



# U.S. policy under Trump: What investors need to know

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The summer has brought more clarity on the specifics of trade and fiscal policy under President Donald Trump. Now investors must weigh the implications for inflation, the economy, and monetary policy.

Delays and rollbacks to the extreme “reciprocal tariffs” unveiled at the start of April—as well as trade agreements with key partners—have helped to anchor market expectations for the effective U.S. tariff rate. But the potential for tariffs targeting certain industries is a source of uncertainty.

The effective tariff rate for the U.S. is likely to end up somewhere between 10% and 20%—compared with roughly 2.5% at the start of 2025. Higher import duties and shifting supply chains should result in higher costs for companies, some of which will be passed through to customers via price increases.

What could this mean for the economy and markets? Inflation could accelerate, consumer spending could fall, and corporate profit margins could be squeezed. Small businesses, which account for more than 70% of U.S. employment, tend to have less pricing power and more sensitivity to the economy and interest rates. As such, they may face more pressure to lay off employees.

On the other hand, the tax and spending legislation that Congress passed in July should be modestly stimulative over the next few years. Here, the question is the extent to which more favorable tax treatment of capital expenditures and research and development will spur business investment. That said, stepped-up spending on plants and equipment could lead to inflation in input costs.

The Federal Reserve must tread carefully as it walks the tightrope between keeping inflation in check with higher interest rates while being mindful of economic growth. Policymakers must also contend with political pressure to lower rates.

In this dynamic environment, a top-down understanding of the interplay between government policy, the economy, and the outlook for different asset classes can be especially powerful when it’s combined with deep insights into industries and individual companies in the U.S. and beyond.

The following table highlights some of the key policy areas we’re watching and the possible implications for asset allocation.

**Policy considerations and investment playbook**

|                              | <b>What we're watching</b>  |   | <b>Potential implications</b>   |
|------------------------------|---|---|---|
| <b>Tariffs</b>               | <ul style="list-style-type: none"> <li>• So far, higher tariffs haven't shown signs of being a major problem for the economy. Consumer and business confidence has also improved.</li> </ul>  | — | <b>U.S. small-caps</b> could face headwinds because they tend to hold more debt and lack pricing power, making them more sensitive to inflation, higher rates, and the economy.   |
|                              | <ul style="list-style-type: none"> <li>• Higher tariffs are still likely to be inflationary, which could weigh on consumer spending, corporate profit margins, and economic growth.</li> </ul>  | — | Concerns about a resurgence in inflation would warrant caution on <b>intermediate- to longer-duration<sup>1</sup></b> assets.   |
|                              | <ul style="list-style-type: none"> <li>• Trump's tariffs could put pressure on central banks to make the uneasy choice to cut interest rates despite the risk of higher inflation.</li> </ul>   | + | We see relative opportunity in <b>international value</b> and <b>international small-caps</b> , especially in regions where fiscal spending is increasing and where monetary policy is still dovish. <b>European</b> and <b>UK</b> equities look attractive in this regard. |
|                              | <ul style="list-style-type: none"> <li>• Rising geopolitical tensions also pose a risk.</li> </ul>  | + | Equities linked to <b>real assets</b> , such as energy and metals, historically have acted as a hedge versus inflation. Near-term economic weakness would be a concern for oil and industrial metals.   |
|                              |   |   | +   |
| <b>Tax and fiscal policy</b> | <ul style="list-style-type: none"> <li>• Legislation passed in early July extended expiring tax cuts from the first Trump administration and included additional items that should provide a modest fiscal stimulus over the next few years.</li> </ul>             | — | Increased issuance of <b>U.S. Treasuries</b> to finance deficit spending could lead to <b>upward pressure on yields</b> .   |
|                              | <ul style="list-style-type: none"> <li>• Changes in tax treatment of business spending could lead to increased investment in plants, equipment, and research and development. This shift could add fuel to the spending boom on artificial intelligence.</li> </ul> | — | Concerns about inflation and U.S. public debt levels make us skeptical of <b>longer-duration U.S. Treasuries</b> as a hedge against economic weakness.  |

<sup>1</sup>Duration measures a bond's sensitivity to changes in interest rates.

