Global Macro outlook - Trumpflation

Fidelity International

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Trump policy proposals

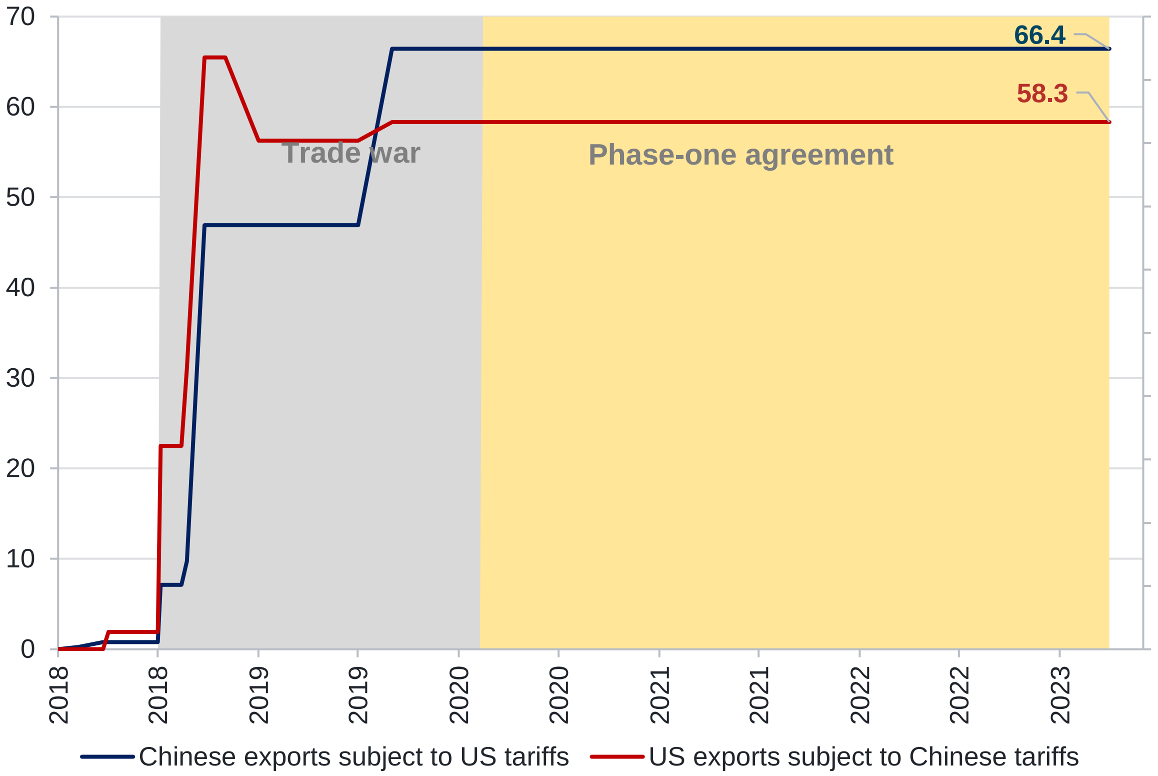
	Trump
Fiscal outlays and related policies	New Incentives for Manufacturing
	Bringing Costs Down
	Housing
	Climate
	Savings
Revenue policies (tax cuts)	Taxes
Foreign policy	International Trade/Tariffs
	Immigration
	Defence and Military

Note: Above is not an exhaustive list of proposals announced.
Source: Fidelity International, November 2024.

Trump 2.0 proposals can raise tariffs to pre-WW2 levels and the implementation…

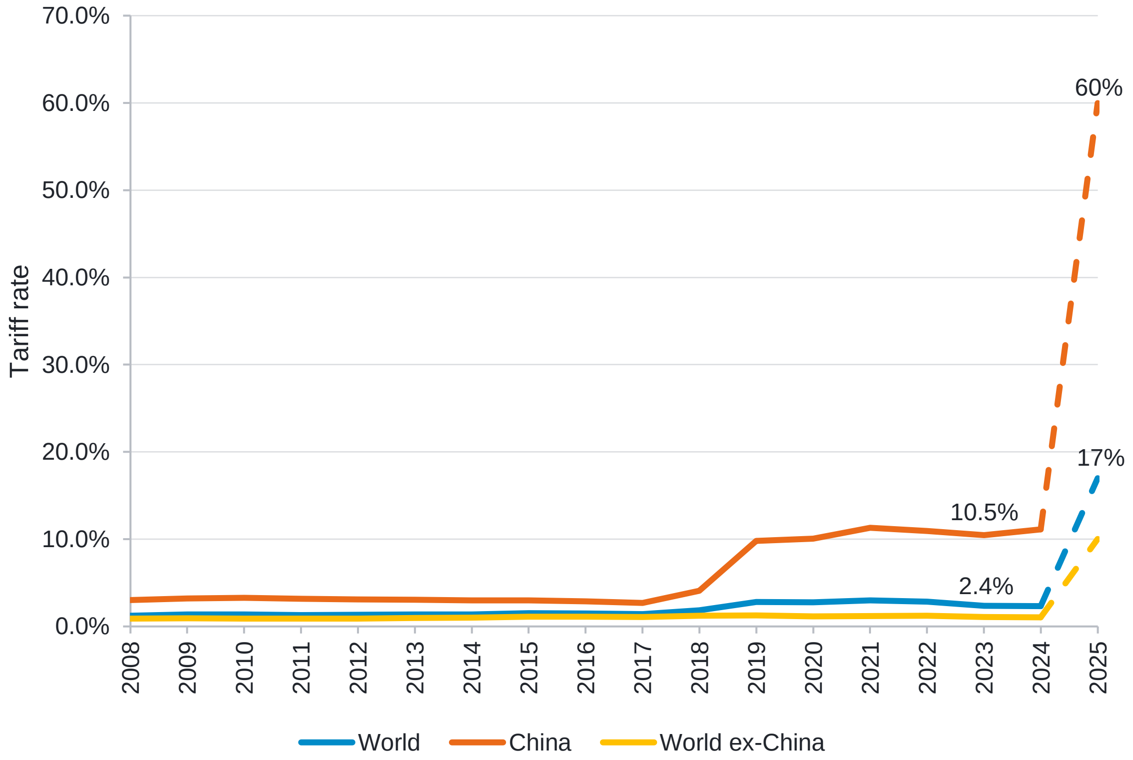
…will be swift, particularly for China given frameworks for majority of goods are already in place. Around 2/3rd of Chinese exports to the US are already under tariff.

Percent of US-China trade subject to tariffs



Source: Fidelity International, PIIE, November 2024.

