

U.S. Elections 2024

How Could A Second Trump Term Affect U.S. Credit?

Nov. 7, 2024

This report does not constitute a rating action

Key Takeaways

- Republican majorities in Congress will make it easier for President-elect Trump to push through his legislative agenda; but even if Democrats hold onto the House, presidents enjoy fairly wide latitude to sign executive orders that can change the credit landscape.
- We believe a universal tariff and sharply higher tariffs on Chinese imports could mean an increase in U.S. inflation, and a drag on GDP growth. Many industries, especially tech, could suffer from higher input costs and margin pressures as a result. Knock-on effects on trade could also hurt entities such as port operators and transportation leasing companies.
- As Congress revisits the tax code, it opens the door to negotiate provisions that could have credit implications, such as the corporate tax rate and the tax-exempt status of municipal bonds.

Former President Donald Trump's successful bid to return to the White House for a second term, and the potential for an accompanying "red wave"—with Republicans having regained a majority in the Senate and on the verge of keeping control of the House of Representatives—represents a historic win.

From a legislative perspective, Republican majorities in both halves of Congress will make it easier for President-elect Trump's new administration to push through his agenda. But even if Democrats hold onto the House, presidents enjoy fairly wide latitude to sign executive orders that can change the credit landscape—including levying tariffs on imports, which appears to be the issue with the most potential ramifications for the borrowers we rate.

With the caveat that campaign rhetoric doesn't always translate into policy, President-elect Trump has suggested a 10% tariff on all goods imported into the U.S. as well as tariffs of 60% on all Chinese goods. While S&P Global Ratings believes that these levels are unlikely and may be a starting point for negotiations, we think that under a scenario of across-the-board tariffs of 10% and/or an increase in levies on Chinese imports to 60%, the effects would be:

- Inflationary in the short term—with companies facing higher input costs (which they'd pass through to the degree they can) and consumers paying more for finished goods;
- A drag on U.S. GDP in the medium term, allowing for both a real income loss to U.S. households and loss of exports from trade retaliation, while underpinning still-high benchmark interest rates; and

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- An acceleration in the diversification of supply chains, in particular away from China.

A 10% universal tariff on all core goods imported into the U.S. could add as much as 1.8 percentage points to the Consumer Price Index (based on share of exposure), triggering a resurgence in inflation in the first year—although that would be a one-off shift in prices rather than having an ongoing inflationary effect. A universal tariff, by design, would prevent some re-routing of trade and there is a high chance that prices of domestically produced goods will also rise. The overall drag on real GDP could be as much as 1 percentage point, allowing for both the income loss to U.S. households and the hit to American exporters.

And even with imports from China now representing just 14% of total U.S. imports (and those imports accounting for less than 18% of the CPI basket), the ramifications of a 60% tariff on Chinese goods could be significant. The higher tariff would presumably be applied to both finished consumer goods and intermediate goods for domestic production, and American importers would need to pass through costs to customers and consumers. Re-routing of supply would help limit the increase in prices for American importers, but this would depend on how aggressive the administration is in preventing such rerouting of Chinese exports through other countries. All told, we think a 60% tariff could add as much as 1.2 percentage points to consumer prices. Factoring in the hit to U.S. incomes and American exports, the drag on GDP could be around 0.5 percentage point.

Elsewhere, various provisions of the 2017 Tax Cuts and Jobs Act (TCJA) are set to phase out in 2025, and Congress faces a specific deadline by which it must revisit the tax code. At least some legislative action is likely, with interest deductibility, bonus depreciation, and deductions for research and development all up for debate and potentially made permanent.

The TCJA lowered the corporate tax rate to 21%, from 35%, and Republican leaders have suggested further lowering the rate to 15% for U.S. companies that make their products in the U.S. A lower corporate tax rate won't likely be effective until 2026, unless the change is applied retroactively. Naturally, a lower corporate tax rate, where applicable would reduce a company's tax expense, and taxes paid. The effects on credit ratios would appear most directly from improvements to funds from operations (FFO) and, thus, to FFO-to-debt ratios and FFO-to-interest coverage. Lower cash outflow would also boost the cash available to service debt, all else equal. On the flip side, a lower corporate tax rate may also affect our adjusted debt from higher tax-affected liabilities (e.g., pensions).

