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The 2024 U.S. Presidential Election: The Trump Administration & A Republican Congress

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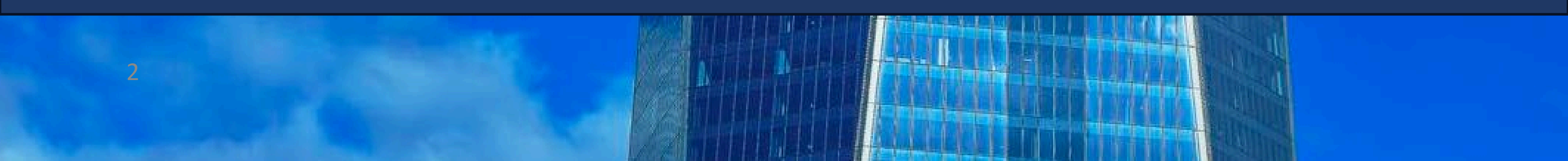
With Donald Trump winning his second term, Republicans securing a majority in the Senate and on their way to securing a majority in the House of Representatives, corporations and investors are assessing expected policy shifts. The Trump Administration's renewed "America First" approach promises familiar themes: tax cuts, deregulation, and trade protectionism, aiming to bolster domestic industries. Against a backdrop of inflationary pressures, labor constraints, and supply chain issues, businesses are strategizing to adapt to these complex economic conditions, and market reactions on the heels of Election Day suggest renewed optimism in the direction of the economy, M&A environment, and decreased regulatory framework.

This white paper explores the expected impact of Trump's policies on M&A and regulatory frameworks, supported by a Republican-controlled Senate and, likely, Republican House. It examines how the potential Republican majority is anticipated to bolster the legislative and regulatory agendas aligned with the Administration's priorities over the next two years.



Market Impact

Overview of Economic Policies and Historical Context

The Trump/Vance Administration is expected to prioritize tax cuts for individuals and corporations, deregulation, and trade protectionism. Unlike the previous Trump Administration, which saw elevated federal spending in response to the COVID-19 pandemic, the new approach suggests a reduced spending footprint. Current campaign policies indicate a focus on fiscal restraint, likely leading to decreased federal spending outside key areas such as infrastructure, defense, and energy. This strategy aims to stimulate growth through tax relief and regulatory easing, potentially impacting the federal deficit depending on revenue performance.

A Republican-controlled senate, and likely the House, is expected to support these pro-business policies, promoting reduced corporate taxes, minimized regulatory barriers, and increased energy production to stimulate private-sector investment and expansion. Measures to unlock ex-U.S. corporate capital may further bolster multinational M&A activity.

Corporate and Individual Tax Cuts

The Trump Administration plans to extend the 2017 Tax Cuts and Jobs Act (TCJA) provisions and introduce further tax reductions, including a 15% corporate tax rate on domestic production. These policies are anticipated to offer short-term economic stimulus, especially for businesses reinvesting tax savings into growth and M&A. Additional measures include permanent R&D expensing, the restoration of the SALT deduction, and income tax exemptions for Social Security benefits and tips. However, President Trump's reliance on import tariffs to offset tax cuts could undermine economic gains, as increased tariffs may reduce GDP significantly.

Republican Congressmen are likely to propose reducing the corporate tax rate to 20%, aiming to make the U.S. more competitive. To mitigate future revenue loss, proposals may include simplified tax codes and limits on deductions. Further, tariff policies favoring American manufacturing may continue or expand, benefiting sectors like manufacturing, energy, and financial services by encouraging growth and investment in domestic industries.

Market Impact (Cont.)

Deficit and Debt Considerations

President Trump's approach to tax cuts and fiscal policy is expected to lead to some increase in national debt. During his first term, heightened spending was largely driven by the extraordinary circumstances of the COVID-19 pandemic. Without a similar Black Swan event, the focus in a second term appears to be on curbing spending while still advancing tax reductions. This approach may prompt tighter fiscal policies over time as the Administration balances tax relief with debt management priorities. We do expect a focus on reducing government spending by way of potential cuts to social programs and public sector funding. While tax reductions may widen the federal deficit in the short term, proponents argue that increased economic growth in addition to social program cuts could offset the budgetary impact over time.

