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Analysis of 4 Political Policy Areas on the U.S. Economy

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While the presidential election will be the major contest before U.S. voters in November, the outcome of the House and Senate races will determine much about the policies that will steer the economy over the coming years.

The following extended post segments our analysis into four key areas - trade and tariffs, fiscal policy, immigration and labor supply, and monetary policy effects - with significant economic impacts. Our assessments in each segment are based on the potential election scenarios below and their estimated impact on inflation, growth, and the fiscal deficit. We conclude with the aggregate impact of the scenarios on our macroeconomic outlook.

U.S. Election Scenario

Harris + divided	Harris presidency, Republicans hold at least one chamber of Congress
Democratic sweep	Harris presidency, full Democratic control of Congress
Trump + divided	Trump presidency, Democrats hold at least one chamber of Congress
Republican sweep	Trump presidency, full Republican control of Congress

Trade and Tariffs

Harris - Assuming general continuity with Biden/Harris administration

The Harris campaign is generally less vocal on trade issues, and we assume relative continuity with the current administration.[1] This includes the general policy of "small yard, high fence" with strategic support/protectionism of "key sectors." At this point, we expect targeted trade actions (i.e., tariffs, export controls) against specific countries, **most notably China**. This is unlikely to amount to a significant impact on the macro outlook. **For reference, while continuing the Trump 1.0 tariff policies against China, the effective tariff rate under the Biden administration has remained largely unchanged.** Under the Democratic Sweep scenario, one could hypothesize a more populist trade policy as Congress pushes the Harris administration towards more aggressive trade policies. However, this potential outcome is not included in our analysis of major policy proposals.

Trump - The "Tariff Man"

Trump has floated a wide range of policy proposals, making the analysis of potential outcomes challenging. Therefore, our focus is on proposals with two key characteristics: 1) they are part of the official Trump platform, hence could receive greater priority under Trump scenarios; and 2) they would have the largest macroeconomic impact if implemented. Under that approach, our analysis includes the three tariff proposals below.

1. **Increased tariffs of up to 60% on China.** While this proposal could be interpreted many ways, we assume the result would be a 60% effective tariff rate on imports from China. This could be implemented in two ways. The official campaign proposal is to revoke China's Permanent Normal Trade Relations (PNTR) status. This would automatically raise the effective tariff rate to ~60% and would require legislation to pass Congress, which appears more likely under the Republican Sweep scenario.[2,3] The other implementation method would utilize one or more existing trade authorities (i.e., Section 301, 232, or IEEPA) to reach an effective tariff rate of 60%, which would only require executive action and could be implemented relatively quickly.[4,5]

2. **A 10% universal tariff.**[6] Similar to the proposed tariff rate on China, we read this as reaching an effective tariff rate of 10% on all U.S. imports. There are also two general paths to implementation. The first would utilize existing executive authority, likely IEEPA and/or Section 301. The second strategy would seek passage of the "Reciprocal Trade Act," which would raise tariff rates to match those levied against U.S. exports.[7] This may be coupled with executive actions to reach a 10% effective rate on all U.S. imports.[8]

3. **Ad-hoc tariffs could lift the effective rate on all imports by 2 percentage points.** Trump has floated numerous tariff proposals ranging from 10-200% on a variety of products and countries. While the lack of details makes it impractical to assess the individual impact of each, it is reasonable to expect additional tariffs separate from the preceding proposals. We assume this would follow the general strategy of Trump 1.0, the result of which was a 1.4 percentage point increase in the effective tariff rate in the first few years of his term.[9]

In terms of projecting an estimated tariff rate for a Trump 2.0 administration, we first estimate the effective tariff under each tariff policy, using 2023 data, including a baseline tariff rate of 2.4% as of the end of 2023 (Figure 1).