In addition to trade- and tax-related issues (see chart 1), the regulatory environment is largely determined by the party in power. Clearly, this can affect energy-related industries such as oil and gas production, and others that have an outsized impact on the climate.

Also, bank regulation was last eased early in the prior Trump Administration when both houses of Congress had Republican majorities, and we believe the Republican majorities lower the odds of any regulatory tightening.

From a sovereign perspective, policy that improves or worsens the nation's fiscal deficits and debt burden could most affect our unsolicited sovereign credit rating (AA+/Stable/A-1+), given the U.S.'s key credit weakness is its fiscal profile and difficulties of garnering bipartisan cooperation to strengthen it. How the next government—executive and legislative—manages the tax code and spending initiatives will help shape the deficit and debt trajectory. Our fiscal projections assume general government deficits will remain around current levels, and that the next Congress and administration address the debt ceiling and act before the Treasury runs out of capacity to deploy extraordinary measures to avoid a breach of the ceiling.

Credit strengths include the country's institutional checks and balances, strong rule of law, and extensive monetary policy credibility—all of which have supported stability and predictability in

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economic policies. The resilience of American institutions, its \$29 trillion economy, and the breadth and depth of its financial markets bolster the dollar's status as the world's premier reserve currency and support policy flexibility.

We could lower the rating in the next two to three years if unexpected negative political developments weigh on the strength of American institutions and the effectiveness of long-term policymaking or jeopardize the dollar's status as the primary reserve currency. The ratings could also come under pressure if already-high deficits rise further.

Conversely, we could raise the rating if effective and proactive public policymaking results in improved fiscal performance that substantially reduces general government deficits and lowers the country's debt burden.

Chart 1

Key credit issues to watch under a second Trump term



Nonfinancial Corporates: Future policies on tariffs and taxes will likely matter most for credit.



Financial Institutions: Material changes to prudential bank regulation are unlikely, but the supervisory approach could vary.



Public Finance: There could be pressure ahead for the tax-exempt status of municipal bonds—the sector's key foundation.



Insurance: We expect the biggest potential effects will be in health insurance—although any changes will likely be at the margins.



Structured Finance: The elections' impact is likely confined to certain products related to commercial credit (e.g., CLOs and transportation assets), and consumer credit ABS.

Source: S&P Global Ratings.

Nonfinancial Corporates

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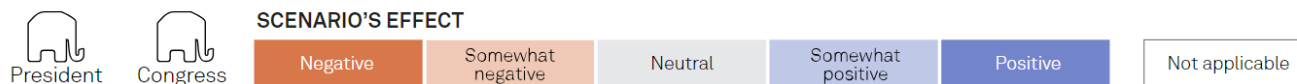
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President-elect Trump’s campaign promised a number of policy changes in taxes (see details on page 2), tariffs, regulation, and immigration, among others. While campaign rhetoric doesn’t always translate into policy, and the makeup of Congress matters for passage of any sweeping legislation, we think these proposed policy measures could affect U.S. nonfinancial corporates, potentially creating winners and losers (see chart 2).

Chart 2

Potential effects of President-elect Trump’s campaign platform in two scenarios

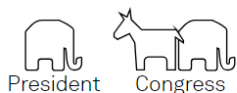
Scenario 1: “Red wave” - Trump presidency, Republican Congress



Sector	Trade/ tariff	Energy/ climate	Antitrust regulation	Immigration/ labor	Other sector-specific areas
Aerospace and defense					Defense spending
Autos					
Building materials					
Business and technology services					
Capital goods					
Chemicals					
Consumer products					
Containers and packaging					
Health care					Affordable Care Act
Homebuilders and developers					Housing affordability initiatives
Hotels, gaming and leisure					Child tax credit
Media and entertainment					Social media regulation
Metals and mining					
Midstream energy					
Oil and gas					
Oil refineries					
Pharmaceuticals					Drug pricing
Regulated utilities					
REITs					
Retail and restaurants					
Technology					
Telecom					Net neutrality / pricing
Transportation					
Unregulated power					Fossil fleet benefits

Note: These impact descriptors are our qualitative view of the potential first-order effect on sectors, as of November 2024. It doesn't directly translate to risk of rating actions. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Scenario 2: Trump presidency + mixed Congress



