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US elections – First reactions

Key messages

- Donald Trump is the new US President, and the Republicans have won the Senate. However, the votes are still being counted for the House of Representatives, suggesting that the scenario of a Red wave is the most likely.
- Trump's win might lead to a new round of US import tariff increases. An extension of the 2017 tax cuts and further fiscal stimulus are expected in a Red wave scenario. The medium-term impact is likely to be negative on the US economy and lead to higher inflation. It could also weigh on the eurozone's economic outlook.
- It is unlikely the FOMC (Federal Open Market Committee) will react to the election result, but it could increase the terminal rate given the upside inflation risk. Yields could also come under pressure.
- Equity markets and the dollar have reacted positively. Yields were up in the US and modestly lower in the eurozone.

The election outcome at this stage

Donald Trump is the new US President, and the Republicans have won the Senate. Republicans have won the majority in the Senate with 51 seats out of the 100 from 2025, up from the current 49.

As largely expected, they have won the seat in West Virginia, where Democrat Joe Manchin did not run for re-election.

They have also won a seat in Ohio, where incumbent Sherrod Brown lost to his Republican challenger.

Concerning the House of Representatives, the result is still uncertain. A party needs 218 seats to secure the majority. At the time of writing, the Republicans are in the lead with 204 seats. The outcome could remain uncertain for several days or even longer.

Potential impact on the economy

Trump's victory will very probably lead to a new round of US import tariff increases. An extension of the 2017 tax cuts and further fiscal stimulus are expected in a Red wave scenario.

In such scenario, we think that the medium-term impact is likely to be negative on US economic activity and lead to higher inflation. Tariffs are likely to have bigger effects than the potential changes to fiscal and immigration policy. We expect an initial positive impact on growth from the business sector, while the full extension of individual tax changes should matter more for consumer spending in a second phase. However, the negative effects from tariffs and the higher uncertainty should offset any positive impulse from a more expansive fiscal policy. We also expect a higher public deficit.

The election win for Donald Trump, in our view, implies a downside risk to eurozone growth.

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We see four main channels through which the US election outcome could affect the eurozone economy:

- additional trade tariffs;
- trade policy uncertainty;
- fiscal policy spillovers; and
- increased EU defense spending.

Depending on the outcome for the Congress, we may review our eurozone economic forecasts.

Monetary policy

It is unlikely that the FOMC will react to the election result. We still expect a 25bp cut at the meeting taking place this week. Our initial scenario implies two consecutive 25bp rate cuts in 2024, followed by a quarterly cadence until the policy rate reaches 3.25% in early 2026. This outlook will be under review if the scenario of a Red wave is confirmed. Indeed, in that case, inflation would likely rise again later in 2025, and this would imply higher rates than our existing scenario for 2026.

The higher uncertainty will probably prompt the ECB to stick to a more gradual, meeting-by-meeting approach. We still look for a 25bp cut in December, March, June and September with a terminal rate of 2.25%. The ECB could even go to 2% or less if the economic environment deteriorates further.

Market reactions so far

Yields in the US were up about 10bp for the 2 and 10-year. In Europe, they were modestly lower. The dollar is up given the higher probability of a Red wave and there will be potentially higher inflation and a higher terminal rate. If such scenario is confirmed, we will also review the outlook for the dollar (less downside).

Equity markets have welcomed the election outcome and the fall in uncertainty. Most equity markets and futures are up with more mixed reactions in Asia ex-Japan. They should be supported by the election outcome in the coming months, but we need to closely follow the risk of higher medium-term inflation.

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