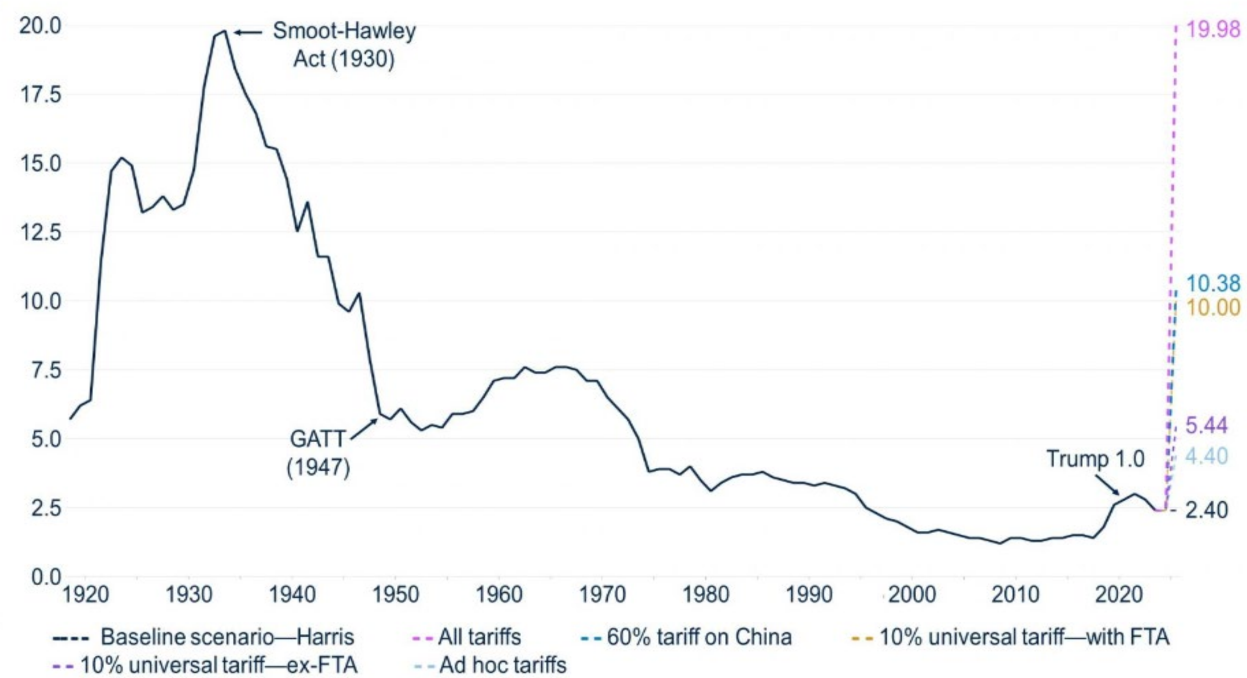
FIGURE 1: Estimated Effective Tariff Rate under Trump's Proposals

Tariff policy	Baseline	Import share (estimate)	Impact on total effective tariff rate	Effective tariff rate
60% effective tariff on China	2.4	13	7.98	10.38
10% universal tariff—non-FTA	2.4	60	4.56	6.96
10% universal tariff—FTA	2.4	40	3.04	5.44
Ad-hoc tariffs	2.4	100	2.0	4.40
All tariffs	2.4	2.4	17.58	19.98

Source: PGIM Fixed Income estimates of effective tariff rate, using 2023 import data from BEA.

Figure 2 illustrates the wide range of effective tariff rates that could result from these scenarios. Implementation of just one of these tariffs would result in the highest effective tariff rate in decades, while implementation of all these policies would take the effective tariff rate back to levels not seen since the Smoot-Hawley Act of 1930.

FIGURE 2: U.S. Effective Tariff Rates on Imports and the Respective Projections



Source: PGIM Fixed Income, Bureau of Economic Analysis, Macrobond.

At this stage of our analysis, we breakdown the macroeconomic impact of these tariffs based on their impact on inflation, growth, and fiscal conditions.

The **inflation impact** of increased tariffs is relatively straight forward as there are a few key channels through which inflation is transmitted. The obvious channels are the direct impact on consumer goods prices and the indirect impact through intermediate goods prices. These effects could be offset to a degree by any potential appreciation of the U.S. dollar and downward pressure on demand from weaker growth (i.e., Phillips Curve effect).

While research varies on the inflation effect from Trump 1.0 tariffs, a fair starting point is a one-to-one pass through on inflation.[10] **This means a 1 percentage point (pp) increase in the effective tariff rate translates to a 0.1 percentage point increase in Core PCE.** It's important to note that the inflation impact observed in Figure 3 would be a one-time shift higher in the price level. After one year, the impact on the inflation rate fades. That means timing is important.

FIGURE 3: Estimated Inflation Impact under Trump's Tariff Proposals (percentage point)

Tariff policy	Impact on total effective tariff rate	Core PCE impact
60% effective tariff on China	7.98	0.80
10% universal tariff—non-FTA	4.56	0.46
10% universal tariff—FTA	3.04	0.30
Ad-hoc tariffs	2.0	0.20
All tariffs	17.58	1.76

Effective tariff rate based on end-2023 import data from BEA. Inflation impact estimated by PGIM Fixed Income, leveraging research from the FRB and the NBER, assuming a 1-to-1 passthrough from effective tariff rate to Core PCE. Core PCE impact is y/y% if left in place for the entire time period. The impact is for 1-year. See footnote 10.

