*Anima*Insight

The Trump Case
SCENARIOS AND POLICY IMPLICATIONS

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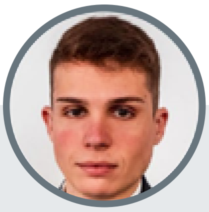

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POLICY ASSUMPTION

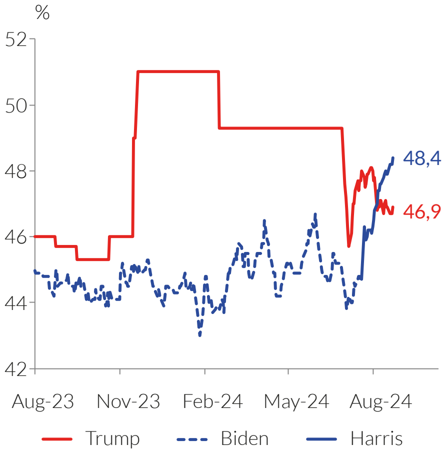
1. POLITICS

Until June 27th it seemed that the match-up would be between the same two candidates as 2020 (Figure 1). Joe Biden, the Democratic incumbent, and Donald Trump, his Republican predecessor in office. But that night Mr. Biden delivered a disastrous debate performance, making Democrats question Mr. Biden's fitness for the task.

Enough is enough. On July 21st Mr. Biden bowed to pressures and withdrew from the race, endorsing his vice president, Kamala Harris, as the Democratic candidate. Neck and neck. **Since then, the popularity of the Democrat candidate has improved** remarkably, overtaking that of Trump, albeit by a small margin (**Figure 2**). **Split Congress.** Based on market implied odds for control of the Senate and House of Representatives, without regard for the winner of the Presidential election, a split congress appears to be the most likely scenario. Meanwhile, a Republican sweep is the second most likely outcome (**Figure 3**).

FIGURE 1.

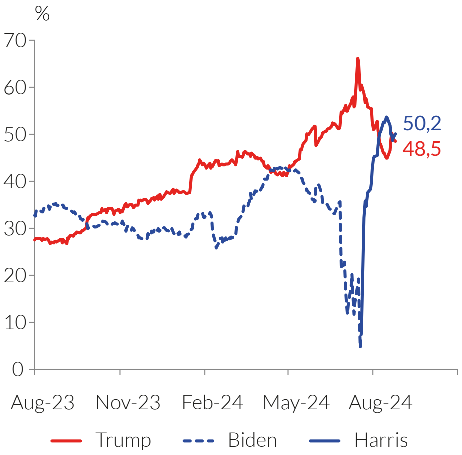
Presidential race –
Electoral polls as of August 22nd



Source: Bloomberg, Real Clear Politics, ANIMA Research

FIGURE 2.

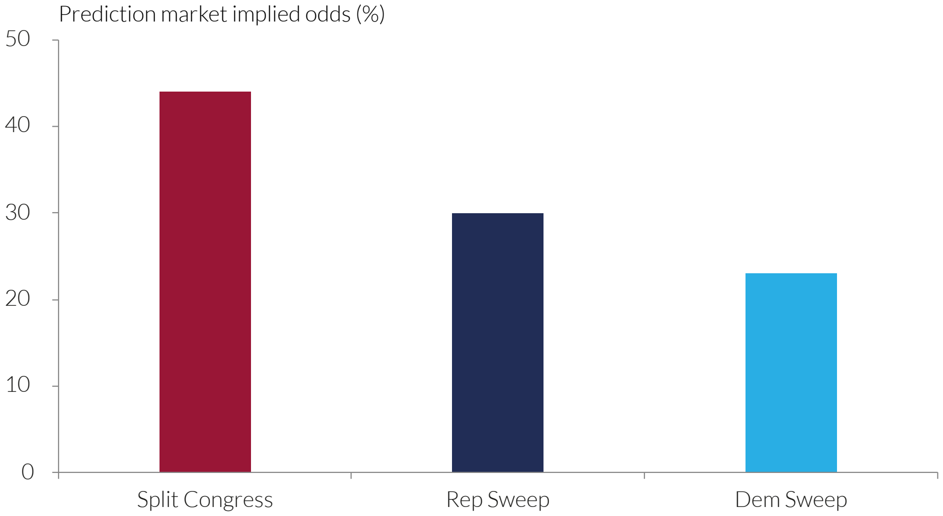
Presidential race – Betting average as of August 26th



Source: Bloomberg, Real Clear Politics, ANIMA Research

FIGURE 3.

Market implied odds for control of Senate and House as of August 26th



Source: Polymarket, ANIMA Research
Note: Split Congress = Trump Divided + Harris Divided

2. FISCAL

A) *Where are we now?*

According to the Committee for a Responsible Federal Budget - an independent think tank - extending the individual and estate tax provisions would cost USD 4.0tn over the following ten years relative to current law. By 2034, this would increase the national debt by 147% of the GDP (vs 137.3% in case of no extension of the Tax Cuts and Jobs Act - TCJA), with annual revenue loss approaching USD 500bn.

A broader extension of tax cuts would be even more expensive. Under current law, 100% bonus depreciation for equipment is currently phasing out, businesses have been required to amortize research and experimentation (R&E) costs since CY 2023, the TCJA's limit on interest deductibility tightened starting in 2022, and the rates of the TCJA's multinational tax provisions are scheduled to increase in 2026 (**Figure 4**).

FIGURE 4.