Revenue Generation Measures

Republicans aim to simplify the tax system with lower rates and a broader tax base, focusing on measures that enhance corporate competitiveness and attract investment. They generally prefer revenue generation through tariffs and privatization over broad tax hikes, aligning with the belief that a pro-business approach stimulates economic growth. This strategy is expected to boost market confidence and investor sentiment, though reliance on tariffs may introduce some market volatility depending on global trade dynamics.

Expected Market Behavior

Markets generally respond positively to deregulation and tax cuts. On the day of Trump's victory, financial markets exhibited notable reactions. The S&P 500 and Nasdaq Composite both surged by over 2%, while the Dow Jones Industrial Average climbed more than 3%. Investors are optimistic about potential tax cuts and deregulation, particularly in sectors like energy, financial services, and manufacturing. However, these policies may also introduce inflationary pressures, especially if government spending cuts are implemented gradually. The Federal Reserve, while independent, will play a crucial role in balancing economic growth initiatives with inflation control amid these policy shifts. Additionally, geopolitical shifts and trade tensions could contribute to global equity volatility, increasing demand for safe-haven assets. A surge in mergers and acquisitions is anticipated in the coming months as businesses adapt to the new policy landscape, encouraged by expectations of a more favorable antitrust review environment compared to the previous administration.

Trade Policy

The Trump/Vance Administration's "America First" trade strategy centers on protecting U.S. industries and encouraging domestic production, with a heavy reliance on tariffs as a negotiation tool. Previously, the Trump Administration renegotiated NAFTA with the United States-Mexico-Canada Agreement (USMCA) and applied tariffs on Chinese imports. President Trump is expected to expand these policies, furthering the focus on reshoring jobs and bolstering U.S. manufacturing. A potential Republican-led Congress will likely adopt a notably aggressive trade stance, emphasizing broad tariffs, renegotiated trade deals, and incentives aimed at reshoring manufacturing to the U.S. The 2024 Republican platform, shaped heavily by Donald Trump's economic agenda, signals a move away from traditional free-market policies in favor of protectionist measures. This includes proposals for baseline tariffs on foreign goods, reciprocal tariffs with trade partners, and restrictions on Chinese investment in U.S. industries. The primary focus is on protecting strategic industries and reducing reliance on foreign supply chains, which could bolster sectors like defense, technology, and manufacturing.

China Trade Relations

The U.S.-China trade relationship is anticipated to experience heightened tensions, with new tariffs on technology imports and broader restrictions. President Trump's proposed tariffs on Chinese goods, potentially as high as 60%, aim to address perceived trade imbalances and bolster domestic production. However, such measures could provoke retaliatory responses from China, increasing costs for U.S. industries that depend on Chinese manufacturing and impacting exporters. Beyond tariffs, Trump's return to the White House could inject volatility into this critical bilateral relationship, already strained over issues like Taiwan, technology, and the South China Sea. Chinese President Xi Jinping's call for cooperation underscores concerns about the potential for escalating tensions. China's response could also extend beyond trade, influencing diplomatic efforts and regional dynamics in the Asia-Pacific, with implications for allies such as Japan, South Korea, and Australia.

Trade Policy (Cont.)

Expansion of the US-Mexico-Canada Agreement (USMCA)

The USMCA, which replaced NAFTA in 2020, aims to enhance trade between the U.S., Mexico, and Canada by establishing updated rules for labor, intellectual property, digital trade, and environmental protections. It seeks to create a more balanced and reciprocal trade environment among the three countries. The Trump Administration might pursue amendments to further strengthen North American trade, particularly by expanding provisions that support U.S. manufacturing and agriculture sectors that can source materials regionally, thereby reducing exposure to global trade fluctuations.