To estimate the **growth impact** of tariffs, we leverage research on the effects of Trump 1.0 tariffs.[11] **Isolating the direct and indirect effects of tariff rates yields a negative GDP hit of at least 0.13 pp for every 1 pp increase in the effective tariff rate. This excludes the effects of any fiscal response or retaliation of trading partners.**[12] Using the conservative estimate of 0.13 pp yields the results observed in Figure 4.

FIGURE 4: Estimated growth impact under Trump's tariff proposals (percentage point)

Tariff policy	Impact on total effective tariff rate	Growth impact
60% effective tariff on China	7.98	-1.04
10% universal tariff—non-FTA	4.56	-0.59
10% universal tariff—FTA	3.04	-0.40
Ad-hoc tariffs	2.0	-0.26
All tariffs	17.58	-2.29

Effective tariff rate based on end-2023 import data from BEA. Growth impact estimated by PGIM Fixed Income. Impact is change to rGDP y/y% if left in place for the entire time period. The impact is for 1-year. See footnote 11.

Finally, we estimate the impact on **fiscal revenue**. For this analysis, we once again use 2023 import data and assume no immediate changes to imports. We estimate a 1 pp increase in the effective tariff rate yields about $31 billion in additional customs revenue per year. Given the wide range of effective tariff rates, the revenue collection could be substantial (Figure 5).

FIGURE 5: Estimated fiscal revenue impact under Trump's tariff proposals

Tariff policy	Impact on total effective tariff rate (%)	Fiscal revenue impact ($ billion, annual)
60% effective tariff on China	7.98	247.38
10% universal tariff—non-FTA	4.56	141.36
10% universal tariff—FTA	3.04	94.24
Ad-hoc tariffs	2.0	62.00
All tariffs	17.58	544.98

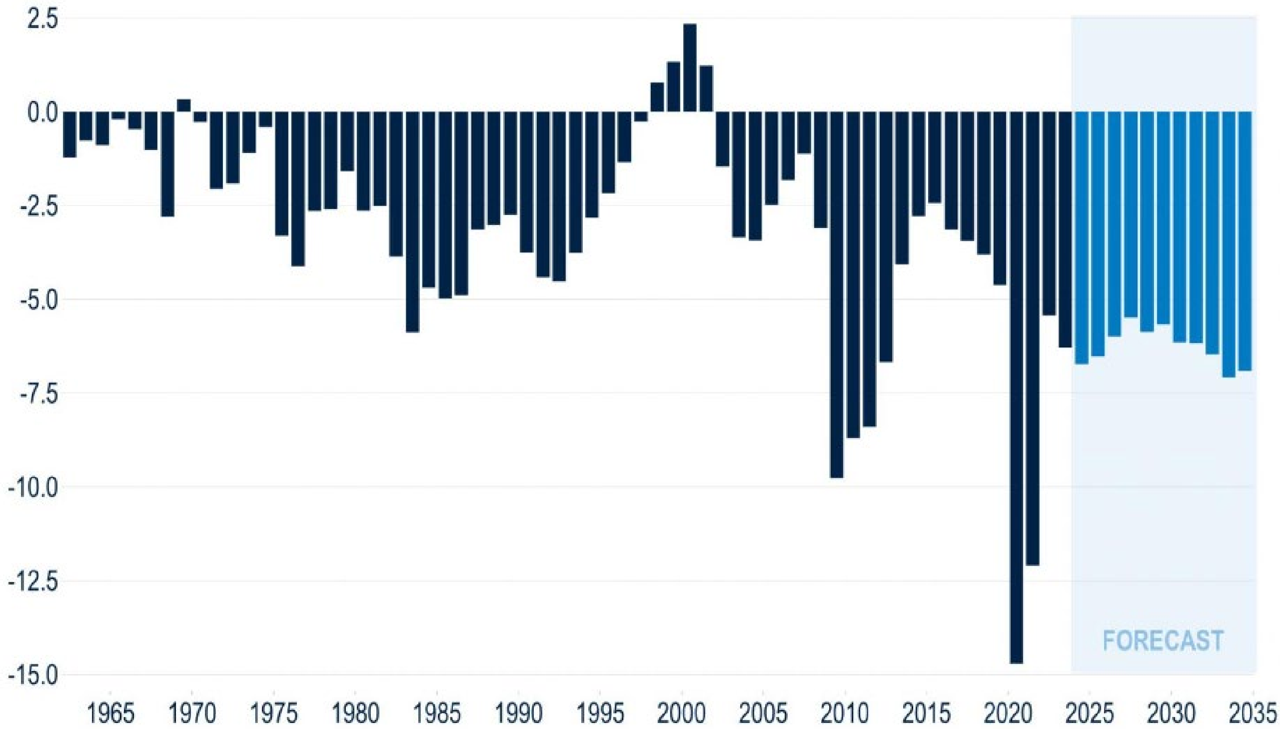
Effective tariff rate based on end-2023 import data from BEA. Estimates from PGIM Fixed Income. Fiscal revenue estimate is annual total using 2023 import data and assumes tariffs are left in place for entire year.