SCENARIO'S EFFECT



Sector	Trade/ tariff	Energy/ climate	Antitrust regulation	Immigration/ labor	Other sector-specific areas
Aerospace and defense					Defense spending
Autos					
Building materials	Somewhat negative				
Business and technology services					
Capital goods			Somewhat positive		
Chemicals	Somewhat positive				
Consumer products	Somewhat negative				
Containers and packaging	Somewhat negative				
Health care	Somewhat negative		Somewhat positive		Affordable Care Act
Homebuilders and developers	Somewhat negative			Somewhat negative	
Hotels, gaming and leisure				Somewhat negative	
Media and entertainment			Somewhat positive		Social media regulation
Metals and mining	Somewhat positive		Somewhat positive		
Midstream energy	Somewhat negative		Somewhat positive		
Oil and gas					
Oil refineries					
Pharmaceuticals			Somewhat positive		Drug pricing
Regulated utilities	Somewhat negative				
REITs					
Retail and restaurants	Somewhat negative				
Technology	Negative		Somewhat negative		
Telecom			Somewhat positive		Net neutrality / pricing
Transportation					
Unregulated power	Somewhat negative				Fossil fleet benefits

Note: These impact descriptors are our qualitative view of the potential first-order effect on sectors, as of November 2024. It doesn't directly translate to risk of rating actions. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

President-elect Trump has suggested a 10% universal tariff on all goods imported to the U.S. as well as tariffs of 60% on all Chinese goods. We believe these sharply increased tariffs, barring exclusions and other adjustments, would likely mean higher input costs for many industries, resulting in margin pressures, and therefore have a generally somewhat negative impact on debt issuers we rate. We expect those industries with highly engineered products dependent on China for specialized manufacturing to be hardest hit because these facilities are the most expensive to relocate and hardest to staff. Such products comprise semiconductors and electrical components supplied to technology companies.

This also applies to utilities and power sectors focused on renewable energy. These companies have a meaningful reliance on China for products such as solar panels, wind turbines, and battery chemistries. Although higher tariffs can be passed through to customers, more severe trade restrictions could challenge the sector's ability to meet renewable-energy goals and effectively manage credit quality.

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We anticipate that other sectors dependent on Chinese suppliers such as consumer products, retail and restaurants, health care, and homebuilders/building materials will be affected as well. However, to the extent that this latter group depends more on commoditized imports, they would likely have more success finding alternative suppliers or moving their operations more quickly and at a cheaper cost.

While the predominant impact of tariffs is expected to be negative to neutral, we have identified two sectors that are most likely to benefit from a more protectionist stance. U.S. metals and mining companies tend to be higher on the cost curve, and tariffs could go some ways to level the playing field when competing against imports for local customers. Issuers in the chemicals sector would benefit in a similar fashion, although they may be facing customers with heightened price sensitivity give recent quarters of softening demand.

Second-order effects, such as retaliatory tariffs or impacts on the broader economy, may also come into play. Changes in policy can directly affect sectors, sometimes in opposing ways, and assessing how the credit quality of a specific company is affected demands that any impacts are understood at a micro level. Nevertheless, broader second-order consequences remain important. The effects policies will have on the broader economy as well as the reactions that trading partners might have to new tariffs affect all companies with a global supply chain.

At the same time, the White House has significant influence over the enforcement of regulation. Less-restrictive environmental regulation would be somewhat positive for companies with shorter-term projects. In most cases, mining plans, or exploration and development plans span years or even decades and require extensive amounts of investment. Such considerations are predicated on long-term policy expectations and less likely to be reassessed due to changes in policy that may not endure. However, even temporary shifts in environmental policy can be somewhat positive to ongoing projects that have been halted by an insurmountable regulatory hurdle, or shorter-term investments such as some that we have identified in the midstream energy space.

Similarly, looser antitrust regulation could have a somewhat positive effect on sectors with companies that would benefit from consolidation. Year to date we have seen few signs of impediments to consolidation in sectors such as oil and gas. However, business combinations in other sectors such as health care and pharmaceuticals have had a harder time gaining approval, and the largest technology companies remain at risk of being broken up.

The IRA and CHIPS acts have some level of bipartisan support; however, the appropriated funds could be reallocated. A focus on lowering energy costs rather than reducing emissions will likely shift spending away from green energy initiatives. This could be somewhat negative to the auto, tech, and utilities sectors, whose expansion and investments would have been supported to a higher degree.