Deficit impact of extending tax cuts and jobs act provisions

Policy (First Year Policy Expires or Change)	2026-2035 Cost/Savings (-)
Reduce individual income tax rates (2026)	USD 3.4tn
Establish 20% pass-through 199a deduction (2026)	USD 780bn
Repeal AMT for most taxpayers (2026)	USD 630bn
Double estate tax exemption (2026)	USD 190bn
Replace personal exemption w/ expanded standard deduction (2026)	USD 160bn
Replace dependent exemption w/ doubled child tax credit (2026)	USD 140bn
Repeal Pease deduction limit (2026)	USD 130bn
Expand opportunity zones (2027)	USD 70bn
Limit SALT deduction to $10,000 (2026)	-USD1.2tn
Limit other deductions (2026)	-USD 270bn
Cap mortgage interest deduction at $750,000 (2026)	-USD 130bn
Limit pass-through loss deduction (2029)	-USD 20bn
Extend Expiring Individual and Estate Tax Provisions	**USD 3.9tn**
Reverse to 100% bonus depreciation (2022)	USD 380bn
Revive full R&E expensing (2023)	USD 280bn
Extend GILTI, FDII, and BEAT rates (2026)	USD 160bn
Revive looser interest deduction limit (2022)	USD 50bn
Extend or Cancel TCJA-Related Tax Changes Since 2021	**USD 4.8tn**
Extend Affordable Care Act expansion from ARP/IRA (2026)	USD 380bn
Extend green energy tax credits from IRA	USD 190bn
Extend increased IRS funding from IRA	-USD 100bn
Extend or Cancel Nearly All Tax Changes Since 2021	**USD 5.2tn**
Net interest	USD 900bn
Total Potential Cost (w/ Interest) from Extensions	**USD 6.1tn**

Source: Committee for a Responsible Federal Budget (see here), ANIMA Research

The personal income tax provisions of the Tax Cuts and Jobs Act (TCJA) passed in 2017 are set to expire at the end of 2025. This includes lower tax rates, expansions of the child tax credit and standard deduction in place of the personal and dependent exemptions, near-repeal of the Alternative Minimum Tax (AMT), limitations on the state and local tax (SALT) deduction and other itemized deductions, a new deduction for pass-through income, and an increase in the estate tax exemption, among other provisions.

Reverting to 2021 tax law would cost an additional USD 880bn through FY 2035. This would bring the total cost of extension up to USD 4.8tn through 2035 while annual revenue losses would approach USD 550bn (**Figure 5**).

FIGURE 5.

Trump fiscal policy under alternative scenarios

	Split Congress	Repuplican sweep
Individual	Extension of tax cuts for the middle/lower income brackets. Expiration of tax cuts for top income brackets	Extension of tax cuts for both the middle/lower and top income brackets
Corporate	No major intervention	Small chance of further reducing the statutory tax rate
Timing	To be put in place in 2026, affecting tax payments from 2027	
Cost over 10y	USD 2.0tn	USD 4.0tn

Source: ANIMA Research

B) *Fiscal policy under alternative scenarios*

Split Congress – Scenario 1. Given the bipartisan support for middle-income tax provisions, these are unlikely to expire. Meanwhile, an expiration of the tax cuts for top income brackets is likely. On the corporate sector, a divided government outcome would also be likely to reverse some of the phaseouts but otherwise make few major changes. We estimate these measures could cost about USD 2.0 tn and that they would be put in place starting from 2026.

Republican sweep – Scenario 2. A substantial portion of the expiring individual tax cuts has broad political support, making full expiration unlikely. Additionally, a Republican-majority Congress is the only scenario in which tax cuts on income over USD 400 thousand are likely to be extended. Regarding corporate taxes, the tax provisions in the TCJA were for the most part permanent. However, corporate tax cuts do not seem to be a high priority for Trump nor for congressional Republicans. Thus, even Scenario 2 has a small chance of further reducing the statutory corporate rate. We estimate that fiscal policy enacted by a Republican-controlled Congress could cost about USD 4.0tn over 10 years.

C) *Budget deficit impact*

Federal spending caps are locked in for 2025. The expiring tax code would not impact the 2025 fiscal year deficit. Extending the existing individual tax cuts would only affect the budget starting in 2026 – affecting individual tax payments due in April 2027. Therefore, the 2024 and 2025 deficit implications are similar. We expect the budget deficit to average 6.7% and 6.5% of GDP, respectively. Beyond this, the FY deficit would likely widen more in Scenario 1 than in Scenario 2. We estimate budget deficit to widen to 6.2% and 7% of GDP in 2027 vs the baseline of 5.5% in case of no extension of the TCJA.

3. TRADE

Trump's proposals on trade policy will be in the spotlight. This includes a blanket 10% to 20% tariff on all imports into the US, including a 60% tariff on imports from China, a 100% tariff on cars imported from Mexico if they are built in Chinese-owned factories as well as much larger tariffs on specific imports from exporting countries in Europe and others. Lately, the former President also mooted the idea of scrapping income tax altogether and offsetting the revenue loss with an 'all-tariff' policy. Moreover, the Republican platform (see here) proposes revoking the Permanent Normal Trade Relations (PNTR) for China and endorses the Reciprocal Trade Act (RTA) to match US tariff rates on individual products from each country to that country's tariff on the equivalent product from the US.

Regarding tariffs, the President has substantial discretion to make changes, though there are limits. While the President has the power to raise tariffs unilaterally, only Congress can allow for multilateral increases. Moreover, Congress granted China PNTR in 2000, so repealing it would require House and Senate approval while approving the RTA would require an act of Congress.

Scenario 1 - Split Congress. Additional tariffs on imports seem very likely as the authority to impose them is clear and there is broad public support. However, though Trump's current proposals go beyond the 2016 plans, we do not expect all proposals to be implemented. Several proposals put forward by the Republican platform and/or by former President Trump require Congress' support.

Under a divided Congress, we would expect a President Trump to be able to focus mainly on China. In this regard, we expect tariffs on Chinese goods to increase by 60pp over three years, starting in 2025. Actions on Mexican exports are also possible, while moves on Europe look less likely, unless he decides to act against country-specific sectors as he did with steel and aluminum from the EU during his first term.