US trade weighted average tariffs to China and ROW

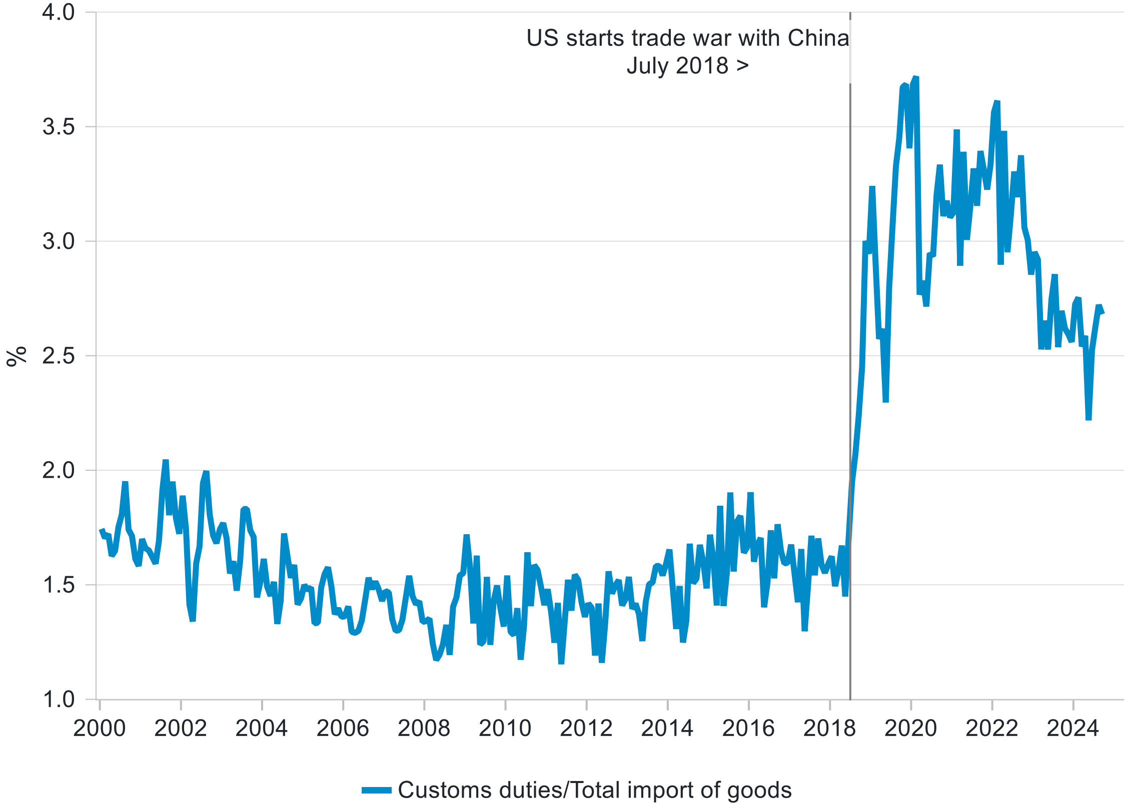


Source: Fidelity International, Census Bureau, Haver Analytics, November 2024.

Higher tariffs to boost fiscal revenues positively under Trump 2.0

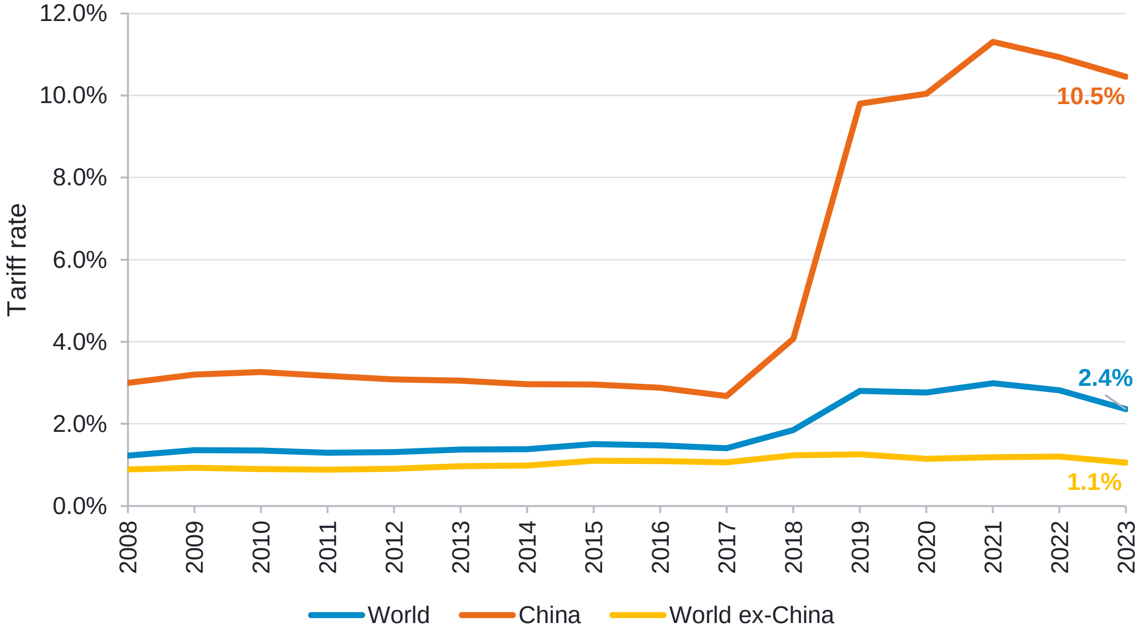
Flat increase in tariffs can increase US custom revenues by up to $450 bn (~1.3% of GDP) ceteris paribus

US effective tariff rate increased by ~2pp after 2018-19 trade war



Source: Fidelity International, Macrobond, Census Bureau, US DoT, November 2024

US trade weighted average tariffs to China and ROW



	US Effective tariff rate	Share of total imports, as of 2023 (A)	Expected tariff increase* (B)	Increase in total effective tariff (A*B)	Increase in custom revenue ($ bn)
China	11%	14%	40-50%	5.6-7%	175-220
ROW	1%	86%	9%	8%	240
Total	**2%**	**100%**	**13-15%**	**13-15%**	**415-460**

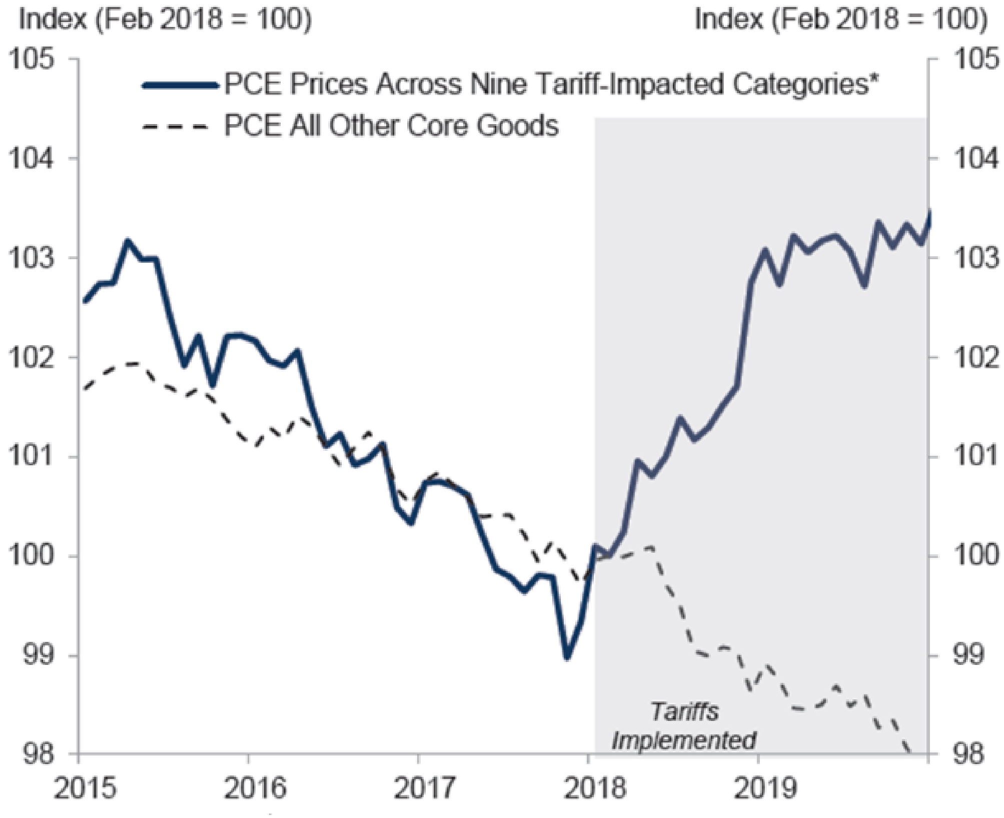
^ assuming there is a blanket increase in tariff rates to 50-60% from China imports and a 10% universal tariff on ROW imports

Source: Fidelity International, FIL Global Macro Team calculations, Census Bureau, Haver Analytics, November 2024.