As with taxes, immigration policy must go through Congress and could take longer to enact. Nonetheless, the president can influence the extent to which current laws are enforced. We observe that employers most reliant on unskilled or less-skilled labor are most likely to be affected by deportations or reduced immigration due to tighter border controls. The homebuilders, and hotels, gaming and leisure sectors stand out as facing somewhat negative effects in this regard.

Finally, shifts in health care policy may disrupt the current balance between health care and pharmaceutical companies and the Americans they serve. However, any changes will take time to work their way through Congress.

President-elect Trump has suggested he wouldn't try to repeal the Affordable Care Act (ACA), but he has been clear about his intentions to scale it back. This would likely be somewhat negative to

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the health care and pharmaceutical sectors. Health care providers participating in the exchanges created by the ACA or Medicaid plans may be hurt. Even short of congressional action, Biden-era subsidies will expire toward the end of next year. However, businesses based on privately run systems might actually benefit from these changes, and the broader industry stands to gain from a more supportive regulatory environment.

Financial Institutions

Banks

President-elect Trump's win and the possibility of a majority in both the Senate and the House meaningfully lower the odds of regulatory tightening in the banking sector and may revive debate around loosening some aspects of bank regulation.

Although it's still too early to foreshadow specific policy effects, we think material changes to prudential bank regulation are unlikely. That said, the supervisory approach could vary as could the enforcement of certain initiatives—including the Basel III endgame, and those involving liquidity standards and resolution. We believe credit ratings are unlikely to be affected as most banks' balance sheets are starting from a position of strength. Our view could change if regulation is significantly eased, which is not in our base case. Generally, we view stricter regulation as a positive for credit, as long as it allows lenders to generate decent returns and doesn't push them toward riskier strategies in an effort to boost profitability.

Finance Companies

We don't think the outcome of the U.S. presidential and congressional elections will have an immediate effect on our ratings on North American nonbank finance companies. A Republican sweep could be beneficial as it seeks to further lower the corporate tax rate. In terms of supply chain and trade, potential higher tariffs under the Trump administration would affect transportation leasing companies, in particular container, truck, and chassis lessors. The administration's approach to clean energy and transportation policies could create opportunities for some finance companies and challenges for others.

To the extent that broad economic initiatives to boost employment and disposable income for the middle class help temper delinquencies and defaults on consumer loans, this could be a boon to finance companies. Moreover, under the Trump administration, federal agencies would likely scale back further regulation of the nonbank financial system.

Asset Managers

We don't believe the outcome of the U.S. presidential and congressional elections will have a near-term direct impact on our ratings on asset managers, though we could see changes in tax, investment opportunities, and regulation post-election. Policies that result in more spending—through plans to extend unemployment insurance, as well as measures to boost employment and disposable income—could bolster the economy and financial markets, benefiting asset and wealth managers through growth in assets under management, though potential tariffs are an offset.

The level of support for housing, infrastructure, and clean energy projects could influence asset managers investment opportunities in these areas. Regulatory considerations at banks have created opportunity for private credit lenders to fill gaps. As alternative asset managers have grown in private credit and expanded into the retail channel the sector has attracted some increased regulatory scrutiny, which we do not expect to abate, regardless of the election outcome. We expect asset and wealth managers to continue to evolve their product and service offerings, under the Trump administration, with negligible impact to performance or creditworthiness.

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Securities Firms

With respect to securities firms, we believe that the change in administration is unlikely to derail regulations that have already been passed and are being implemented. Some examples of such regulation include the central clearing of Treasuries, and the reduction in quoted stock price tick size to half a penny that the SEC approved in September 2024. We also believe that the change in administration greatly reduces the likelihood of additional regulatory reforms, or regulators broadening interpretation of existing regulations, and increases the likelihood that advisory revenues for securities firms could see a boost from a less restrictive environment for mergers and acquisitions.

Public Finance

Tax policy was at the forefront throughout Trump's campaign and using 2017's TCJA as a guide, we envision there could be pressure for the sector's key foundation: tax exemption. The tax-exempt status of municipal bonds is the fundamental element driving this \$4 trillion market. As the Trump administration looks for pay-fors to extend TCJA, the muni tax exemption could reemerge as a possible tradeoff.