Scenario 2 - Republican sweep. A Republican-majority Congress would allow a President Trump to widen the spectrum of his trade policy. In addition to China, the introduction of a universal baseline tariff is a serious risk. At this stage we do not view it as the base case, as the authority to impose an across-the-board tariff is less clear cut than imposing a tariff on a single country or product. For several reasons: i) new legislation may be needed as under the current legal framework, mainly temporary tariffs are allowed; ii) support among the public and Republican lawmakers is weaker than for China-focused tariffs, and iii) it could have meaningful negative economic consequences that might deter its use as the US trade imbalance has greatly rebalanced since 2017. That said, we view this as a close call, and a more limited version—a lower tariff rate or the application on several but not all trading partners—is possible.

Timing of implementation. We would expect any new tariffs to be phased in, with a notice and observation period, and hearing before implementation. Even if a second Trump administration acted quickly, additional tariffs, especially those imposed unilaterally by the President, would likely not be in place until H2 2025.

The "original sin". Though evidence of trade diversion spurred by trade war is mixed, it is likely that a Republican administration would try to focus on "rules of origin" to avoid tariff circumvention. The trade agreement with Canada and Mexico (USMCA) has a sunset provision that requires renewal consideration every 6 years and a 16-year sunset clause. The next time it comes up for review will be in July 2026. So far, there has not been any discussion from either party on renegotiations in 2026. Against this backdrop, we expect Canada and Mexico to keep the same agreement as the US attempts to tighten rules of origin and minimum content requirements for manufactured goods. While these policies lie outside our area of expertise, we believe that a quick turnaround of current rules in favor of the US will be difficult to achieve. The subject is very complicated and open to several qualitative interpretations.

4. IMMIGRATION

Imposing more order on the US southern border is a top-priority policy for another Trump administration. Against this backdrop, we believe there is the prospect of significant controls on net immigration involving more enforcement officers. Proposals also include the forced removal of undocumented workers.

We assume two alternative scenarios below:

- **Scenario 1 - Split Congress.** Immigration policy changes would likely face significant legislative gridlock, leading to reliance on executive orders and administrative actions, which might face judicial challenges and limited scope. However, tighter border security and new immigration policies are part of both candidates' campaigns, hence a reduction in net immigration should be discounted, though less than under Scenario 2 (see below).

- **Scenario 2 - Republican sweep.** Comprehensive immigration reforms and stricter enforcement measures could be swiftly enacted, reflecting Republican priorities and aligned executive-legislative cooperation. The most likely measures include the completion of the US-Mexico border wall, ending the "Catch and Release" policy again, and eliminating asylum fraud. Additionally, with a Republican-majority Congress a merit-based system that protects American labor would likely be met with broad support.

Timing of implementation. There is typically a 30- to 90-day delay between the final rule of the policy (usually a year after the draft/proposal) and the effective date. If the policies are done by executive order, then they take effect after 30 days.

5. ENERGY

The political agenda of Republicans, outlined in Project 2025 (see here), **highlights how the next conservative administrations should prioritize energy and science dominance to ensure that Americans have abundant, affordable and reliable energy.** Therefore, our assessment is that Trump's Presidency would result in a generally bearish impact on oil prices, although its direct effect on the physical oil markets may be marginal. Indeed, it might be 12 to 18 months before the effects of policies aimed at boosting domestic supply growth become evident. Ultimately, market forces seem to have a larger influence on the price of oil than regulatory factors.

Back in the 2016 US presidential election, the Brent price fell 16% the month before the election, and stayed below 48 USD/barrel until December 1st, when OPEC announced a production cut. The news triggered an 18% rebound with the oil price up to USD 55. It hovered around this level until March 2017. Then it lost around 20pp down to USD 45 during the spring months before posting a massive rally up to USD 90 until October 2018 (**Figure 6**). The WTI experienced the same dynamics.

The greatest areas of potential intervention are oil and gas friendly policies and deregulation:

1) Trump may backtrack on Biden's fossil fuel policies and roll back environmental policies. That said, this may not greatly boost the already record-high liquids production recorded during Biden's term.

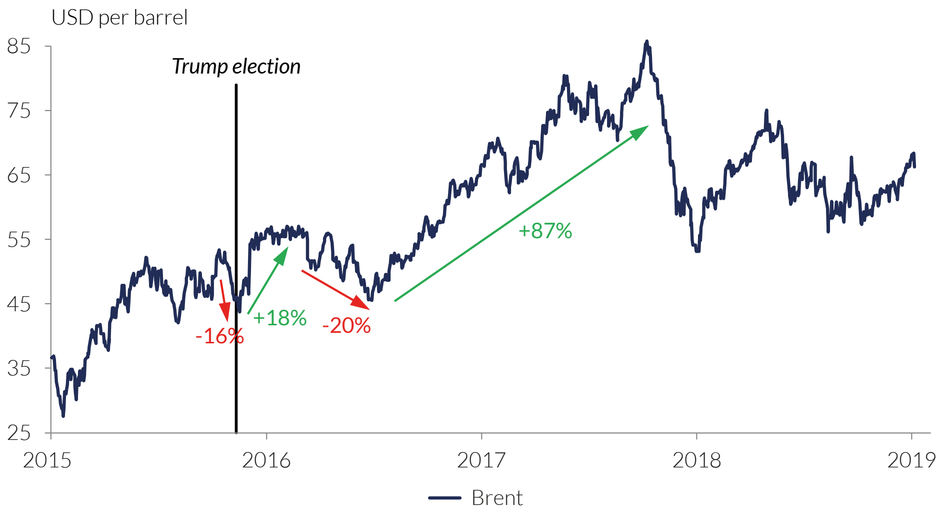
2) Trump could easily boost leasing and acreage auctions, offering more and more productive Federal lands to private operators, with an estimated potential increase in new leases and average acreage per new lease of nearly 500% and 1000% compared to Biden. Trump could also attempt to offer these deals under better terms for developers, reversing Biden's increases to royalties, costs for minimum bids, and lease rates but some of these options would require a longer legislative process to amend the Inflation Reduction Act (IRA). Other options to trim costs for local developers include reversing Biden's methane rules, which require producers to monitor gas levels and pay royalties for any gas flared or vented above a predefined ceiling. These costs do have a greater impact on private operators with less scale and less ability to efficiently manage through the additional oversight. Therefore, a slightly less burdensome regulatory environment could encourage a little more private investment at the margin.

