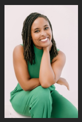
7 Ways the Presidential Inauguration Affects Investors



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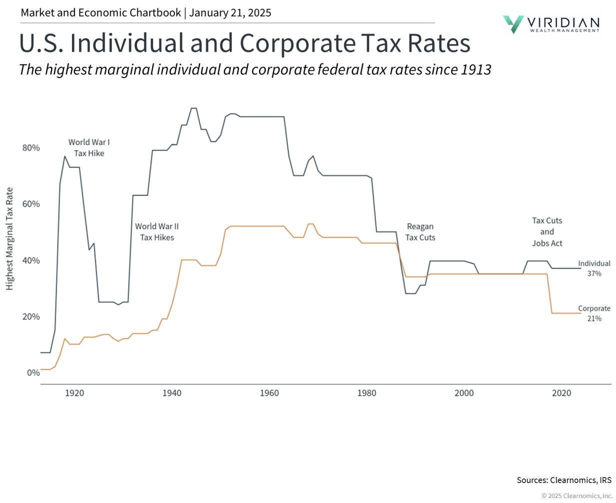
President Trump's inauguration marks a significant political shift amid market and economic uncertainty. The stock market had rallied as much as 5.3% with dividends in the month following the November election, before giving up about half of those gains at the start of the year.[1] As President Trump begins his second term, both Wall Street and Main Street are wondering what the next four years may bring.

Investors face a complex environment in 2025 with steady economic growth balanced against fewer Fed rate cuts and high valuations. This is one reason investors could be more sensitive to growth policies than in the past. So, while the president has already signed dozens of executive orders, many of the new administration's policy details are still uncertain and much could change in the coming weeks. However, key areas will certainly include taxes, fiscal spending, trade, energy, and immigration – all of which could impact the economy.

Below, we explore seven areas that could affect investors:

1. The Tax Cuts and Jobs Act will likely be extended



With a new Trump administration and Republican control of Congress, it is likely that much of the Tax Cuts and Jobs Act will be extended beyond its 2025 expiration. The political details of how this makes its way through Congress are still being debated, but this means that tax rates will likely remain low for individuals and businesses. This includes a highest marginal rate of 37%, corporate tax rates of 21% or lower, a higher estate tax exemption, and more.

While taxes have a direct impact on households and companies, they do not always have a straightforward effect on the overall economy and stock market. Tax rates represent just one element affecting economic growth, with numerous exemptions and provisions available to lower effective rates.

Current tax levels remain below historical averages. Given increasing national debt levels, prudent individuals should consider the potential for future rate increases in their long-term planning.

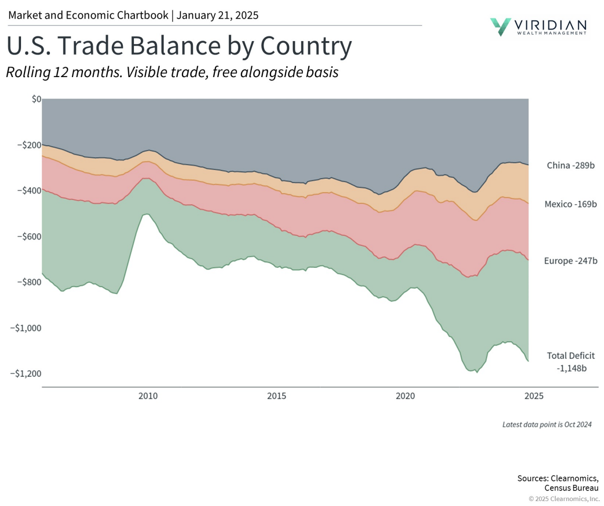
2. The U.S. will likely continue running a deficit

Many economists and investors expect the federal debt to continue to grow. Tax cuts and other policies only worsen annual deficits. In 2024, the government spent $6.75 trillion resulting in a funding gap of $1.83 trillion, ballooning the national debt to over $36 trillion.

Neither party has made serious efforts to rein in the deficit in recent years, especially as the country has dealt with various crises such as the pandemic and inflation. That said, President Trump has established the Department of Government Efficiency (DOGE), a non-governmental agency tasked with identifying unnecessary spending from the federal government.

While many Americans would prefer the government to operate with a balanced budget (the last ones were in the late 1990s), it is unclear whether Washington or DOGE will be successful.

3. New tariffs could have a real economic impact



It's important to remember that political rhetoric can differ from actual policies. Nowhere is this potentially more relevant than with trade. President Trump spoke on many occasions about his plans to impose a 10-20% tariff on all imported goods along with an additional 60% tariff on Chinese goods. More recently, he has discussed 25% tariffs on Canada and Mexico, saying on inauguration day that he will enact them on February 1. He also plans to establish an "External Revenue Service" to manage this tariff income.