Evidence from trade war 2018-19 show impact of tariffs on inflation…

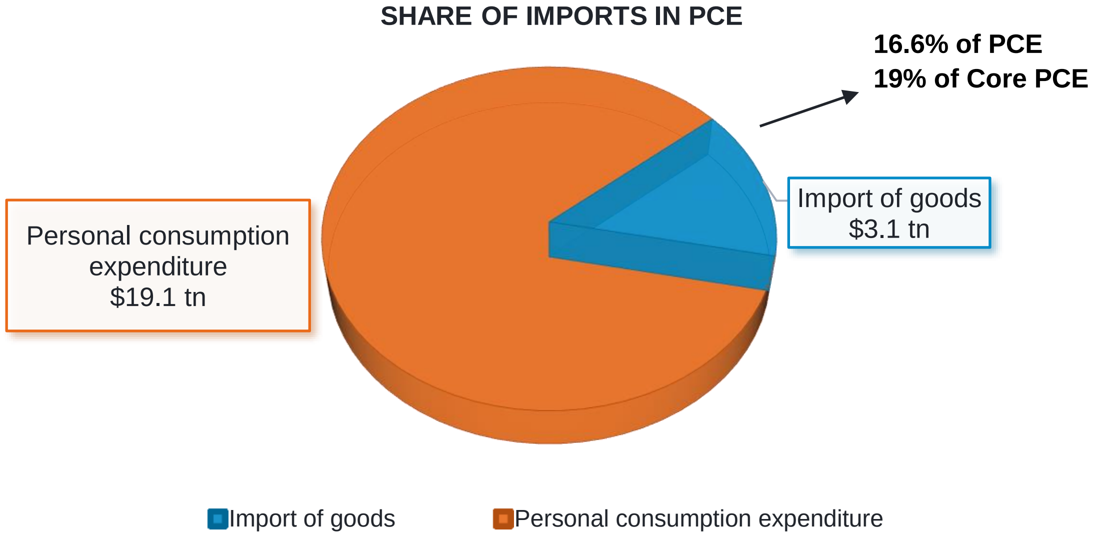
… on goods that were targeted, with broader and higher tariffs likely showing a non-linear response

2018-19 tariffs resulted in notable acceleration in core good prices that were affected by tariffs



Note: * Includes laundry equipment and other appliances, furniture, bedding, and floor coverings, auto parts, motorcycles, and sport vehicles, housekeeping supplies, and sewing equipment and materials. Weighted by relative importance to headline index.
Source: Goldman Sachs Global Investment Research, November 2024

Impact of tariffs assuming complete pass through to consumers



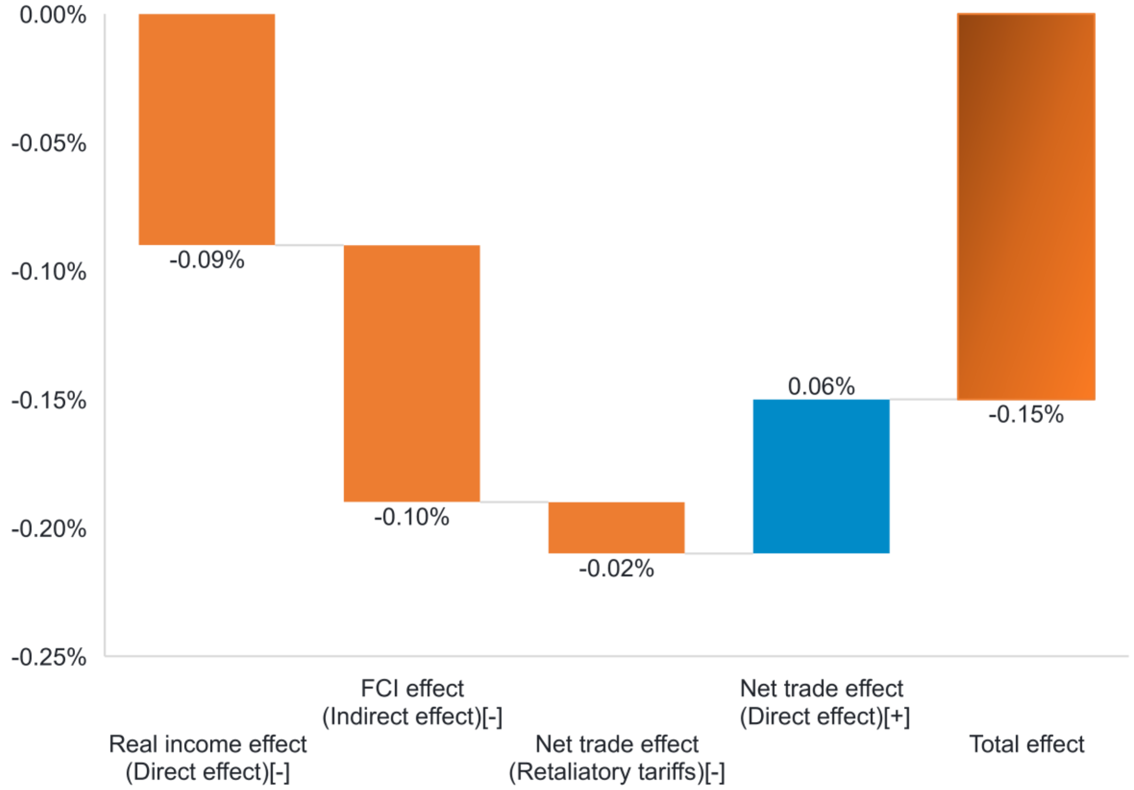
	Total share in PCE	Increase if effective tariff rate^	Increase in PCE headline (in bps)	Increase in core PCE (in bps)
US total imports	16.6%	8%	133	152
US imports from China	2.3%	40-50%	90-120	110-130

^ assuming there is a blanket increase in tariff rates to 50-60% for imports from China and a 10% blanket increase to all imports to 10%
Source: Fidelity International, FIL Global Macro Team calculations, Census Bureau, BEA, July 2024.

Higher tariffs to impact growth negatively…

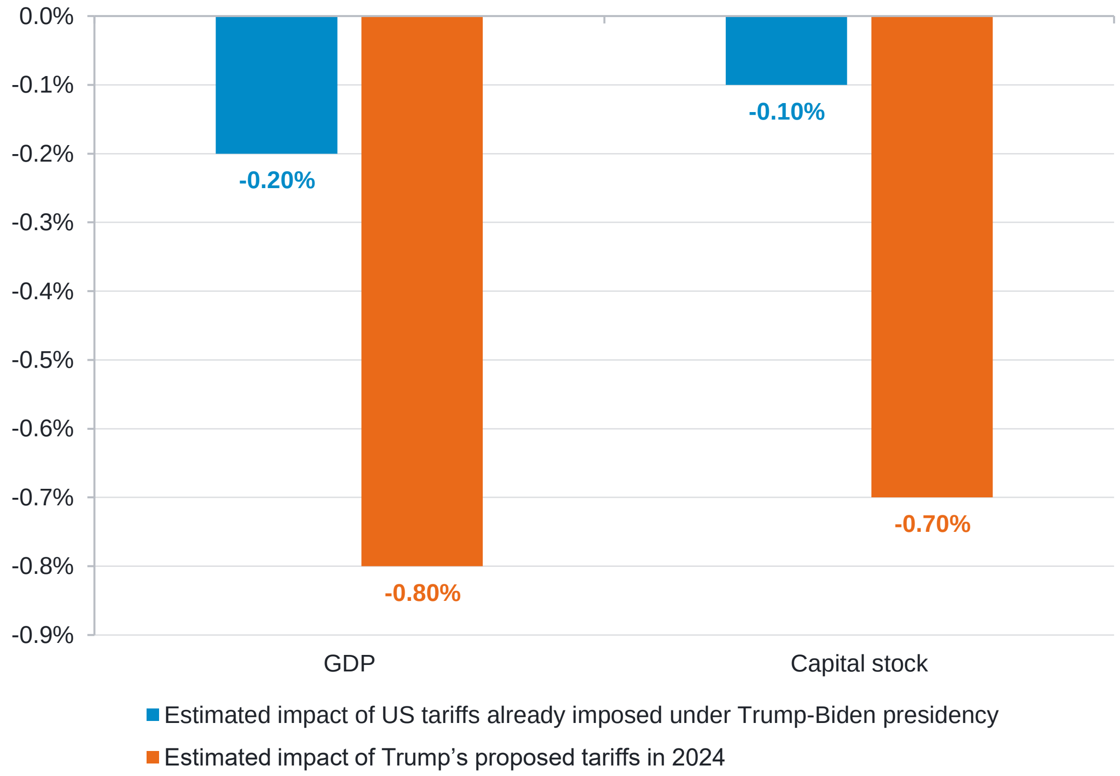
…through both direct and indirect channels

Impact of 1pp increase in average tariff rates to GDP



Note: Orange bars denotes negative effect, and blue bars denote positive effect.
Source: Fidelity International, Goldman Sachs, July 2024.