3) The U.S. Department of Justice (DOJ) and the Federal Trade Commission (FTC) under a Trump administration would be less likely to challenge any large M&A deals. As the domestic oil and gas industry is witnessing a profound period of consolidation, many deals have been subject to a second review by regulators. The DOJ and FTC under a Trump administration could be more light-handed.

4) Trump has been vocal about reversing EV supportive policies, but Elon Musk's recent support could moderate this impact.

FIGURE 6.

Oil price developments during Trump mandate



Source: Bloomberg, ANIMA Research

MACRO RAMIFICATIONS

1. GROWTH

We expect the US economy to keep a soft landing. We expect growth to moderate to 2.1% in 2025 from 2.7% projected for this year. This is consistent with US economy momentum (q/q) slowing below potential from Q2 2025 onwards (**Figure 7**).

One of the most consequential proposals put forward by former President Trump is to extend the TCJA. Since the implementation of the fiscal measure designed to support individuals and corporates, private consumption and business investment contributed 1.7pp and 0.6pp to annual growth in 2017-2019 (**Figure 8**). While this is in line with the 2012-2016 average, it is worth noting that domestic demand held up amid slowing global growth.

The policy mix proposed by Trump is unlikely to boost growth notably over the forecast horizon (2025). While it may be tempting to expect private consumption and investment to repeat themselves, merely extending the TCJA is unlikely to provide the same support to growth. For several reasons:

1) Trump's plan to extend the TCJA will not hit growth next year (**Figure 9**). Federal spending caps are locked in for 2025 and the expiring tax code would not impact the 2025 fiscal year deficit.

2) On the corporate front, tax cuts proposed look overly optimistic. A minor reduction in the corporate tax rate is possible, but the magnitude is unlikely to alter businesses' appetite for spending.

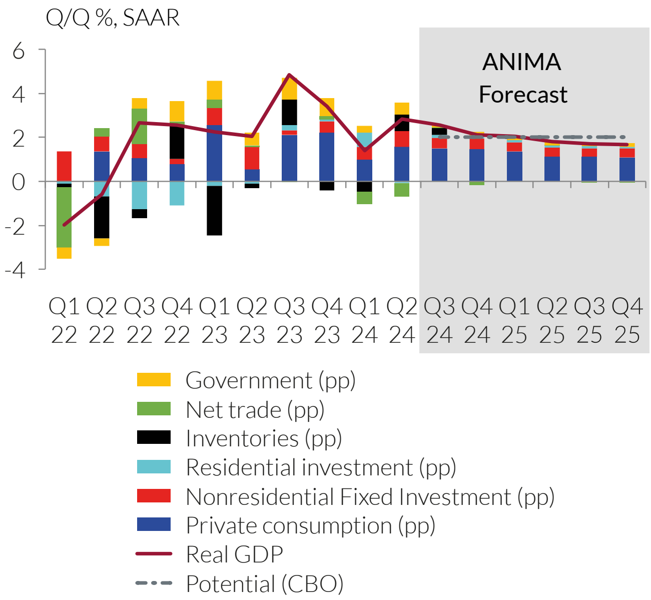
3) Beyond 2025, unless a "second phase" of tax cuts and/or spending boosts—currently not on the GOP's agenda—is enacted, extending the TCJA should result in neutral growth compared to the current expected spending pattern. A saving rate below the historical average (**Figure 10**) suggests that consumers have not started to factor in expectations for higher taxation from 2026 onwards.

4) Trade policy could backfire. Especially if it is broad-based. While the US economy's trade imbalance has not changed much since Trump was first elected (still close to 4.0%), it is now more spread across partners and much less China dependent.

Bottom-line. Against this backdrop, should Trump win the next Presidential race and stick to the policy agenda announced, we do not expect our current growth baseline to change remarkably. In case of a red wave, risks to growth would be balanced. On the one hand the administration could have enough political capital to either proceed with more aggressive corporate tax cuts and/or larger spending initiatives, including in the defense sector; on the other hand, it would bring immigration back to 2017 levels, depressing potential growth (more below).

FIGURE 7.

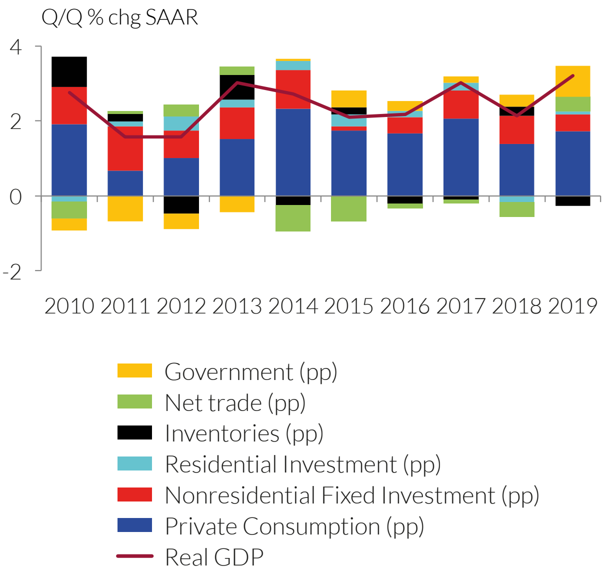
ANIMA GDP growth baseline



Source: Haver Analytics, ANIMA Research

FIGURE 8.