The Congressional Joint Committee on Taxation estimates the value of the municipal bond tax exemption at \$125 billion between 2023-2027, an attractive number to Trump and Republicans as they put together a plan to address the expiration of the current TCJA in 2025. Although muni bonds maintained their tax-exempt status in 2017 negotiations, the TCJA included a \$10,000 cap on state and local tax (SALT) deductions. Under a second Trump administration we expect that the SALT cap would remain, but it could be increased.

Should muni bonds lose tax-exemption status as part of renegotiating TCJA, it could increase the investor base given participation in a potentially deeper and more liquid taxable market. However, it could also slow the pace of debt issuance and make the cost of capital more expensive for current tax-exempt borrowers if the depth in the taxable market doesn't fully mitigate the loss of the exemption. Higher debt costs would squeeze issuers' budgets and operating margins even more, especially after absorbing the elevated costs from several years of higher interest rates and rising inflation. Given the likely return to higher inflation in the Trump administration from higher tariffs and the related retaliation from trading partners, we expect that rising cost pressures could put a lid on economic growth—even if an extension or expansion of tax cuts would otherwise stimulate economic activity.

As time and negotiations determine the potential loss of tax-exemption and inflationary trend, all U.S. public finance sectors are likely to experience some effect from policy changes in the Trump administration. However, some sectors are more likely to experience changes under the new administration that could affect the broader credit quality:

Not-for-Profit Health Care: Given limited health care policy specifics for Trump's second term, we use Trump's first term and recent Republican legislative focus as a guide for potential areas of health care policy focus.

During Trump's first term he put initiatives in place to weaken or undermine the Affordable Care Act (ACA), which negatively affect hospitals with fewer individuals covered by insurance or weakened reimbursement. Any actions that result in less Medicaid coverage—as was tried by the last Trump administration such as initiating work requirements—or potentially moving to a block-grant type program (among others), could be a credit negative for hospitals, depending on plan specifics and their Medicaid exposure. Although Trump has not provided a specific view on continuing the enhanced tax subsidies from the Inflation Reduction Act (2022), we believe there may be a Republican focus on ACA cost reductions which could put extension of the enhanced subsidies at risk. Any of these changes would likely be incremental for any particular hospital or health care system, but they could come at a time when many acute care providers are still trying to stabilize performance. That said, we believe there is a considerable uncertainty given the limited details on Trump's health policy focus, coupled with the broad popularity of the ACA and time it could take to make certain changes to the ACA.

State and Local Governments: With one in five Americans now enrolled in Medicaid, any changes to the ACA or to federal Medicaid matching rates could be credit-pertinent for state governments. Medicaid funding is the largest flow of monies from the Federal level to the states, and unlike prior campaigns, this election cycle the President-elect has not focused on this broad social service program. So, while we do not anticipate federal changes in 2025, we will be

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monitoring who may be the Health and Human Services Secretary and if there are expected policy changes from that appointment.

One immediate challenge facing the new administration that directly affects state and local governments is how the federal government addresses disaster recovery funding. Governments, businesses, and residents alike rely on FEMA to support disaster recovery expenditures. But as FEMA's long-term obligations rise and annual funding has required additional appropriations during the fiscal year, we see this as a risk to recovery expectations as federal deficits and political brinksmanship grow. This could shift the balance of risk-sharing more toward local and state governments and result in uncertainty in long-term funding or benefit reform that provides less funding over time.

Water & Sewer Utilities: Based on Trump's prior term, we expect he may approach the issue of water and sewer regulation at a different pace or with a different focus but won't completely diverge from critical health and safety or environmental considerations. During Trump's first term, the EPA was examining formalizing Maximum Contaminant Levels (MCLs) for PFAS through an action plan and while the target and timing could change, we do not expect total elimination of PFAS regulation. The same is true for lead pipe replacement. We expect proposed regulations related to protecting waterways or emerging contaminants may be revised through litigation, especially given the recent changes to the Chevron doctrine. Ultimately, many states have regulatory mandates that surpass the current federal standard and thus state standards could drive regulatory compliance.