Economic effects of US proposed tariffs



Source: Fidelity International, Tax Foundation General Equilibrium Model, July 2024.

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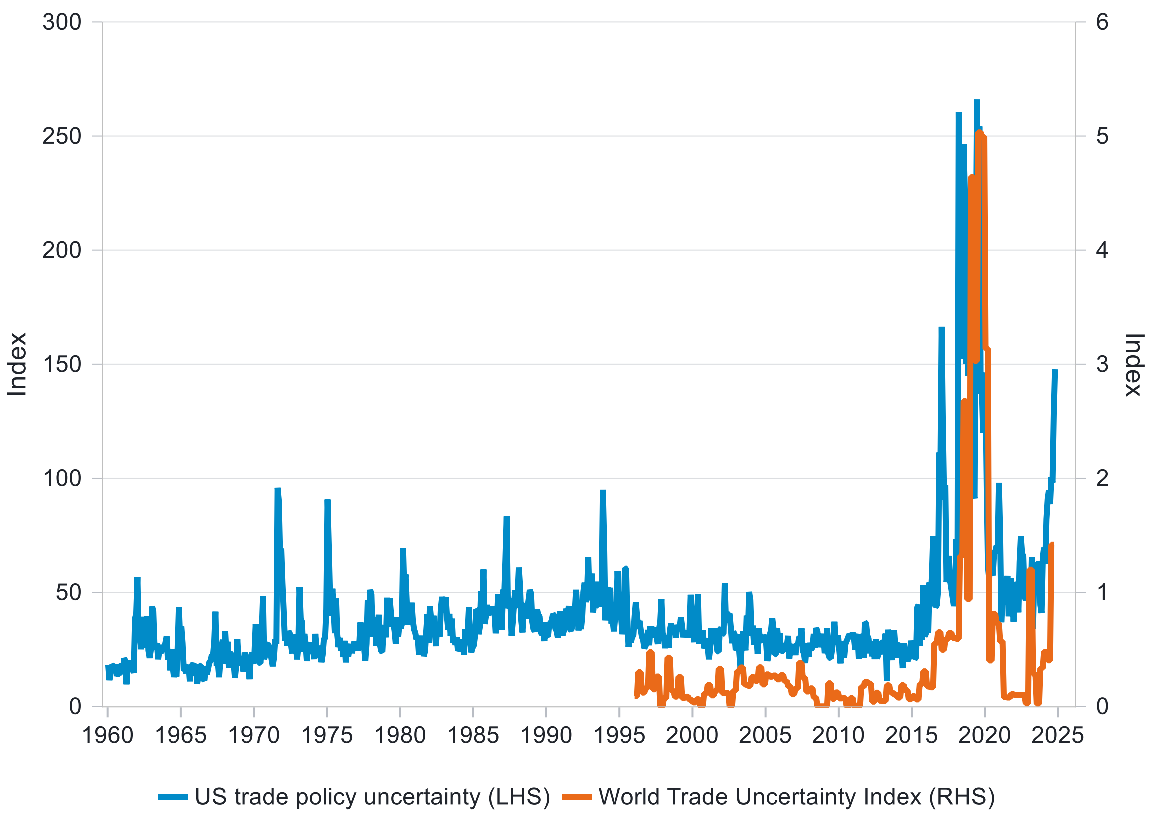
Tremors of trade policy uncertainty already visible in the past few months…

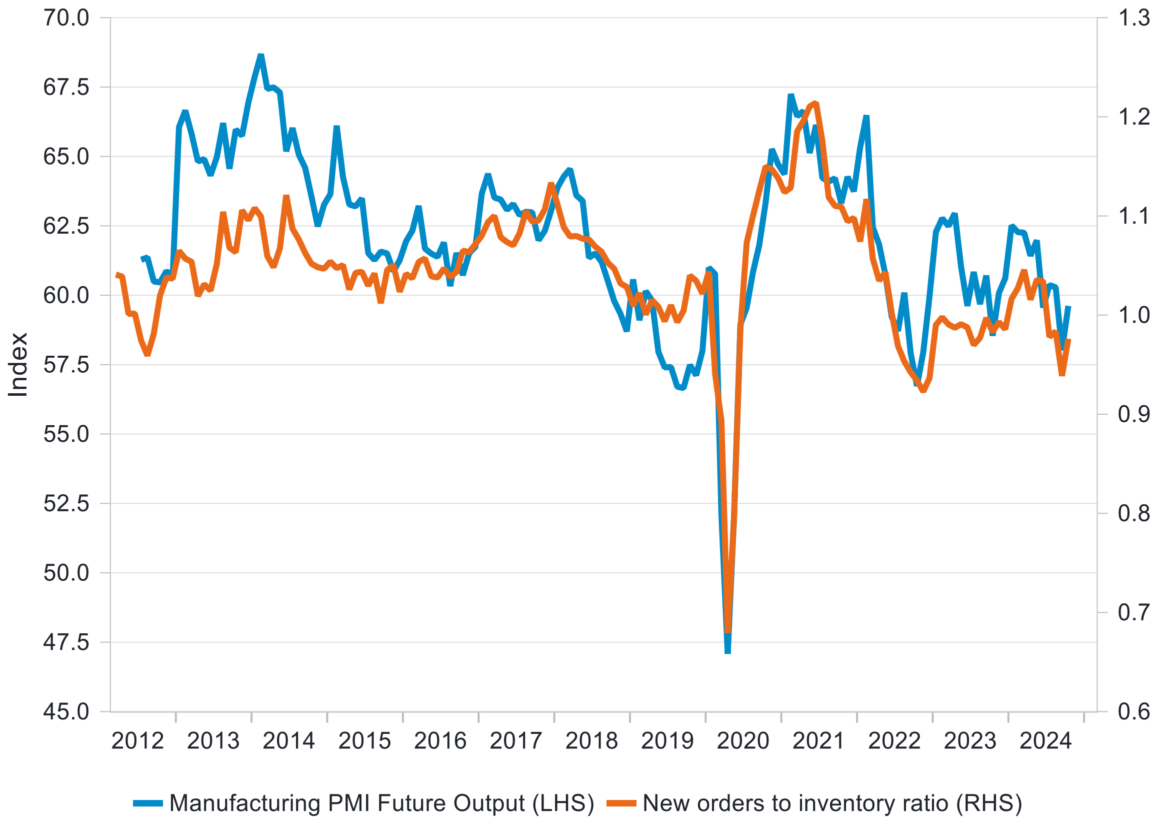
…which have negative effects on growth and inflation as weaker business uncertainty holds off investments in new markets, labour and also cut down inventory

US trade policy uncertainty



Source: Fidelity International, Macrobond, Economic Policy Uncertainty, November 2024