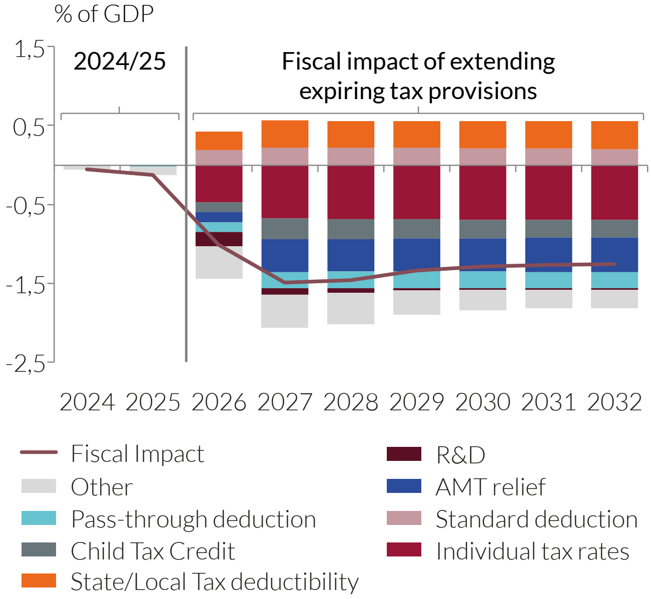
US GDP dynamic during Trump's term



Source: Haver Analytics, ANIMA Research
Note: Ex 2020 for COVID-related distortion

FIGURE 9.

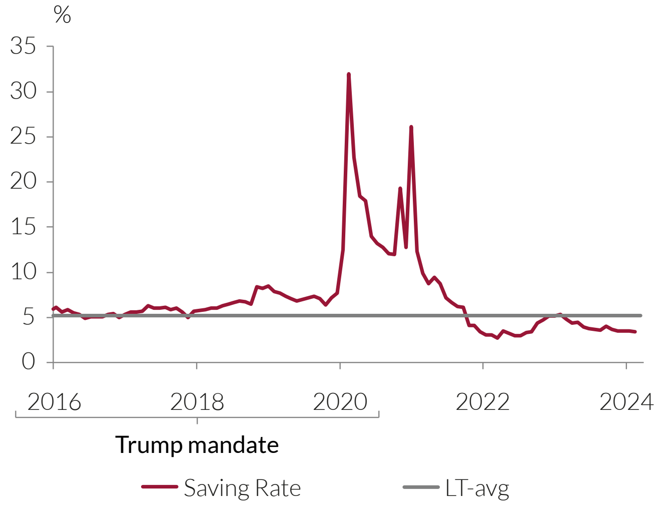
Fiscal impact of extending expiring tax provisions



Source: Haver Analytics, ANIMA Research

FIGURE 10.

Personal saving rate in % of DPI evolution



Source: Haver Analytics, ANIMA Research

2. INFLATION

We expect US inflation to keep heading towards its target over the forecast horizon. We project core CPI inflation to average at 2.6% in 2025, down from 3.4% in 2024 (**Figure 11**). According to our baseline, core CPI inflation will be 2.4% by the end of next year (Q4/Q4).

Whether proposed tariff increases put forward by former President Trump will materially impact the US inflation outlook largely depends on the Congress outcome. We provide two alternative scenarios below.

Scenario 1 - Split Congress. In a Republican presidency with a divided government, we do not expect our inflation baseline to be impacted decisively. For several reasons.

1) There are lessons to be learned. The 2018 trade war seemed to avoid the worst-case outcome critics had feared. The impact on core CPI inflation stemming from higher tariffs, including on goods and services excl. housing, was muted. According to our calculation, only 15% of the core goods basket experienced a temporary rise in inflation from -0.5% in January 2018 to 1.3% y/y in January 2019. This was offset by slight disinflation in the remainder of the basket, resulting in core goods CPI inflation hovering around zero in 2018-2020 (**Figures 12** and **13**).

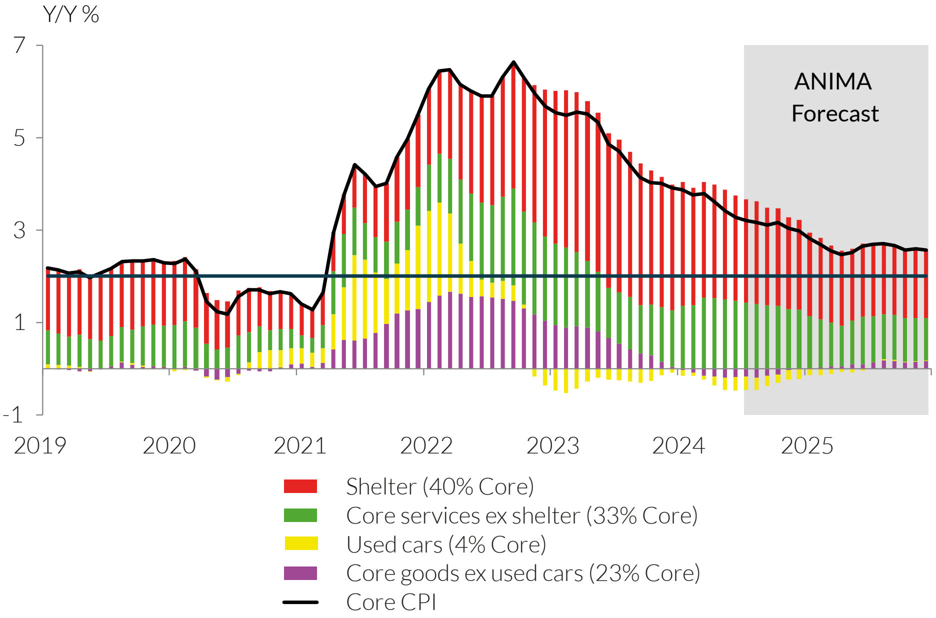
2) Although the latest proposed tariff increase on Chinese imports is 3x larger than that announced in 2016, offsetting factors should still allow for a benign impact on US core CPI inflation. The overall weight of core goods prices within the CPI basket is 23% - 3pp below that of 2018 (**Figure 14**), while imports from China, especially those related to goods affected by the first wave of tariffs (tariffable goods) are 37% below 2017 levels (on average; **Figure 15**). Unless the new President widens the scope of its action to those goods deemed non-tariffable in 2017, the overall impact on Chinese tariffable goods inflation should not be dissimilar to that generated by the 2018 tariff war.