Public Power: Trump's previous administration supplanted Obama's EPA Clean Power Plan with the Affordable Clean Energy rule, and a second Trump presidency might dial back EPA rules and initiatives. These include electric vehicle mandates and electric grid decarbonization goals, which are contributing to retail electricity price inflation that has outpaced the broader Consumer Price Index in recent years. Inflationary trends weigh on affordability and could constrain ratemaking flexibility and weaken credit metrics.

The degree to which a Trump administration rolls back initiatives could be colored by public sentiment regarding the environment and the physical risks associated with climate change. We believe the Trump administration might have latitude in shaping the Environmental Protection Agency to advance the administration's objectives. However, its ability to advance environmental initiatives that depart from those of the Biden administration might encounter obstacles attributable to the tenure of legacy Biden appointees to the Federal Energy Regulatory Commission. The Biden Administration appointees constitute the majority of the commission, and the expiration of their terms extends from June 2026 through June 2029.

Transportation: To the extent tariffs significantly increase in this Trump administration, there is the potential for trade activity to suffer—which would affect many port operators. Broadly speaking, transportation policy was not a focus for Trump on the campaign trail. However, his administration and Congress will have significant influence over where and how federal transportation dollars are spent. Of the \$1.2 trillion, five-year Bipartisan Infrastructure Law (BIL) passed in Nov. 2021, \$361 billion in authorizations for capital flows mostly through federal highway formula spending programs. Transit, aviation, Amtrak, and maritime programs also have formula funding grants associated with the remaining \$230 billion in federal transportation spending under BIL.

Insurance

For the insurance industry broadly, we don't see significant near-term credit effects from a second Trump Administration. We expect the biggest potential effects will be in health insurance—although any changes will likely be at the margins.

Health Insurance

We expect incremental, rather than transformative, health care legislation at the federal level under the Trump Administration because of the maturity of the country's public/private health insurance programs and Congressional gridlock, which lessens the possibility of large changes, even in a red wave.

Unlike previous elections, the ACA does not face an existential threat, as the Trump Administration didn't make "Repeal and Replace" a campaign issue. However, the industry faces a modest downside scenario if the next administration and Congress fail to extend the "enhanced" ACA subsidies, which the Biden Administration enacted in 2021 and are set to expire in 2025. The enhanced ACA subsidies have played a large role in the ACA exchanges reaching record enrollment of more than 21 million in 2024.

We think the Trump Administration may be inclined to let the enhanced subsidies expire, though they could be agreeable to extending the subsidies, with modifications, because of the popularity of ACA products in large Republican states such as Texas and Florida. The enhanced subsidies could become a negotiating item within the broader policy discussion to extend the Tax Cuts and Job Act of 2017.

For the industry, the expiration of the enhanced subsidies would be a modestly negative credit factor, as industry-level ACA enrollment would likely decrease, starting in 2026. However, rating downside would be limited because the overall ACA market will remain intact, as consumers will still be eligible for subsidies, just at a lower level. Moreover, health insurers in our rated universe have diversification through other products and non-insurance businesses.

The election will also have an impact on the highly popular Medicare Advantage (MA) program, which achieved peak enrollment of more than 32 million in 2024. Under the Biden Administration, the MA market grew at a healthy rate; however, federal regulators also dampened MA revenue for the industry by implementing technical changes in areas such as risk coding and star quality ratings. Moreover, federal regulators increased their scrutiny of the industry's marketing and distribution practices. That said, under the Trump Administration, the industry could face incrementally less regulatory pressure, in the form of slightly more favorable MA revenue and fewer business restrictions.

Finally, we believe that the next administration and Congress could pursue reform legislation targeting the pharmacy benefit managers (PBM). The top three largest PBMs are all owned by diversified groups with large health insurance businesses. PBM legislation appears to have bipartisan support, as multiple PBM bills were advanced by Congressional committees in 2023-2024, though they failed to gather enough momentum to make it to legislation. We believe PBM reform legislation will likely focus on transparency measures and business model changes that will be largely manageable for the PBM industry from a credit standpoint. Moreover, PBMs would likely have time to make changes to their business models and client contracts to adjust to reform measures.

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Other Insurance Sectors

Property/Casualty Insurance: The outcome of the U.S. election is expected to have minimal impact on P/C insurers or their products. However, the proposed changes in the corporate tax rate, if implemented, would clearly affect reported net income of all corporate entities including insurers. Other proposals such as raising tariffs or restricting immigration could hurt economic growth, which would likely slow insurance premium and earnings growth. To the extent interest rates are affected by any of the proposals, this would have an impact on the valuation of insurer investment portfolios and their shareholders' equity.