Potential Impact on M&A

Trade restrictions, particularly those involving China, may diminish the appeal of cross-border mergers and acquisitions for firms with exposure to Chinese markets due to uncertainties around tariffs and regulatory barriers. Technology and manufacturing sectors, which often rely on global supply chains, could face significant challenges in navigating these changes. Conversely, domestic manufacturing and energy sectors are likely to see increased M&A activity as companies localize their supply chains and capitalize on incentives for domestic production. Firms with established North American supply chains may gain strategic advantages in this localized environment, making them attractive acquisition targets. Additionally, industries aligned with national security interests, such as defense and semiconductors, could benefit from a favorable M&A climate and expansion opportunities. Renewed attention on simplifying ex-U.S. capital flows may also allow multinational corporations to re-shore foreign earnings, bolstering domestic M&A resources.

Regulatory Environment

Focus on Deregulation

The Trump/Vance Administration, along with a Republican led Senate and House, is expected to focus on deregulation in sectors like energy, financial services, and emerging industries. President Trump's first term saw over 100 environmental rollbacks affecting emissions, wetlands, and public lands through executive orders, the CRA (Congressional Review Act), legislative rulemaking, and court-ordered suspensions. While executive orders allowed swift changes, they lacked permanence and were largely reversed by the Biden Administration. The CRA offered more durability but was limited by procedural requirements. Many legislative rules faced legal challenges, with only 20% upheld by courts. The current Supreme Court's stance may favor future deregulatory actions, potentially providing lasting support for reductions in compliance obligations. This approach aims to stimulate M&A and growth in sectors constrained by past regulations.

Energy Sector

The Trump/Vance Administration is expected to pursue extensive regulatory rollbacks in the energy sector, favoring fossil fuels over renewable energy initiatives. President Trump's emphasis on "energy dominance" involves removing the U.S. from the Paris Agreement, expanding oil and gas drilling, and reducing energy-related compliance burdens. This approach includes ending Federal drilling delays and streamlining natural gas pipeline approvals. Although President Trump's campaign claims these policies will reduce energy costs and boost U.S. competitiveness, some objectives may require Congressional support. Deregulatory moves are anticipated across oil, gas, and coal industries, promoting increased investment and production. Legislation under a Republican Congress is expected to advance the Trump Administration's ideals highlighted above, easing environmental regulations and offering incentives for fossil fuel production. These measures include potential mandates for the executive to substantiate regulatory actions affecting energy sectors and proposals to limit the EPA's regulatory reach, building on recent Supreme Court decisions that restrict agency power. This approach could slow the growth of renewable energy investments while providing immediate gains for the oil, gas, and coal industries.

Regulatory Environment (Cont.)

Financial Services

Deregulatory efforts in financial services under the Trump Administration are anticipated to focus on reducing compliance burdens for banks and investment firms, potentially reshaping key regulatory bodies. President Trump has pledged to replace current financial regulatory heads, including SEC Chair Gary Gensler and CFPB Director Rohit Chopra, aiming to install officials more favorable to deregulation. By replacing commissioners at agencies like the CFTC, FDIC, and OCC, President Trump aims to shift the regulatory stance to favor reduced oversight, limit rulemaking on capital and liquidity requirements, and ease compliance constraints on financial institutions. This would likely stimulate domestic consolidation, increase lending, and enhance access to capital, creating a more favorable environment for mergers and acquisitions and benefiting institutions positioned to leverage a streamlined regulatory framework.

Healthcare and Pharmaceuticals

The Trump/Vance Administration is expected to reshape healthcare policy by reducing regulatory constraints on pharmaceutical pricing and easing market entry requirements, fostering increased investment in research and development. Congressional Republicans are likely to support these efforts through legislative initiatives aimed at deregulation and market-driven healthcare reforms. While outright repeal of the Affordable Care Act (ACA) appears unlikely due to its entrenchment, adjustments to federal spending, premium subsidies, and flexible benefit design are anticipated. Potential changes to the Inflation Reduction Act (IRA) may also be on the agenda.