3) Most of the literature finds that the US bore almost entirely the cost of its own tariffs. Against the backdrop of an economy experiencing a soft landing and excess savings that have been depleted by low- and middle-income cohorts (**Figure 16**)—likely the largest spender of tariffable goods imported from China—we expect businesses to continue to prefer to take the hit on their margins, rather than risk losing market shares by passing tariff increases onto consumers. We acknowledge that larger tariffs than those announced in 2016 might be more challenging to be absorbed; however, the profit margin outlook is much brighter now than in 2018. In aggregate, corporate profit margins have grown by about 14% compared to 2017, across industries (**Figure 17**).

Scenario 2 – Republican sweep. A unified Congress would pose upside risks to our inflation baseline as the risks associated with a global trade war would be greater this time. While they are unlikely to materialize in 2025 owing to implementation issues, they have the potential to push up US inflation from 2026 onwards. That said, quantifying the magnitude at this stage is very difficult. The introduction of a universal baseline tariff is a serious threat, though institutional constraints, lack of public and political support and strategic considerations may dampen the sanguine approach of the administration.

FIGURE 11.

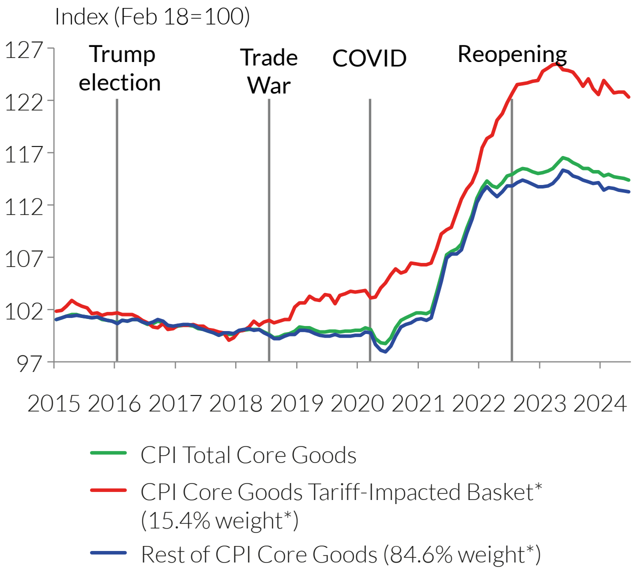
ANIMA core CPI baseline



Source: Haver Analytics, ANIMA Research

FIGURE 12.

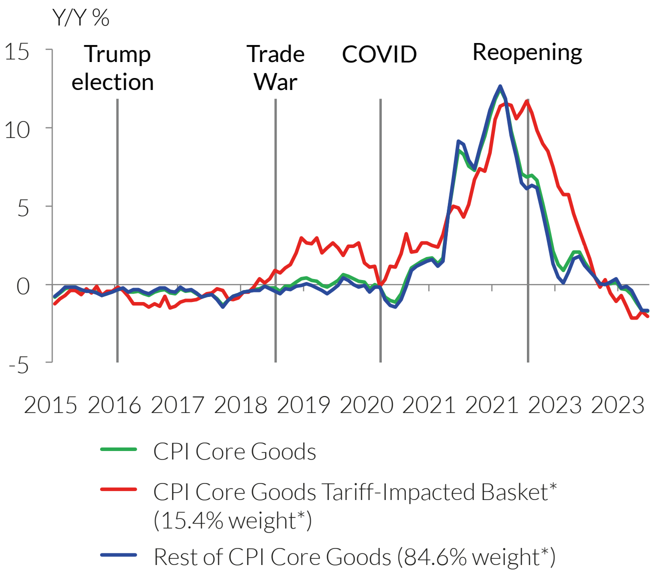
Impact of 2018-19 tariffs on Core Goods CPI (Index)



Source: Haver Analytics, ANIMA Research

FIGURE 13.

Impact of 2018-19 tariffs on Core Goods CPI (Inflation rate)

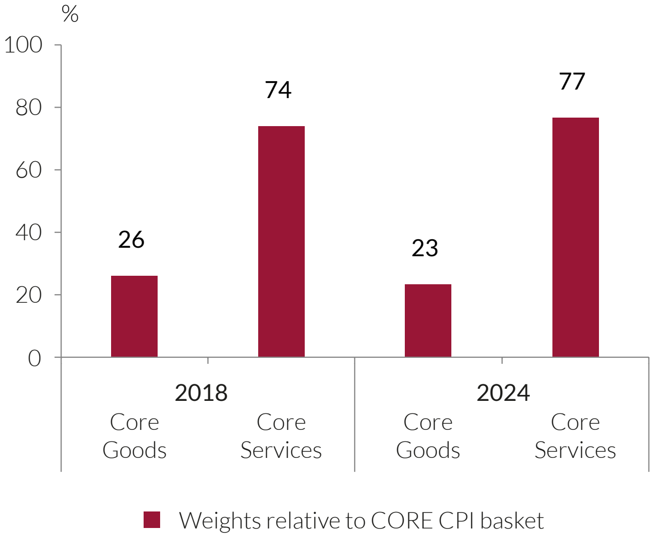


Source: Haver Analytics, ANIMA Research

*Note: Basket constructed with the following CPI items: Laundry Equipment; Other Appliances; Furniture and Bedding; Floor Coverings; MV parts and equipment; Sport Vehicles including Bicycles; Housekeeping Supplies; Sewing Machines, Fabric and Supplies - weighted by their relative importance weights. *Weight in Core Goods CPI.*

FIGURE 14.

