



2024 Election

A Review of Former President Trump's Major Policy Proposals

Investors often overemphasize geopolitics. While we consider *how* policy proposals may impact the economy and the markets, we put more focus on *how much*, and our analysis suggests *maybe not that much*.

Key Points

- ▶ We focus on the potential impact of the proposals but are unable to predict their chances of success
- ▶ We believe other factors such as monetary policy, existing economic trends, and valuations will eclipse politics
- ▶ We are most concerned about tariffs as they can be done through executive powers and they are substantial

This is the first of two election pieces. We will start with Mr. Donald Trump as he has broadcasted many of his major policy proposals. We will address Vice President Harris after she finalizes her policy platform. Admittedly lacking in this report is our ability to effectively gauge the probability of each of the proposals or to what degree they get enacted. We would put higher odds on those policies that can be achieved through executive powers. It's also worth remembering that several of Mr. Trump's 2016 proposals were not acted upon. Our analysis examines these policies in broad strokes and generally in isolation, without considering other factors, such as Federal Reserve (Fed) policy, that could amplify or counteract their economic or market impacts.

Immigration:

Workforce growth – whether organic or through immigration - is a key driver of economic growth. While immigration into the U.S. surged in 2022 and 2023, its contribution to economic growth was modest. Mr. Trump proposes significant cuts to both legal and illegal immigration, potentially including the deportation of undocumented immigrants. In isolation, efforts to cut immigration are likely to slow economic growth and increase wage pressures in lower-wage, labor-intensive industries where undocumented immigrants typically work. Employers may respond to higher wages by raising prices.

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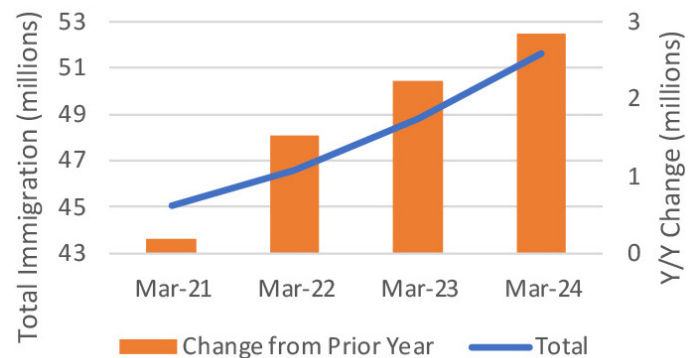


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Chart 1: [Estimated US Immigration](#)



Source: Center for Immigration Studies. Annual data. The data includes both legal immigrants and estimates for undocumented immigrants.

The challenge is quantifying the impact. The Brookings Institution estimates immigration added 0.1 - 0.2 percentage points to growth in 2022 and 2023. Reversing this trend may not create a significant economic headwind. However, tighter labor market conditions may prompt the Fed to hold interest rates at a higher level, supporting the dollar and creating a headwind for stocks.

Taxation:

The 2017 Tax Cuts and Jobs Act boosted the economy and corporate profits, with some estimates suggesting it added 0.4 - 0.9 percentage points to GDP in 2018 and 2019. Corporate taxes went from 35% to 21%, a 40% drop. The tax cut can be seen in the difference between growth in earnings before interest and taxes (+14% for the 2 years through 2019) and earnings after interest and taxes, +24% over the same period.

However, the proposed tax cuts are unlikely to replicate the economic or market impact. They are just too small. Mr. Trump has proposed cutting corporate taxes to 20% (stating that 15% would be hard) which would likely limit any boost to future earnings growth expectations. Proposed consumer tax cuts, such as removing taxes on tips, are similarly modest and would likely have little impact on the broader economy. These modest tax proposals likely reflect concerns about the growing budget deficit and high interest costs. That said, even maintaining the past tax cuts could be perceived positively by the markets.

Energy:

Mr. Trump claims that aggressive drilling policies could reduce energy costs by 50% and 'defeat' inflation. While we disagree with the idea that more drilling could cut energy costs so dramatically, it's worth considering the potential economic impact of lower energy prices.

The relationship between energy prices and the economy has become more complex since the U.S. became a dominant energy producer and energy consumption has become a smaller share of the economy. The experience in 2014 and 2015 when oil prices fell 50% can serve as a guide. Over those two years, GDP appeared unaffected, however, headline CPI did fall to 0%, though this effect was short-lived.

In 2015, equities were flat as the energy sector seized up with numerous bankruptcies. Despite better headline inflation, bond yields rose, particularly for shorter maturities, as core inflation increased and the Fed ended its third quantitative easing program. Pro-drilling policies may not lead to as much production as expected given that energy companies have been rewarded by the markets for returning profits to shareholders rather than reinvesting in production.

Dollar:

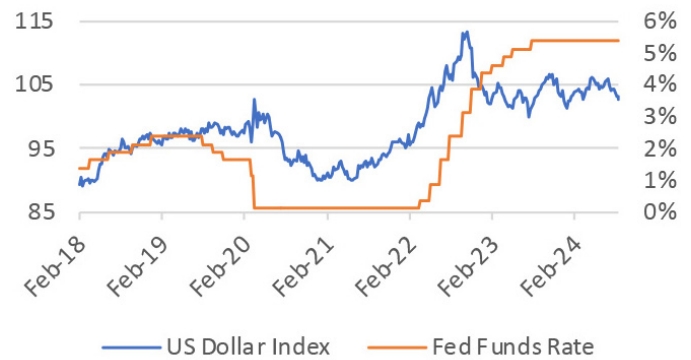
Some of Mr. Trump's proposals would be marginally bullish for the dollar. However, he has also expressed a desire for a weaker currency to reduce the trade deficit, a reasonable goal since deficits and the dollar generally trend together.