Congressional leaders like House Speaker Mike Johnson and key figures in the GOP Doctors Caucus, including Rep. Andrew Harris and Sen. Bill Cassidy, are expected to prioritize healthcare policies focused on cost reduction, access expansion, and regulatory streamlining. Robert F. Kennedy Jr.'s possible advisory role could further influence health policy by overseeing reforms at agencies such as the CDC, FDA, and NIH. This may lead to shifts in public health priorities, including campaigns to reduce chronic disease, bans on certain food additives, and scrutiny of pharmaceutical influence. While Kennedy may not hold a Senate-confirmed role, his advisory influence could be significant.

Regulatory Environment (Cont.)

Emerging Industries

The Administration plans to "reduce barriers to innovation" in emerging industries, including cryptocurrency, artificial intelligence, and commercial space travel, while also incentivizing advanced manufacturing through measures like expanded R&D tax credits and offering federal land for factories. This approach, coupled with promises to expedite environmental reviews and reduce regulations around mineral production for electronics, supports growth and competition in high-tech manufacturing. By relaxing regulatory oversight across these high-growth sectors and reshaping incentives for U.S.-based production, the Administration aims to boost domestic innovation and create conditions favorable for investment and expansion.

A more relaxed regulatory approach to emerging industries like AI, financial technology, and advanced manufacturing is anticipated by the potential Republican led Congress, promoting innovation with minimal oversight. Proposals to increase transparency for executive orders in sectors like energy, agriculture, and natural resources, as well as calls to eliminate agencies like OSHA, align with this strategy.

Potential Regulatory Considerations

The Administration is expected to prioritize broad deregulation across multiple sectors, aiming to reduce compliance costs and stimulate private sector growth. This approach focuses on scaling back regulations in energy, financial services, and healthcare. However, Vice President J.D. Vance, a known critic of Big Tech, will likely advocate for measures to break up large technology companies, citing concerns about monopolistic practices and the impact on free speech. Additionally, changes in leadership at the SEC are expected and could shift the regulatory landscape for financial markets, relaxing enforcement on corporate disclosures and scaling back ESG-related requirements.

Expected Shifts in Immigration Policy

Restrictive Immigration Measures
The Administration is expected to prioritize restrictive immigration policies, including reducing visa caps, increasing scrutiny of work visas, and expanding enforcement actions. In line with President Trump's first term, the Administration will likely adopt policies focused on limiting the number of foreign workers entering the U.S., impacting on sectors heavily reliant on immigrant labor, such as technology, healthcare, and agriculture. Policies will include tightening H-1B visa requirements and revisiting wage thresholds for visa sponsorship to prioritize American workers.

The combined Trump Administration and Republican-led Congress is also likely to implement sealing the southern border, deploying advanced surveillance technology, initiating a drug blockade by the U.S. Navy to combat trafficking, and conducting a large-scale deportation operation. The platform outlines strict enforcement of existing immigration laws, increased penalties for visa overstays, strengthened ICE operations, reintroduced travel bans, and defunding sanctuary cities to ensure local cooperation with federal authorities. A merit-based immigration system will be prioritized, focusing on skilled labor while ending chain migration. These policies may raise labor costs and impact industries that depend on skilled immigrant workers.

Potential Implications for the Labor Market
With labor shortages already a challenge in fields like tech and agriculture, these restrictions could further constrain the supply of skilled workers, driving up wages and increasing operational costs for companies that rely on foreign talent. This shift could amplify inflationary pressures in labor-intensive industries as employers face increased competition for a shrinking pool of qualified workers.

Conclusion: Preparing for 2025 and Beyond

With the Trump/Vance Administration and a unified Republican Senate, and likely the House, gearing up for inauguration, companies will need to navigate regulatory shifts, economic changes, and labor policies that influence corporate strategy in the years ahead. Staying informed of these developments allows businesses to adapt and thrive. Sloane & Company is here to provide strategic communications support tailored to the evolving needs of your business and stakeholders in this dynamic environment.

In times of political, social and economic unpredictability, companies and executives need a clear and consistent plan and message. Sloane & Company is here to help you achieve those objectives, tailored to the needs of your business and stakeholders.

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