Global PMI manufacturing shows weak future sentiments

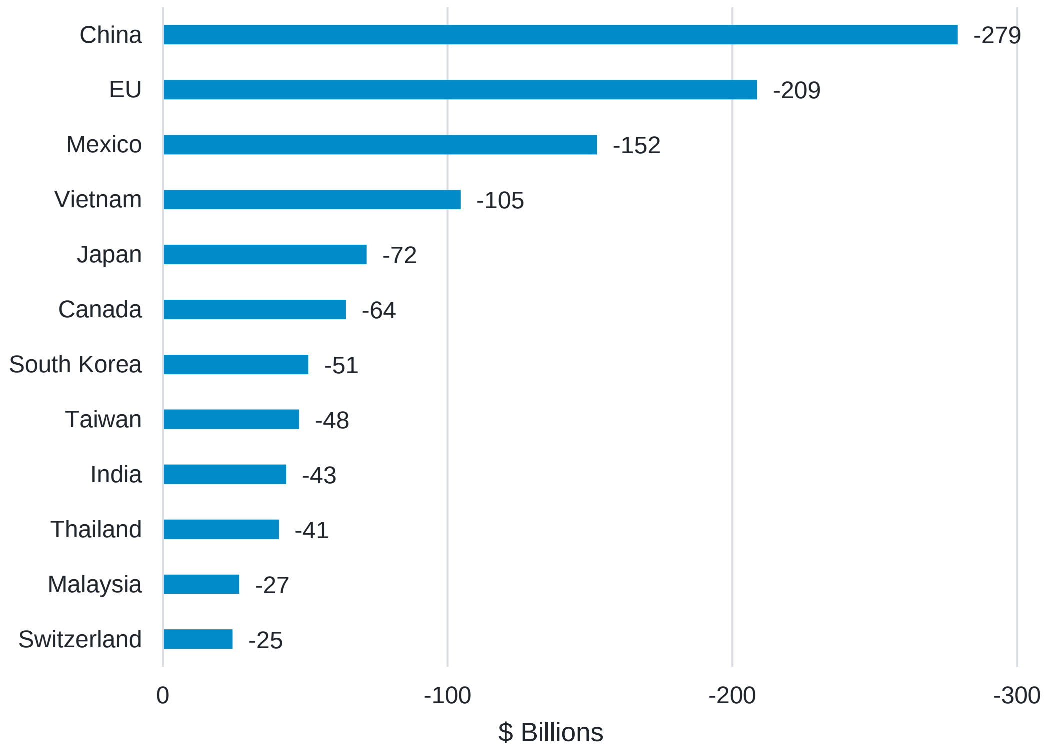


Source: Fidelity International, Macrobond, S&P Global, S&P Global, November 2024

China, EU and Mexico run large trade deficits with the US…

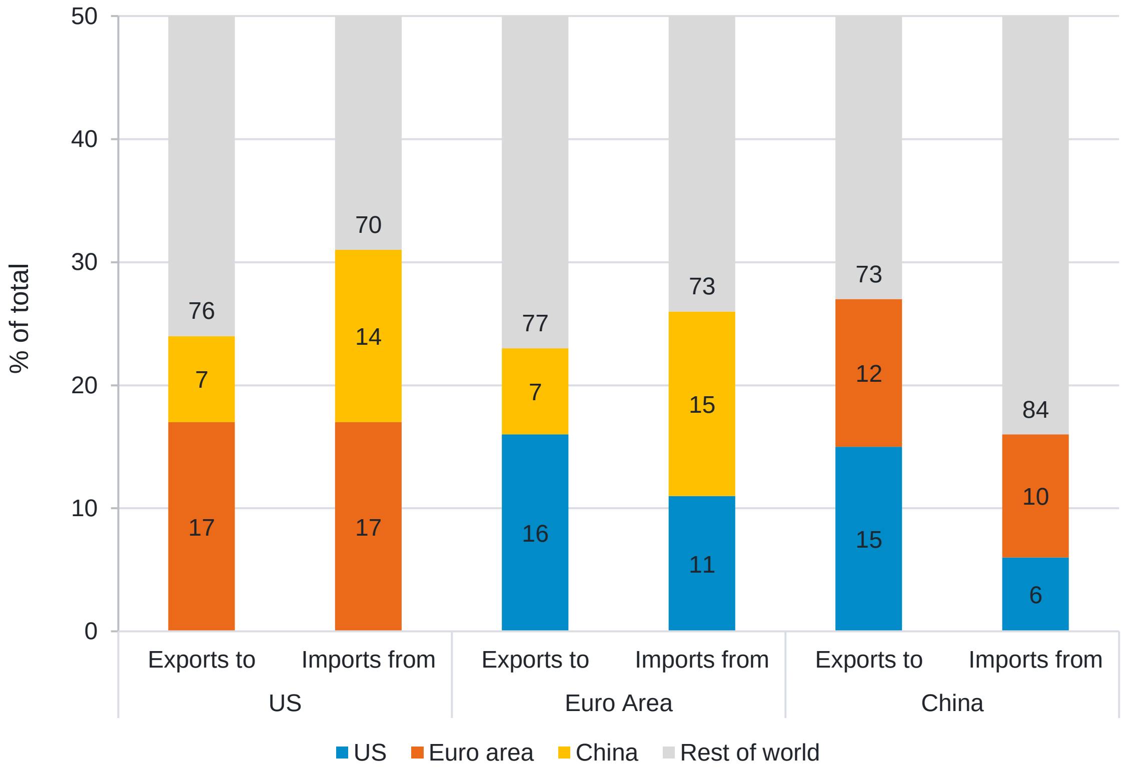
… and are the most susceptible to tariffs from the US. Meanwhile risks of spillovers of wider trade tariffs are also high with US, Euro area and China accounting for close to 25% of global trade

US trade balance with top 12 trading partners (as of 2023)



Source: Fidelity International, Census Bureau, Haver Analytics, November 2024.

Trade in goods by partners

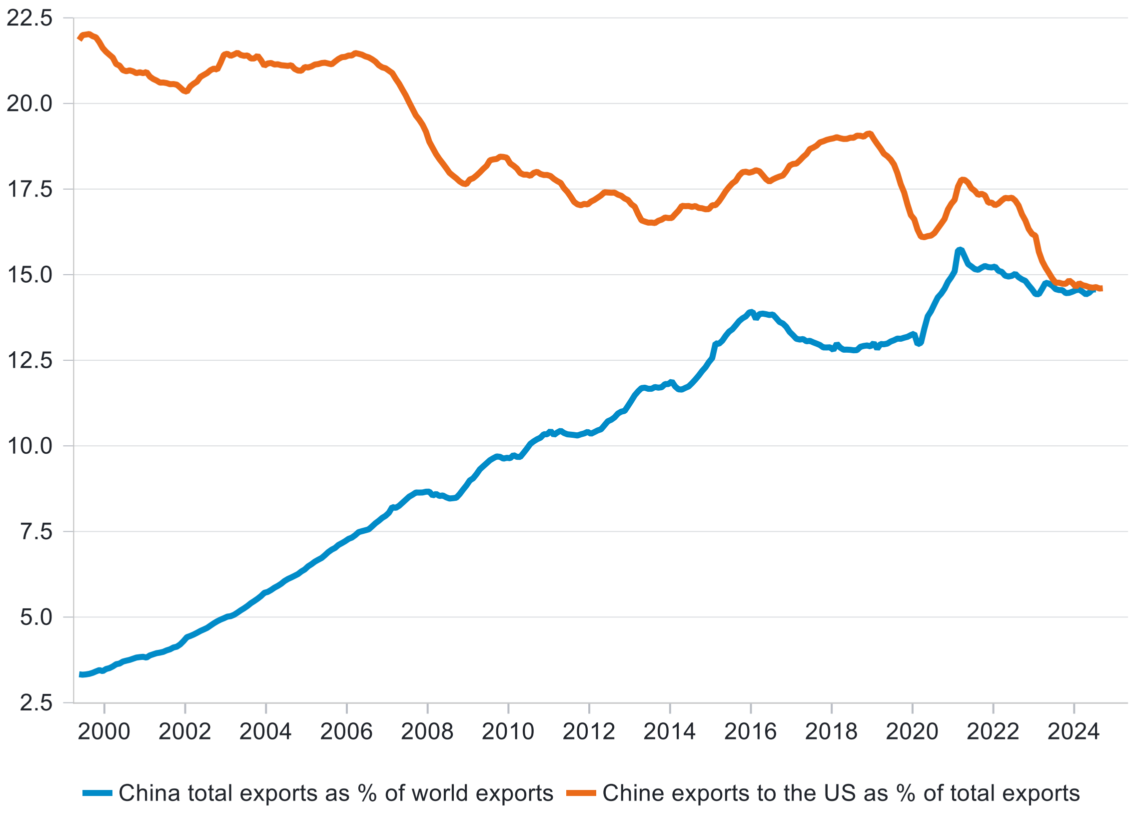


Source: Fidelity International, Census Bureau, Haver Analytics, November 2024.