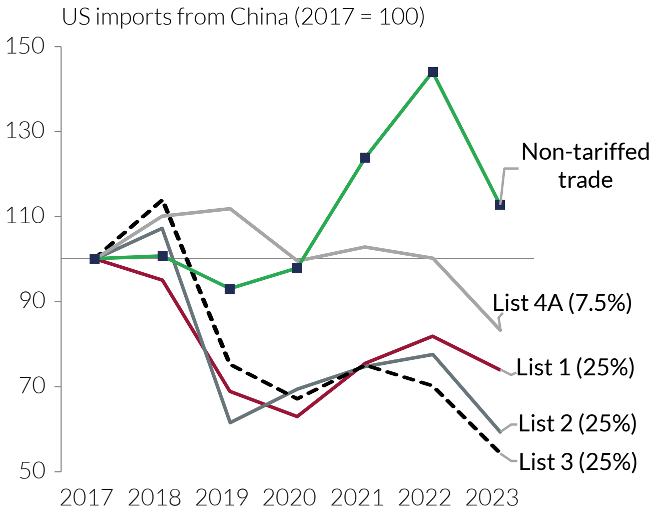
CPI relative weights: Goods vs Services (2018 vs 2024)



Source: Haver Analytics, ANIMA Research

FIGURE 15.

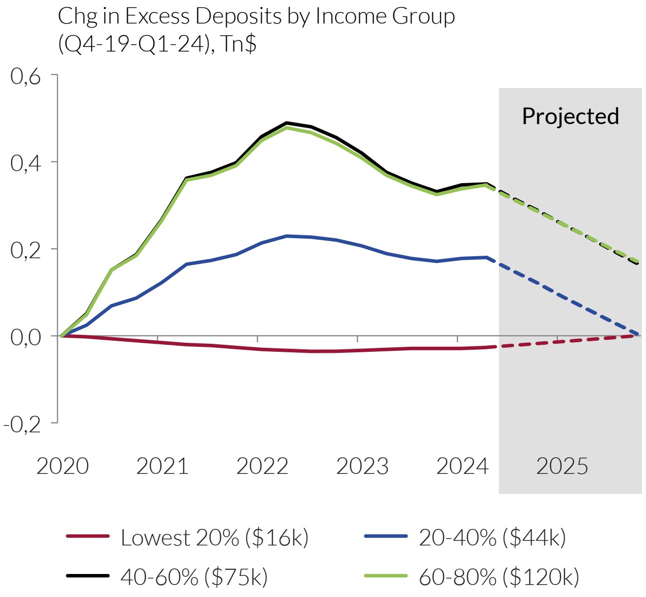
US total imports from China by 2018/19 by tariff category



Source: Haver Analytics, ANIMA Research

FIGURE 16.

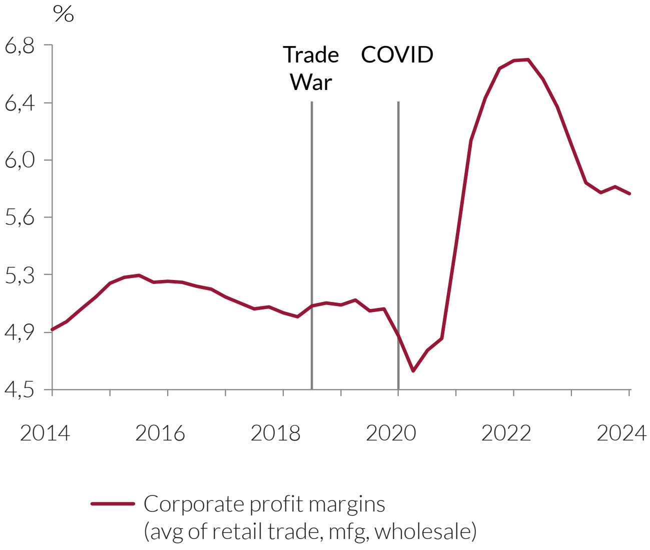
Households' excess deposits by income groups



Source: Haver Analytics, ANIMA Research
Note: Drawdown simulated through quarterly decumulation for each income quintile between 2022 and 2023

FIGURE 17.

Aggregate corporate profits margin (national accounts data)



Source: Haver Analytics, ANIMA Research
Note: Operating income as a % of revenues (4Qma).

3. IMMIGRATION

Immigration has been a source of substantial political fallout in the US. This reflects not only discomfort with the rapid influx of migrants, but also economic tensions from erosion in wage growth.

Although the immigration surge is politically unpopular, it has had many desirable macroeconomic consequences. Steady immigration flows have been a key source of US exceptionalism over the post-pandemic period (**Figure 18**), helping to relieve post-pandemic labor shortages and boost aggregate supply, that has helped sustain disinflation amid a robust, consumer-fueled expansion.

Policies to stem the flow of asylum seekers will squeeze labor supply and growth. Returning to 2017-18 policies, enacted during the Trump administration, could backfire. Slower immigration flows are likely to exert a drag on potential job gains and may put upward pressures on wages.

