordable Care Act, the legacy of President Obama's first mandate, widely known as Obamacare. The legislative process could be more complicated, however, since several aspects of Obamacare have already been validated by the Supreme Court. But where there's will, there's a way.

Several of Donald Trump's campaign promises have little chance of being enacted, notably raising the minimum wage to USD 10 an hour and spending on infrastructure. Barack Obama made similar proposals that were rejected by Congress during previous legislatures. Trade agreements are another point of contention. Legally, it is hard to be absolutely certain that the president has the power to unilaterally cancel such agreements. Rather than risk possible legal redress, the Congress might be called to settle the matter. The outcome of such a vote is anything but certain: American voters, notably those supporting Donald Trump, certainly have a very protectionist bent, but given the power of lobbyists, we advise caution about the probable outcome. One thing is certain: negotiations pending on the transatlantic and transpacific free trade agreements will remain in their current state, which is to say, stillborn.

There are also questions about various rules and regulations. Republicans oppose Obamacare without a doubt, their position on the Dodd-Frank Wall Street Reform and Consumer Protection Act has been less stressed out. And yet recent legislatures have worked tirelessly to slash funding for the agencies responsible for implementing this act. Since this was not one of the campaign issues, there is total uncertainty over the Republicans' position.

The market's immediate reaction was strongly negative, as most of the world's equity markets ticked downwards. The dollar plunged before rebounding after the final results were announced. More than Hillary Clinton's defeat, the US markets seemed to have feared a repeat of the 2000 elections, when it took 5 weeks to determine who would be the next president. Volatility is bound to remain very high given the enormous uncertainty over the policies to be implemented.

Looking beyond calls for national unity, attention will focus in the weeks ahead on the formation of the President-elect's cabinet. Few names are in circulation. Other questions will then arise, such as the attitude towards the Fed. Will the central bank's independence be re-affirmed or called into question? One thing seems certain, assuming we trust the financial markets: the Fed will skip the opportunity to raise key rates in December, and will opt for the monetary status quo. Rather than a negative analysis of future economic policy, such a move would show the Fed's determination to restore calm in the financial markets.

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