While China has been re-routing away from the US…

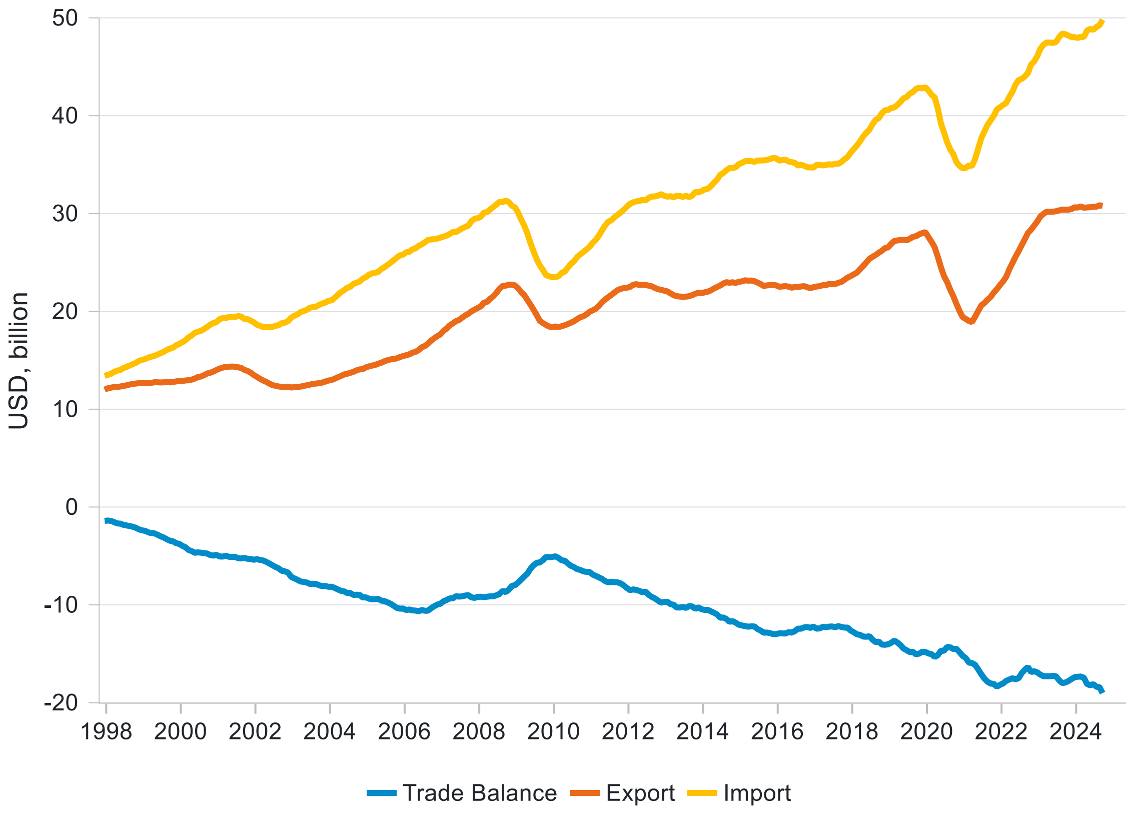
…Europe has been increasing its trade deficit with the US and is more susceptible to tariffs.

China export share to US and the world



Source: Fidelity International, Macrobond, IMF, China GAC, November 2024

US trade balance with EU (12mma)



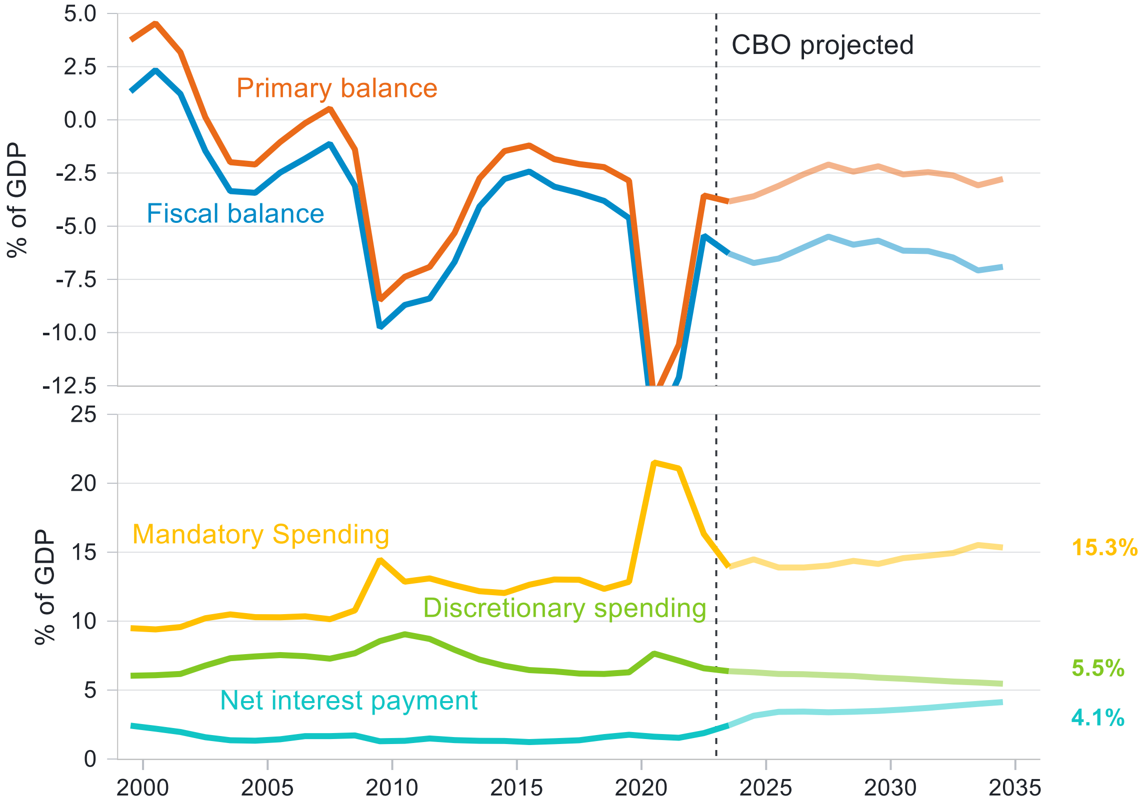
Source: Fidelity International, Macrobond, USCB, U.S. Census Bureau, November 2024

Fiscal

The new government in 2025 is likely to be met with a challenging fiscal environment

Fiscal impulse is likely to fade in following years as rising interest costs and mandatory spends leave less room for productive spending by the government

Fiscal balance and outlay by category



Source: Fidelity International, Macrobond, U.S. Congressional Budget Office (CBO), July 2024