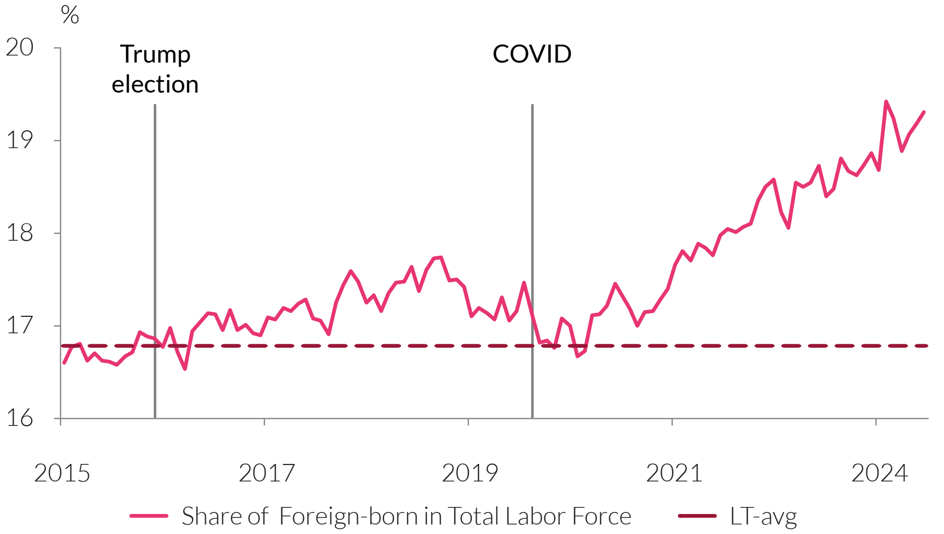
Between 2014 and 2019, immigration remained relatively stable, with flows oscillating around 1mn per year. The most drastic reduction took place in 2020, when pandemic-era restrictions limited cross-border mobility. Since pandemic restrictions were lifted in 2021, immigration flows have risen steadily, reaching an all-time high of 4mn in 2023.

This greatly helped the labor market to rebalance. According to several analysts, in the 12 months ending in April 2024, about 75% of all private nonfarm payroll job gains (**Figure 19**) were filled by immigrants, and nearly one third of output growth was attributable to working immigrants, with most of the remainder accounted for by productivity growth.

The recent surge in immigration into the US has been a key contributor in allowing strong economic growth to coexist with diminished wage inflationary pressures. In the absence of this influence, labor shortages would have been a more meaningful headwind. This might have exacerbated wage and price pressures and, hence, required a more restrictive monetary policy stance.

FIGURE 18.

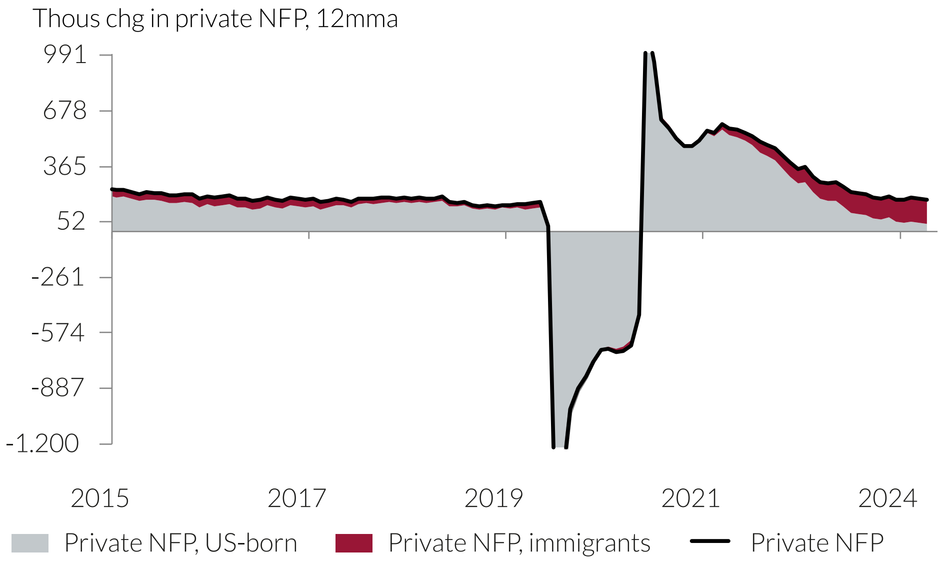
Share of US immigrants to total labor force



Source: Haver Analytics, ANIMA Research

FIGURE 19.

Since 2022 jobs have increasingly been filled by immigrants



Source: Haver Analytics, ANIMA Research

4. MONETARY POLICY

We expect the Fed's monetary policy to remain relatively unaffected by Trump's policies at least until 2026, both in a scenario of a split Congress or a Red Wave scenario. For the following reasons:

1) At the July press conference, Powell was very clear about the fact that the Fed does not consider political parties flagship policies as inputs in its forecasting process, stressing that monetary policy decisions are not affected by policies not yet enacted. We therefore expect the Fed to consider them only as risks to the baseline at least until their impact on the economy effectively materializes (not before 2026 in our baseline).

2) While trade tariffs may be imposed relatively quicker than during the 2016-2020 Trump presidency, we expect their impact on growth and inflation time to be limited, unless they result in a fully-fledged trade war that hurts growth globally and/or in imposed heavy multilateral tariffs (not our baseline).

3) The extension of tax cuts (TCJA) will only happen at the end of 2025 (assuming it will be approved by Congress), and the impact of this measure will not be felt on the economy before 2026.

Against this backdrop, we continue to expect the Fed to deliver two rate cuts in 2024 (September and December) and four additional cuts in 2025, one per quarter, taking the Fed fund rate to 3.75-4%.

Beyond 2025, in a split Congress scenario, we expect the Fed to continue cutting rates until it reaches a neutral level (3-3.50%). In a Red Wave scenario, we can expect the Fed to lean a bit more on the hawkish side and slow down the process of normalization of rates to a neutral level. This is because in a Red Wave scenario Trump may be able to fully implement the TCJA extension and this might support growth and inflation at the margin.

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