During his first term, the Trump administration did in fact raise tariffs for many trading partners. This led to negotiations and trade deals including the United States-Mexico-Canada Agreement (USMCA) and the "Phase One" agreement with China. Many of these tariffs were then continued under President Biden.

The U.S. currently has the largest trade deficit in the world. As of November 2024, the U.S. imported $78.2 billion more than it exported. This is not necessarily a bad thing – it reflects the strength of the U.S. dollar and healthy consumer demand among Americans. However, this does mean that the country is effectively borrowing from the rest of the world.

Tariffs are a minimal source of government revenue, making up less than 2% of federal receipts each year. Many also worry that tariffs could contribute to inflationary pressures by raising the cost of imported goods entering the domestic market. From a political perspective, these concerns must be weighed against protecting sensitive intellectual property and preserving domestic manufacturing jobs.

4. Energy policy will promote drilling

Another key component of Trump's agenda is the focus on energy security and dominance. He has already declared a national energy emergency and will create a National Energy Council to expand drilling in places like Alaska.

According to the U.S. Energy Information Administration, the U.S. has produced more crude oil than any nation at any time for the past six years. The U.S. is also the world's biggest gas producer and exporter of liquefied natural gas.

Oil and gas drilling is naturally politically controversial. The Biden administration recently banned drilling in parts of the Pacific and Atlantic Oceans, the Northern Bering Sea, and part of the Gulf of Mexico. Some of these bans have already been reversed, and Trump's Interior Secretary has already vowed to reverse the rest.

For markets, greater energy supply could mean more stable prices, especially as geopolitical conflicts continue to rage around the world. Energy prices are also a primary driver of overall inflation. Recent increases in oil and gasoline prices have pushed headline inflation higher than the Fed would like.

5. Immigration will affect the job market

Politicians and the news typically focus on undocumented immigrants, especially with Trump's immediate declaration of a national emergency on the southern border. However, immigration policy changes could impact legal immigrants as well, especially highly skilled workers. A reduction in immigration could have implications for the labor market, particularly in areas where worker shortages are already a concern.

There is disagreement within the Republican party over visas for skilled foreign workers, and the H1B visa program which enables companies to sponsor these workers has been a particular point of contention. Recent jobs data show that there are still 1.2 million more job openings than unemployed individuals, so immigration policy could have a significant impact on the economy in the coming years.

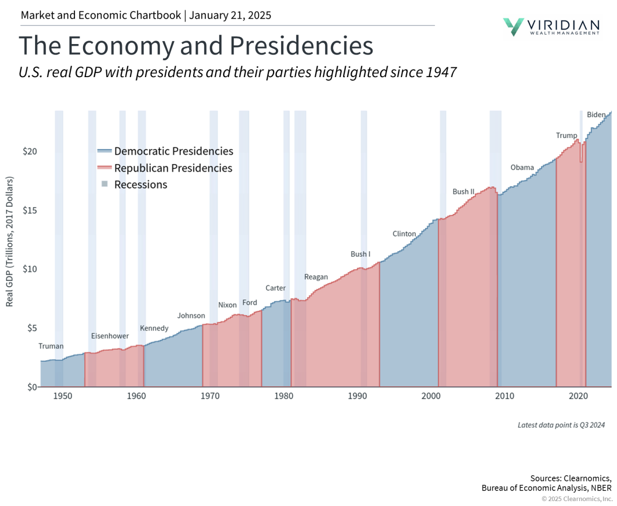
6. The Trump trade has taken a pause

President Trump's election victory in November led to a rally in many assets associated with the "Trump trade." This refers to investments that benefit from the expected policies of the new administration, including lower individual and corporate taxes, tariffs, lighter regulation, and deficit spending in areas such as infrastructure.

This propelled markets for a time after the 2016 election as well. Other assets, including cryptocurrencies and artificial intelligence-related stocks, have also benefited. President Trump has named an "AI and crypto czar" who is expected to boost adoption of these technologies. This is one reason the price of Bitcoin has rallied above $100,000 since the election.

Despite investor enthusiasm, the stock market never moves up in a straight line, and this was also true during the first Trump administration. Investors should continue to stay balanced to benefit from both current market conditions and to protect their portfolios during periods of volatility.

7. The economy has grown under both parties



When it comes to markets and the economy, presidents tend to receive too much credit and blame. History shows that economic growth and market rallies have occurred across both parties. This is because who occupies the White House is often less important than the decades-long business and market cycles that happen to be taking place.

So, while good policies do matter and can drive productivity and growth, there are many underlying factors that impact investors more than which party happens to be controlling Washington D.C.

The bottom line? Over the next four years, investors will be focused on the new administration's policies and their effects on the economy and markets. For investors, it's important to put politics aside to stay balanced and focus on long-term goals.

[1]S&P index total return, as of January 17, 2025.

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