|                    | What we're watching  |   | Potential implications   |
|--------------------|--|---|--|
|                    | <ul style="list-style-type: none"> <li>The extent to which corporate tax benefits stimulate spending in other parts of the economy will be important to watch.</li> </ul>  | + | <b>U.S. value stocks</b> could benefit from expansionary fiscal policy. However, slowing economic growth would be a headwind.  |
|                    | <ul style="list-style-type: none"> <li>The prospect of increased borrowing costs from higher base interest rates and ongoing deficit spending is fueling concerns about the long-term sustainability of U.S. public debt.</li> </ul> | + | In fixed income, we prefer <b>shorter-duration assets</b> and <b>short-term TIPS</b> .   |
| <b>Immigration</b> | <ul style="list-style-type: none"> <li>Stricter immigration policies could tighten the U.S. labor market, putting upward pressure on wages and prices later in 2025 and beyond.</li> </ul>   | - | <b>U.S. small-caps</b> could face headwinds because they tend to hold more debt and lack pricing power, making them more sensitive to inflation, higher rates, and the economy.                        |
|                    |  | - | Concerns about a resurgence in inflation would warrant caution on <b>intermediate- to longer-duration assets</b> .   |
|                    |  | + | Equities linked to <b>real assets</b> , such as energy and metals, historically have acted as a hedge versus inflation. Still, near-term economic weakness is a concern for oil and industrial metals. |

|                     | What we're watching   | Potential implications  |
|---------------------|---|---|
|                     |   | + In fixed income, we prefer <b>shorter-duration assets</b> and <b>short-term TIPS</b> .  |
| <b>Deregulation</b> | <ul style="list-style-type: none"> <li>• Trump has continued efforts from his first term to reduce burdensome regulation, cutting the costs imposed on businesses.</li> </ul>   | + A more business-friendly regulatory environment could favor <b>smaller companies and value stocks</b> . Both would be sensitive to economic weakness.   |
|                     |   | + Leadership changes at key federal agencies could bring a lighter touch to regulation and supervision of the <b>financials sector</b> . <sup>2</sup>   |
| <b>Energy</b>       | <ul style="list-style-type: none"> <li>• Trump is likely to renew his push to reduce the regulatory burden on fossil fuels in his second term. Rolling back tighter emission rules and drilling restrictions advanced by the Biden administration would likely be on the agenda. Permitting reform could also place more of an emphasis on fossil fuel-related infrastructure.</li> </ul> | + A more supportive regulatory environment could help the <b>oil and gas</b> industry at the margin. However, significant growth in domestic hydrocarbon production could be a challenge because of industry consolidation and a maturing resource base. Economic weakness would be a headwind. |
|                     | <ul style="list-style-type: none"> <li>• The Trump administration could seek to curb spending on tax credits for electric vehicles and renewable energy that were included in the Inflation Reduction Act (IRA), a signature piece of legislation passed during Biden's presidency.</li> </ul>  | - Companies in the <b>electric vehicle</b> supply chain could encounter demand headwinds. <b>Utilities</b> and <b>renewable energy</b> developers would also face uncertainties.  |
| <b>Health care</b>  | <ul style="list-style-type: none"> <li>• Fears surrounding potential policy headwinds could weigh on investor sentiment toward the sector.</li> </ul>   | - Potential cuts to Medicaid could be a headwind for <b>managed care</b> companies with more exposure to this market.   |
|                     |   | - The <b>pharmaceutical industry</b> could face challenges if the administration takes an aggressive approach to pricing negotiations for certain drugs under the Inflation Reduction Act. Tariffs also create uncertainty.   |

<sup>2</sup> Gil Fortgang, an associate analyst who covers Washington and regulatory policy for T. Rowe Price Investment Management, explored this topic at length in "How the U.S. Election Could Impact the Financials Sector."

|  | What we're watching | Potential implications   |
|--|---------------------|--|
|  |                     | <p>— Any funding cuts for agencies that give research grants and approve drugs represent headwinds for <b>life science tools</b> companies. Tariffs also create uncertainty.</p> |
|  |                     | <p>— Rising interest rates historically have been a headwind for <b>biotech</b> stocks, especially earlier-stage companies.</p>  |
|  |                     | <p>+ Positive surprises on any of these fronts would serve as tailwinds.</p>   |