

# MARKET SIGHT LINES



## Looking Further at the Implications of the 2025 Transition of Power in Washington, D.C.

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As we shared [the results of last week's U.S. elections](#), our attention turns to what we're learning thus far about the Trump administration's plans. Up to and through the election, we covered a wide variety of topics that might have influenced voters in order to anticipate election results. In this Sight|Lines, we narrow our focus to policies and plans expected to have a direct impact on the economy and markets as Republicans lead a unified government in 2025.

### THE TAKEAWAY: AMERICA FIRST...DEREGULATION...CHECKS AND BALANCES

The Trump administration is focused on "America First" and deregulation, but narrow majorities in Congress will limit some initiatives. In summary:

- *Deregulation*: We expect to see a significant rollback in Biden administration regulations, especially related to financial services and climate initiatives.
- *Taxes*: The Trump administration will try to make good on election promises, but meaningful change, including the extension of the 2017 tax cuts, requires support from Congress.
- *Healthcare*: A focus on deregulation will seek to increase competition and efficiency, and a leading role for Robert F. Kennedy (RFK) Jr. means potentially more dramatic change.
- *Military and Defense*: We expect support of a strong military, changes to the legacy military leadership, and potential peace negotiations in Russia/Ukraine and Israel/Hamas.
- *Foreign Policy*: An "America First" approach will be pursued with both U.S. allies and China, with tariffs imposed as a first big step toward aggressive negotiations.
- *Energy*: An increased scrutiny on alternative energy like wind and solar will be offset with renewed support for oil and gas and a growing focus on nuclear energy.
- *The Federal Reserve (Fed)*: Like many presidents before him, President Trump will lobby for a more accommodative Fed, but we expect the Fed to maintain independence.
- *Government Spending*: The focus on government efficiency is real and should result in reduced discretionary spending, with limited fiscal spending legislation.

- *Animal Spirits*: Markets rallied on an uncontested election and optimism about deregulation and government efficiency, but we expect some volatility going forward.

### **IN-DEPTH: “AMERICA FIRST” AND DEREGULATION ARE IN FOCUS, BUT THIN MAJORITIES IN CONGRESS MEAN CHECKS AND BALANCES WILL PLAY A SIGNIFICANT ROLE**

As we focus in on the developing policies of the new government, we see a focus on “America First” and deregulation, even as narrow congressional majorities mean the checks and balances will influence what can and can’t get done. Going deeper:

- *Deregulation*: We expect to see a significant rollback in Biden administration regulations, such as:
  - A less aggressive Securities and Exchange Commission requiring less or no climate disclosure.
  - A Federal Trade Commission less likely to block certain mergers and acquisitions.
- *Taxes*: The administration will look for ways to cut taxes or renew some cuts from 2017:
  - Eliminating taxes on tips, overtime pay, and/or Social Security benefits may be popular enough to motivate Congress to support at least some of these initiatives.
  - Congress will not likely support extending all expiring cuts in the Tax Cuts and Jobs Act of 2017, and there’s a good chance the state and local tax deduction cap will be increased or eliminated.
- *Healthcare*: The healthcare sector may experience significant change:
  - Deregulation will focus on increased competition and efficiency, and lower drug prices will be a headwind to revenue.
  - RFK Jr. supports more dramatic changes in the Department of Health and Human Services and the Department of Agriculture, and he has been chosen for a leading role in the administration.
- *Military and Defense*: We expect the administration to support:
  - Financial support and leadership changes for a strong military as a deterrence to U.S. adversaries.
  - A focus on peace negotiations in Russia/Ukraine and Israel/Hamas.
- *Foreign Policy*: An “America First” approach will be pursued with both U.S. allies and China. We expect:
  - Increased tariffs on China imports followed by trade negotiations.
  - Tariffs elsewhere, with renewed focus on NATO countries “paying their fair share.”
- *Energy*: We’ll see a shift away from climate-focused policy back to more traditional sources. Trump may:
  - Pull the U.S. out of the Paris Agreement again, repeal Environmental Protection Agency pollution rules, and increase scrutiny on alternative energy like wind and solar.
  - Seek the repeal of unspent Inflation Reduction Act funds, which requires congressional support.
  - Support increased drilling on federal lands as well as more nuclear energy.
- *The Fed*: President Trump will lobby for a more accommodative Fed, a common presidential practice:
  - Clinton and Obama held regular meetings with the Fed chair, Nixon pressured Chair Arthur Burns to keep rates low, and Carter and Ford often clashed with Fed chairs over their inflationary policies.
  - We expect the Fed to maintain its independence going forward.

- *Government Spending*: The focus on government efficiency will help with our fiscal trajectory:
  - Elon Musk and Vivek Ramaswamy have been appointed to co-lead the newly formed Department of Government Efficiency (DOGE) to reduce bureaucracy, cut unnecessary regulations, and restructure agencies to eliminate wasteful expenditures.
  - This, combined with no anticipated fiscal stimulus legislation, will help reduce government spending, contributing to a potentially lower deficit.
- *Animal Spirits*: So far, markets have reflected optimism since the election:
  - Since Election Day, the S&P 500 is up 1.85%, with the financial services sector up 6.63%, and the KBW Regional Banking Index up 10.52%.
  - The VIX Index, a measure of stock market volatility, fell from 20.49 on election day to 15.48 recently.
  - With rich equity market valuations and the strong potential for political pushback on the Trump administration's plans (our checks and balances), we should anticipate some market volatility going forward.

## CONCLUSION

[Republicans won majority control](#) in last week's elections. When we focus on the incoming administration's policies that will directly influence the economy and markets, we see an "America First" approach with a focus on deregulation, with narrow majorities in Congress expected to have a meaningful influence on what can and can't get accomplished.

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