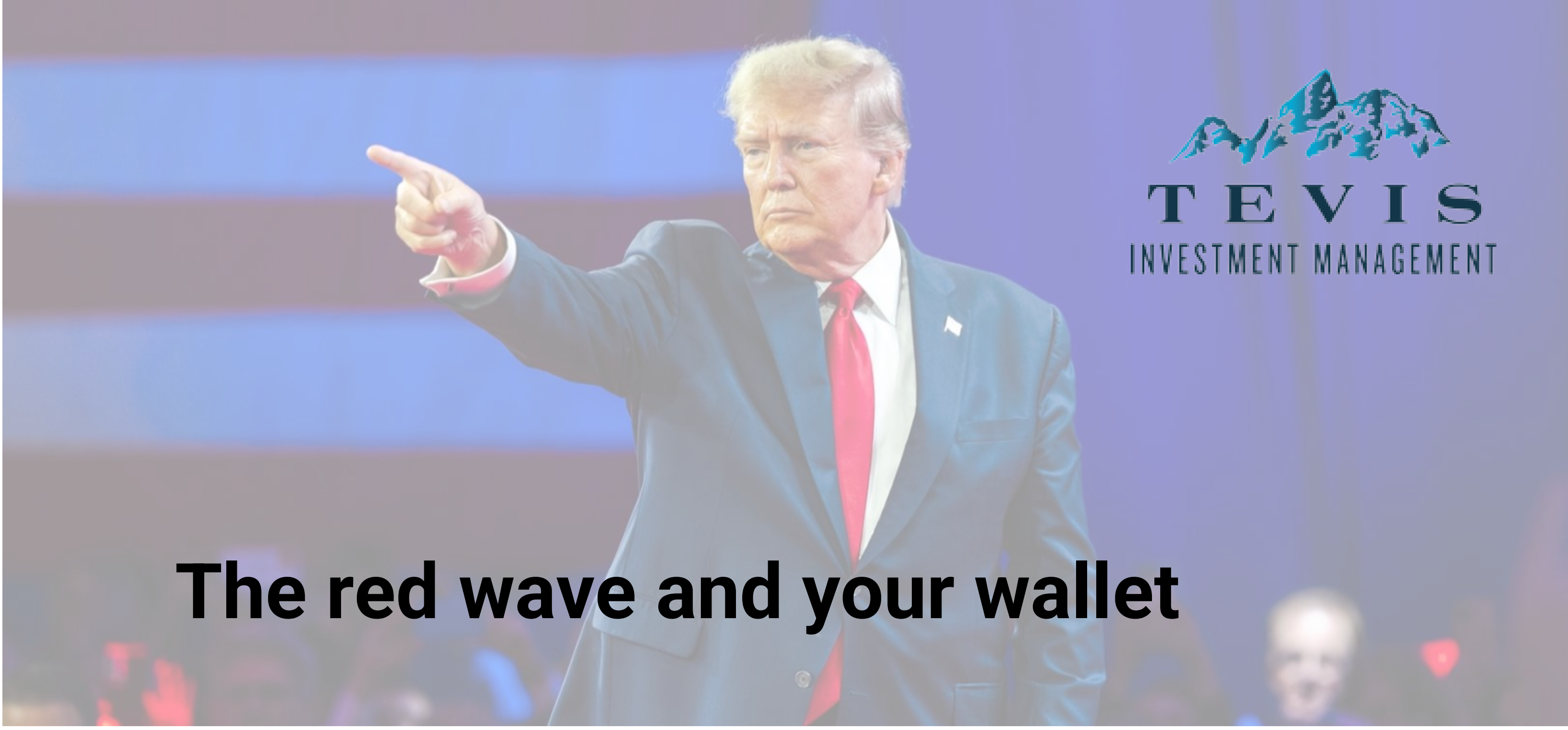


# The red wave and your wallet

Voters have spoken and Washington, DC is getting a makeover this January. Republicans took back the House, Senate, and White House leaving many of us to wonder what a so-called “GOP mandate” means for the economy and our portfolios. Here’s what we know based on the policy initiatives discussed during the campaign and the first Trump presidency.

## Trump’s tax cuts will get extended

The headline tax issue may be President Trump’s commitment to extending the tax cuts passed during his first term—the Tax Cut and Jobs Act (TCJA). Key provisions were set to expire at the end of 2025, including the highest-ever exemption on the estate tax.

While extending TCJA is simply a continuation of the status quo, the Trump team floated several changes and/or new policies that could make waves.