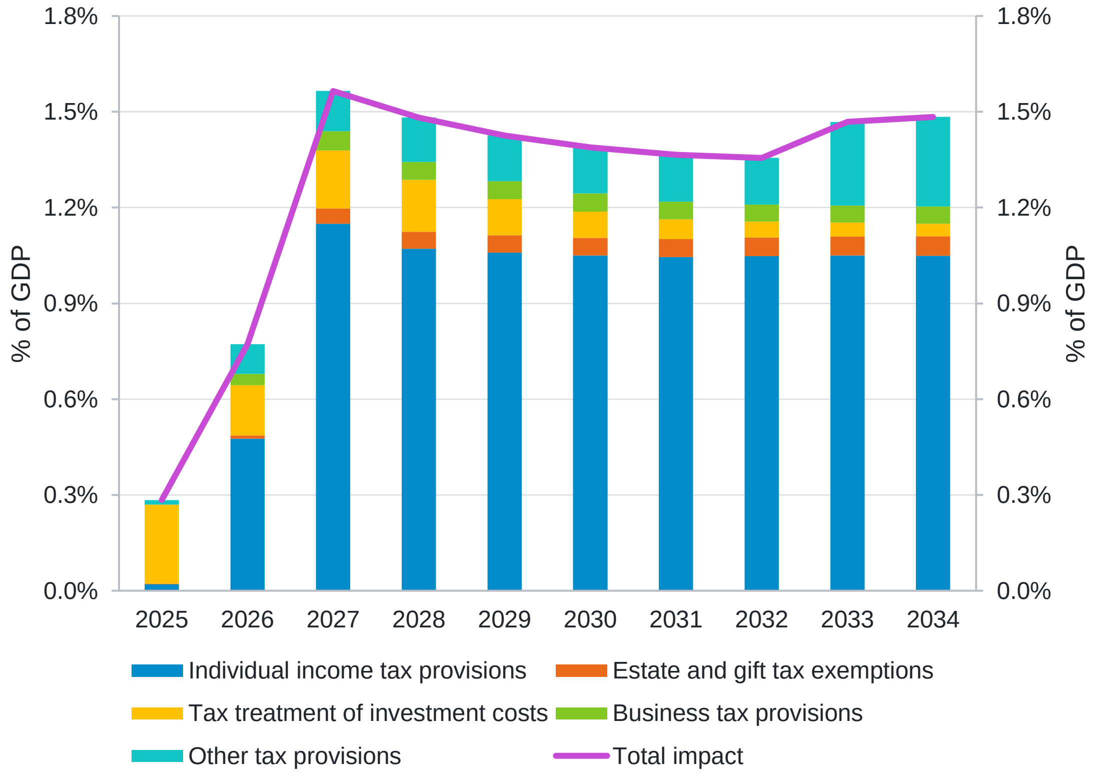
Fiscal impulse (change in primary balance as % GDP)

Source: Fidelity International, Macrobond, CBO, U.S. Congressional Budget Office (CBO), July 2024

TCJA expirations are up for renewal towards end of 2025

Trump proposes nearly complete extension of TCJA which will increase spending by over $500 bn~ per year (1.5% of GDP). However, this will maintain current spending pattern and not add any impulse

Fiscal impact (primary balance) on extending TCJA (as % of GDP)



TCJA extensions (actual increases might vary depending on congressional approval)

Type	Provision	Expiring	Cost of extension in $ bn (2025-34)	as % GDP
Individual/Family Tax rates	Individual income tax	end 2025	3256	0.90%
	Child Tax credit	end 2025		
	Alternative minimum tax	end 2025		
	Business income deduction	end 2025		
	Exemption on higher estate and gift tax	end 2025	167	0.05%
Corporate Tax	Bonus depreciation of investments	phase out by end 2026	378	0.11%
	Certain business tax provisions	end 2025	172	0.05%
	Corporate tax cut to 21%	Permanent	-	
Other tax provisions			552	0.2%
Total			**4525**	**1.3%**
Interest costs			674	0.2%
Total including interest cost			**5199**	**1.5%**

Note : Above numbers on LHS do not reflect costs on interest payments.

Source: Fidelity International, FIL Global Macro Team calculations, CBO, November 2024.

Trump policy proposals could increase fiscal deficit by ~1.8% of GDP

However, Congressional control will be important in determining how many policies eventually pass through. Even within a Red sweep, a narrow majority in Congress would limit some proposals

Fiscal impact from major revenue proposals

Trump Major tax proposals	In $ bns (2026-35)	as % of GDP
TCJA extension	5199	1.48%
Exempt Tax on Social Security benefits	1300	0.37%
Exempt Tax on Overtime income	2000	0.57%
Exempt Tax on Tips	300	0.09%
Corporate tax cut (15% for domestic manufacturers)	200	0.06%
Other individual and small business tax breaks	200	0.06%
Total spending from tax cuts	**9199**	**2.61%**
Tariff offsets	**-3000**	**-0.9%**
Net impact	**6199**	**1.76%**

Fiscal impact from major expenditure proposals

Trump Major spending proposals	In $ bns (2026-35)	as % of GDP
Strenghten & Modernise military	400	0.11%
Border & Immigration policy	350	0.10%
Housing reforms, including credit for first time home buyers	150	0.04%
Support for healthcare, long-term care and caregiving	150	0.04%
Total spending proposals	**1050**	**0.30%**
Offset by		
Reverse energy/IRA	700	0.20%
Reduce waste, fraud, etc.	100	0.03%
End department of Education and support school choice	200	0.06%
Total spending offset	**1000**	**0.28%**
Net impact	**50**	**0.01%**

Note: Our custom revenues numbers consider dynamic effects of retaliatory tariffs and loss in output that would reduce eventual collections.

Source: Fidelity International, FIL Global Macro Team calculations, CRFB, CBO, November 2024

Fiscal outlook likely to deteriorate in either scenario following TCJA extension

Red sweep is likely to be more fiscally expansionary with a fiscal deficit higher by more than 1% of GDP. Eventual numbers are likely to vary based on Congressional split and actual changes in trade policies

					Red Sweep vs Divided Congress	
in $ billion	Pre-pandemic average (2012-2019)	2023	2024	CBO projections (over 2025–2034)	Red Sweep (complete TCJA extension + all other tax and spending proposals)**	Trump with divided congress (Only TCJA extension)
Total Revenues	3109	4,441	4,890	6,281	5,661	6041
Mandatory spending	2332	3,758	4,121	5,145	5,145	5,145
Discretionary spending	1227	1,719	1,791	2,052	2,057	2,052
Net interest	262	658	892	1,293	1,293	1,293
Total Outlay	3821	6,135	6,805	8,490	8,495	8,490
Fiscal deficit	712	1,694	1,915	2,208	2,833	2,448
as % GDP						
Revenues	16.8%	16.5%	17.2%	17.8%	16.1%	17.2%
Mandatory spending	12.6%	13.9%	14.5%	14.6%	14.6%	14.6%
Discretionary spending	6.6%	6.4%	6.3%	5.8%	5.8%	5.8%
Net interest	1.4%	2.4%	3.1%	3.7%	3.7%	3.7%
Total Outlay	20.6%	22.7%	23.9%	24.1%	24.1%	24.1%
Fiscal deficit	**-3.8%**	**6.3%**	**6.7%**	**6.3%**	**8.0%**	**6.9%**

Note: above calculations are based on numbers from previous slide.

In a Red sweep we assume all policies proposed by Trump are passed including tariffs. Under a Divided Congress we assume only TCJA gains with changes to tariff policies are passed.