Achieving this, however, is more complex.

We believe that the dollar is overvalued, particularly versus the yen and renminbi. With some easing in geopolitical tensions and a more dovish Fed, the dollar could weaken naturally, though perhaps not to the extent that Mr. Trump desires.

To further weaken the dollar, he might attempt a coordinated approach similar to Reagan's 1985 Plaza Accord, but at that time the dollar was much more overvalued, and was facilitated by a much stronger relationship with our allies. Another path would be for Mr. Trump to attempt to sway other countries to strengthen their currencies with the threat of tariffs. But that strategy may backfire as tariffs could strengthen the dollar.

Chart 2: [Interest Rates and the Dollar](#)



Source: Bloomberg. 5 years of weekly data through August 13, 2024

Lower interest rates could bring down the dollar. Mr. Trump has indicated he wants to extend executive powers to influence the Fed's interest rate decisions. Reducing Fed independence would be harmful to both our currency and the markets, and it would require congressional approval – an uphill battle.

What would a weaker dollar mean for investors? While logic suggests that companies with significant foreign sales would benefit, historical data does not support this. Historically, when the dollar has weakened significantly, international stocks have outperformed domestic stocks, and domestically, smaller cap stocks have outperformed larger cap ones. We found no historical correlation between the dollar and inflation or interest rates.

Tariffs:

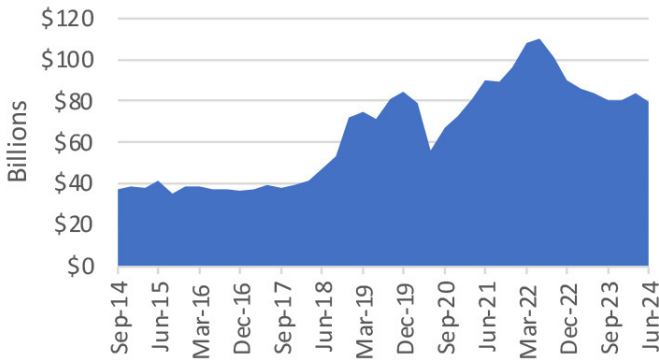
Tariffs could be a significant concern for markets, as they can be enacted through executive orders, and Mr. Trump's proposals are substantial. Tariffs are essentially taxes on imported goods. Mr. Trump has suggested that the tariff revenue could replace income taxes, but this is unrealistic

as the tariffs would reduce imports, and the revenue generated would be too small. Currently, tariffs provide a minor offset to the budget deficit. Redirecting this revenue to U.S. consumers would help them but would further increase the deficit.

Mr. Trump has proposed a 50-60% tariff on Chinese goods and a 10% tariff on all other goods imports. These proposals are likely intended to negotiate better trade terms. In 2023, the U.S. imported \$3.1 trillion of goods, accounting for 11% of total U.S. spending.

The U.S. currently collects about \$80 billion in tariff revenue. A 10% tariff on all imported goods would theoretically produce an additional ~\$310 billion in tariff income, but this number would likely be much lower due to reduced demand, exemptions, and currency adjustments.

Chart 3: US Tariff Revenue SAAR



Source: Bloomberg. 10 years of quarterly data through June, 2024

A 10% across-the-board tariff might not seem alarming but could escalate with retaliatory tariffs. The proposed tariff on Chinese goods, coupled with likely retaliation, could severely disrupt trade with China, which represents 14% of imported goods.

Our largest imports from China are electronics and textiles. With no other manufacturers able to match China’s capacity, prices for these goods would likely rise significantly (imported or otherwise). While tariffs may increase some prices, history suggests they are not broadly inflationary. Higher prices in certain goods would reduce spending power on other goods and services, hurting overall demand.

Estimating the impact on economic growth is challenging given the uncertainties around implementation and international responses. The Tax Foundation estimates that these tariff proposals could reduce GDP by 0.7 - 0.8 percentage points. Broadly, tariffs would put downward pressure on economic growth and upward pressure on the dollar. If enacted as proposed, they could create a headwind for equities and a tailwind for bonds.

Conclusion:

Investors often overemphasize geopolitics. While political decisions do influence markets, many other factors must be considered when making investment decisions. Starting stock valuations and interest rate environment can also influence the impact of policies on the markets. When Mr. Trump came into office in 2017 stock valuations, profit margins, and interest rates, were all lower. While we cannot predict which proposals get enacted and in what form, if Mr. Trump gets reelected, we will place most of our attention on his tariff intentions.

Expected Impact of Trump Policy Proposals				
	GDP Growth	Inflation	US Bonds	US Stocks
Reduce Immigration	Slight Slowing	Upward Pressure	Yield Anxiety	Slight Negative
Lower Taxes	Nominal Impact	Nominal Impact	Nominal Impact	Nominal Impact
Pro Oil Drilling	Nominal Impact	Nominal Impact	Nominal Impact	Nominal Impact
Weak Dollar	Slight Slowing	Nominal Impact	Nominal Impact	Slight Negative
More Tariffs	Moderate Slowing	Potential Easing	Lower Yields	Headwind

Policy proposals are considered in isolation and generally as proposed.

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