On the stimulus side, we could see:

- A return of full state and local tax deductions (SALT), which were capped at $10,000 under the TCJA.
- Lower corporate tax rates, especially for companies with U.S. production.
- Exempting certain income, like tips and Social Security benefits, from income tax.
- Tax credits for family caregivers.
- Deductions for interest payments on auto loans.

On the austerity side, we could see:

- The repeal of green energy tax credits.
- New, potentially steep tariffs on imported goods and materials.

Of course, the impact of these policies depends on which ones are enacted, in what combination, and in what way.

In general, Americans buy more when they have more (e.g., when they keep more of their paycheck), which can boost the economy. However high tariffs tend to drive up the price of goods, which can cause inflation.

To help you get a sense of scope and numbers, the bipartisan Tax Foundation estimates Trump's proposals could boost GDP by 2.4% in the long run, though higher tariffs and potential foreign retaliation could cancel out 1.7% of that, meaning we're looking at closer to 0.7% boost.

All that's before you bring the national deficit and debt into play. If the government hopes to offset tax breaks by cutting benefits or services, that could have a major impact as well; increasing the deficit and/or printing money to pay for tax breaks could cause inflation.

Trump's proposals would cut federal tax revenue by nearly $3 trillion over the next 10 years, according to the Tax Foundation, or by $6 trillion according to estimates by the University of Pennsylvania, where Trump studied economics.

It's worth noting that there are still a number of fiscally conservative Republicans in Congress who may fight policies that could increase the deficit.

## Inflation could stage a comeback

It seems like high inflation during the Biden Administration did a lot to help Trump get re-elected, creating a dilemma for President Trump's economic team, as many of his economic proposals have the potential to spur inflation, according to experts.

If tariffs lead to higher prices, employees will want cost-of-living raises which pressures corporate margins unless *they* raise prices, creating the infamous "wage price" spiral.

Employment could cause inflation on its own if President Trump carries out his promise to deport millions of undocumented workers. Fewer workers in key industries like service and agriculture could drive up prices.

The non-partisan Peterson institute estimates inflation could jump to somewhere in the 6-9.3% range if President Trump enacts both tariffs and deportations. That could mean prices in four years will be 20-28% higher than now.

On the other side of it, Trump floated several ideas for lowering prices going forward, such as looser regulations to bring down housing costs, increased drilling to lower energy prices, and even price caps on things like credit card interest rates.

## The Fed, the dollar, and trade

The Federal Reserve is designed to function independent of politics. The President appoints a Chairman to the Federal Reserve to serve a four-year term that overlaps with the next president. Often, Fed chairs are reappointed. For instance, President Biden re-appointed Jerome Powell, who was initially appointed by President Trump.

While a President might appoint a Chair based on their politics or view of economic policy, they rarely comment on monetary policy. President Trump broke with this tradition in his first term, making public statements about what he wanted Chairman Powell to do with rates.

President Trump's critique of Powell extended into the 2024 campaign, which is likely to create friction between the White House and central bank considering Powell's term extends to May 2026. He has confirmed he won't step down.

If that wasn't enough cause for friction, many Trump supporters floated the idea of eliminating the Fed during the campaign, but didn't outline who would set monetary policy instead. It's unlikely this will happen, however. A return to the gold standard would introduce a significant amount of short-term volatility and put the economy at the mercy of commodity traders.

If the Treasury Department took over the money supply instead, the entire global economy would rest in the hands of a political appointee. Remember, the dollar is the global reserve currency, and much of our economy depends on keeping it that way.

In terms of political appointees, President Trump's decision to nominate hedge-fund manager Scott Bessent for Treasury Secretary shows a slightly more traditional approach than many expected. For context: There is a notorious revolving door between Wall Street and the Treasury Department. Bessent is a former Democratic donor, fiscal conservative, and a proponent of free trade.

In other words, there are so many wild cards that we’re more likely to see business as usual under the headlines than an end to the Fed in the next few years. We will almost certainly see a strained relationship between the central bank and the White House, as well as a Treasury Department that focuses on reestablishing American dominance over trading partners without sparking a trade war.

## What does this mean for you?

It’s too early to say what the Trump Administration will focus on come January. Plus, many important issues remain up in the air. Consider healthcare: President Trump said he plans to fix the system but hasn’t shared details. Given Americans spent an average of $13,500 per person on healthcare in 2022 (the most recent data available), changes to healthcare could have a major impact on household finances.

Plus, any revisions to social safety nets like Medicare and Social Security could have a ripple effect that influences health care and prices across the board.

Even if we don’t know what will happen over the next four years, there are a few things we can be confident about. America’s economy and stock market have always trended toward long-term growth in the past. While past performance doesn’t predict future results, the big drivers of American prosperity—things like innovation and hard work—transcend politics.