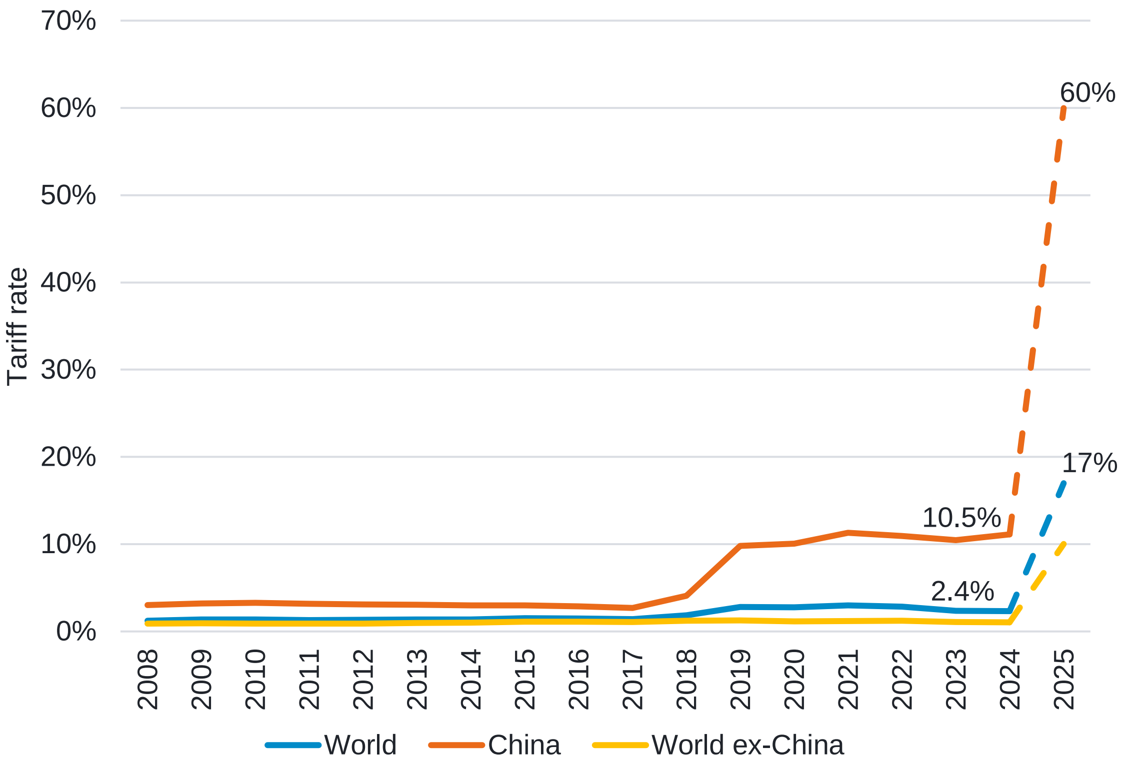
Source: Fidelity International, FIL Global Macro Team calculations, CBO, CRFB, November 2024

Impact on China and NPC outlook

Impact on international trade and in a Trump 2.0 environment

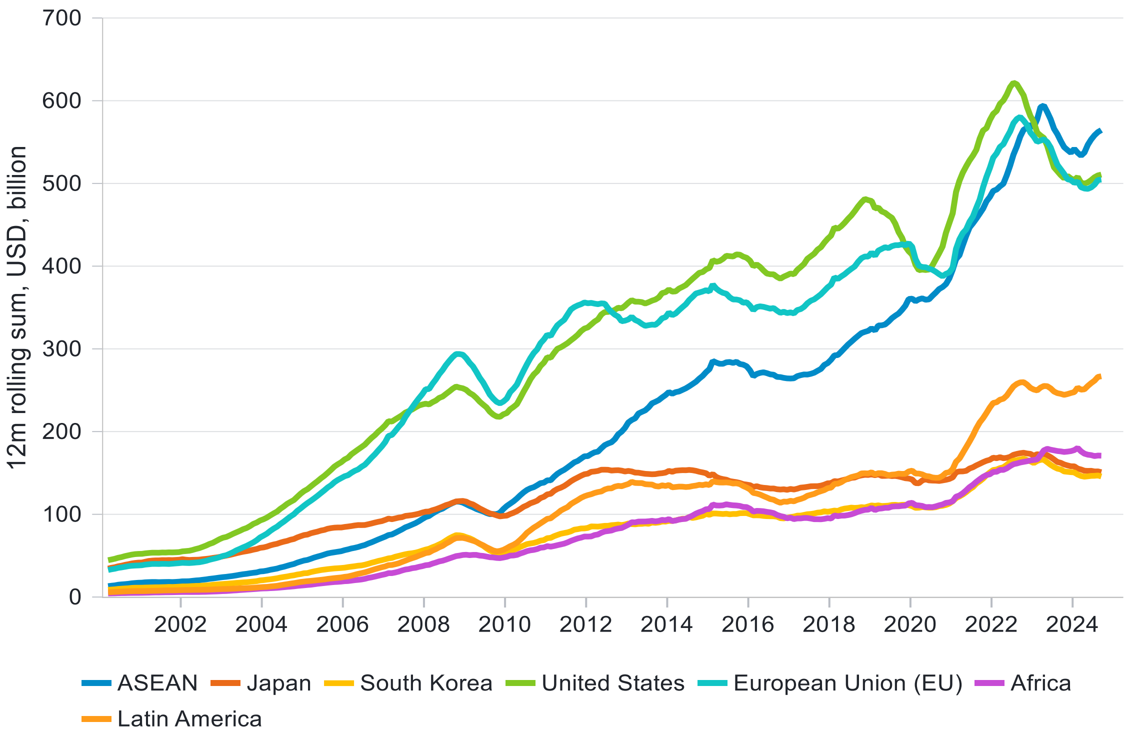
The immediate impact is on exports, but the structure of global trade has reshaped since the last trade war..

US trade weighted average tariffs to China and ROW



Source: Fidelity International, PIIE, November 2024.

China's exports by destination



Year	% of total China exports			
	US	ASEAN	EU	RoW
2017	20.4%	11.4%	14.7%	53.5%
2023	13.4%	16.8%	17.5%	52.3%

Source: Fidelity International, Macrobond, China General Administration of Customs (GAC), July 2024.

China's fiscal priorities in four key areas

Market will focus on how the policymakers prioritise among the four areas of fiscal package

Summary of 4 pillars of fiscal stimulus

Ensure necessary fiscal spending	▪ Pandemic related outstanding payments ▪ Salaries, Basic operational spending, outstanding payments etc.
Resolve hidden local government debts	▪ RMB12.2trillion has been used for local government debt swap in 2015-2018 ▪ Up to RMB 3.4trillion local government refinancing bond has been issued since late-2022 ▪ Market expects around RMB6trillion of additional quota for a new round of debt swap
Resolve excess inventory in the property market	▪ 22million units/220million square meters of excess inventory needs to be de-stocked ▪ Market expects around RMB4trillion of additional local government bond quota to be used for property repurchase by the local governments
Expansionary fiscal stimulus that focuses on demand side and consumption	▪ Marginal expansion of stimulus has been announced by the central government to support low-income group by direct subsidies and to expand scholarship schemes to tertiary students ▪ Market expects more direct support to households such as subsidies, social benefits enhancements, etc.

NPC preview

- In the upcoming China NPC, signalling and messaging of policy intent might be more important than the stimulus size.
- If the path of easing is decisive and is approved by the NPC, market would believe these additional fiscal resources could be rolled out in coming years gradually.
- It is important to watch for how they will deploy the additional fiscal resources among the four key pillars.
- With a new Trump administration, the key uncertainty to China in the short term is the tariff risks.
- The NPC may deliver a stronger policy intent to pivot into supporting domestic demand and gives more signal to support capital markets in addition to the widely expected debt swap, banks' recapitalisation and property sector resolution.

Source: Gov.cn, Macrobond, Fidelity International

Investment Implications

Managing risk in interesting times

Views at a glance

Asset class	View
Equity	○○○●○
Credit	○○●○○
Government bonds	○○●○○
Cash	○○●○○

Currency	View
USD	○○○●○
Euro	○●○○○
JPY	○○●○○
GBP	○●○○○
EM currencies	○○●○○

Regional equity	View
US	○○○●○
UK	○○●○○
Europe ex. UK	○●○○○
Japan	○○●○○
Pacific ex. Japan	○●○○○
Emerging markets	○○○●○

Credit	View
Investment grade bonds	○●○○○
Global high yield bonds	○○○●○
Emerging market debt (hard currency)	○○○●○

Rates	View
US Treasuries	○●○○○
Euro core (Bund)	○○○●○
UK Gilts	○○○●○
Japan	○●○○○
Inflation linked bonds (US TIPS)	○○○●○

Note: reflects the views of Fidelity Solutions & Multi Asset, for illustrative purposes only.

Source: Fidelity International, October 2024. Views reflect a typical time horizon of 6-12 months and provide a broad starting point for asset allocation decisions. However, they do not reflect current positions for investment strategies, which will be implemented according to specific objectives and parameters.

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