Reinsurance: We expect the outcome of the U.S. election to have minimal impact on the global reinsurance sector. However, the proposal by the Trump campaign to lower the corporate tax rate to 15% from 21% could, over time, diminish Bermuda's appeal as a reinsurance domicile. Starting on Jan. 1, 2025, Bermuda-based businesses that are part of multinational enterprise (MNE) groups with annual revenues of €750 million or more will [or would under his proposal?] be subject to a 15% corporate tax rate. However, the Bermuda Corporate Tax Act includes a provision known as the economic transition adjustment, designed to ease the transition into the new tax regime. This provision results in a deferred tax benefit for Bermudian MNEs. Under this legislation, these MNEs recorded a net deferred tax asset in the fourth quarter of 2023, which is expected to be utilized over a 10-year period to mitigate the impact.

Bond Insurance: We expect no meaningful sector impact because the U.S. public finance market, which is greater than 90% of total par insured for the bond insurers, operates relatively independent of federal influences. While federal spending may support local government initiatives, Congressional gridlock may lessen the possibility of large changes, even in a red wave scenario. Under the Trump Administration, based on campaign rhetoric around deficit reduction, the industry could face less business opportunity as there may be less federal spending to support local government and infrastructure needs.

Title Insurance: We expect no meaningful sector impact at the federal level under the Trump Administration. The title insurance industry is closely linked to home purchases and interest rates with no direct federal influence. There have been congressional discussions, however, in recent years around Fannie Mae's proposed practice to permit lenders to obtain either a lender's title insurance policy or an attorney title opinion letter and CFPB proposal prohibiting mortgage bankers from charging homebuyers for title insurance. Congressional gridlock may lessen the possibility of these changes, even under a red wave. The Trump Administration's housing platform lacks specifics so it's difficult to judge the impact on home ownership.

Mortgage Insurance: President-elect Trump included actions to address housing affordability during the campaign, such as opening federal lands for home construction or by cutting regulation and permit requirements for homebuilders that drive up housing costs. We don't expect these initiatives, if enacted, to have an immediate impact on the mortgage insurance industry as it will generally take years before housing supply would meaningfully increase and lower home prices.

Structured Finance

We expect limited impact of the election outcomes on structured finance, which is likely confined to certain commercial credit-related products (e.g., CLOs and transportation assets), and consumer credit-related products (e.g., ABS and RMBS).

Under a red wave scenario, in which the Republicans take control of both the executive and legislative branches, corporate loan issuers and CLOs could benefit from a potential reduction in corporate taxes. However, an increase in tariffs could add to inflationary pressures and slow down the path of monetary easing, lessening the tailwind for corporate borrowers. While tariffs could be a headwind for businesses heavily reliant on imports and exports, such as container leasing, the “America first” approach to business could be a boon to certain industries, which might support some companies in the leveraged loan market.

In addition, if the Republicans make interest on certain car loans tax-deductible, it could spur auto sales and help some overleveraged obligors. On the other hand, Republicans have threatened to end the electric vehicle (EV) tax credit, which would reduce EV sales. Overall, consumer ABS might benefit from an extension of the temporary individual tax cuts from the 2017 Tax Cuts and Jobs Act and other tax-related initiatives, which could be dampened by higher inflation to some extent.

Under a mixed Congress scenario, we expect the effects on commercial credit-related products to be mainly from tariff actions. Revenue impact in the affected corporate sectors could influence the leveraged loan market (if corporate ratings are adjusted), and in turn the CLO market. We expect the impact on consumer ABS to be negligible under a split government, because most relevant policies would require congressional support for implementation.

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- [CreditWeek: How Will The U.S. Elections Affect Credit?](#), Oct. 17, 2024
- [U.S. Sovereign Brief: Post-Election Policy Outcomes Will Be Key For Creditworthiness](#), Oct. 15, 2024
- [Your Three Minutes In U.S. Banking: What To Watch Regarding Regulation In The Upcoming Election](#), Sept. 27, 2024
- [U.S. 2024 Elections: How Dueling Tax Plans Could Matter For Corporates Post Election](#), Sept. 24, 2024

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