The use of this potential revenue is a key economic variable as the fiscal outlook changes substantially when accounting for this additional revenue. But it’s important to note that while the president has wide authority to implement tariffs, it’s up to Congress to decide how to use the additional funds. Therefore, party control of Congress will have a significant impact on the overall macro effects of these tariffs.

Fiscal Policy

Regardless of the ultimate election scenario, the incoming government will inherit a difficult fiscal situation. Unchecked growth in mandatory and discretionary expenditures, multiple stimulus packages before and in response to the pandemic, and rising interest costs have helped push fiscal deficits in excess of 5% over the foreseeable future under CBO baseline projections (Figure 6). Although fiscal policy is to likely remain expansionary in any scenario, its composition could differ substantially.

FIGURE 6: U.S. Fiscal Deficit and CBO Forecast (% of GDP)



Source: U.S. Congressional Budget Office (CBO) baseline forecast as of October 11, 2024.

The key decision for the next government will be the 2017 tax cuts (part of the Tax Cuts and Jobs Act) and **whether to extend the tax cuts** upon their expiration at the end of 2025. The CBO estimates the cost of full extension at $1.7bn through 2029.

More broadly, U.S. fiscal policy making takes time. Given that the TCJA expires at the end of 2025 and considering the legislative process, it's reasonable to assume that the impact of any policy changes arrives in 2026 at the earliest. This is important to keep in mind when assessing the potential growth/inflation impacts of these policies and how the Federal Reserve may react.

Harris has yet to present a detailed fiscal plan, so we assume she would adopt much of the current administration's policies (Figure 7).

FIGURE 7: Assessment of Harris Fiscal Policies

Election result (% probability)	Policies	Estimated impact on fiscal deficit (through 2029)
Harris + divided (26%)	• Revenue: partial extension of 2017 tax cuts	-$1.3 trillion
	• Revenue: remove tax on tips	-$40 billion
	• Expenditure: marginal cuts to non-defense discretionary outlays (i.e. IRA)	+$233 billion
	Total impact	**-$1.1 trillion**
Harris + unified (19%)	• Revenue: partial extension of 2017 tax cuts	-$1.3 trillion
	• Revenue: remove tax on tips	-$40 billion
	• Revenue: increase corporate tax rate from:	
	○ 21% → 25%	+$213 billion
	○ 21% → 28%	+$426 billion
	• Expenditure: expand CTC/EITC	-$814 billion
	• Expenditure: first-time homebuyer credit	-$112 billion
	• Expenditure: Biden proposals on childcare, paid leave, ACA subsidies, homecare, education	-$200 billion
	Total impact	**-$2 to -$2.3 trillion**

Source: Probabilities from Polymarket. Cost estimates from CBO and Committee for a Responsible Federal Budget when CBO estimates are unavailable. Negative = increases deficit; positive = reduces deficit.

Trump's proposed fiscal policies focus on a full extension of the TCJA, additional tax cuts highlighted by a further cut in the corporate tax rate, and modest cuts to non-defense discretionary outlays. The major wild card is the tariff revenue, which has a wide range of revenue estimates to match the wide range of effective tariff rates (Figure 8).

FIGURE 8: Assessment of Trump Fiscal Policies

Election result (% probability)	Policies	Estimated impact on fiscal deficit (through 2029)
Trump + divided (16%)	• Revenue: partial extension of 2017 tax cuts	-$1.3 trillion
	• Revenue: remove tax on tips	-$40 billion
	• Revenue: tariff revenue:	
	○ max tariffs	+$2.2 trillion
	○ min tariffs	+$248 billion
	• Expenditure: net neutral	(-)
	Total impact	
	○ **max tariffs**	**+$860 billion**
	○ **min tariffs**	**-$1.1 trillion**
Trump + unified (36%)	• Revenue: complete extension of 2017 tax cuts	-$1.7 trillion
	• Revenue: remove tax on tips	-$40 billion
	• Revenue: tariff revenue	
	○ max tariffs	+$2.2 trillion
	○ min tariffs	+$248 billion
	• Revenue: cut corporate tax rate from 21% → 15%	-$207 billion
	• Expenditure: marginal cuts to social assistance	-$100 billion
	• Expenditure: partial repeal of IRA incentives	-$350 billion
	Total Impact	
	○ **max tariffs**	**-$197 billion**
	○ **min tariffs**	**- $2.1 trillion**

Source: Probabilities from Polymarket. Cost estimates from CBO and CFRB when CBO estimate unavailable. Negative = increases deficit; positive = reduces deficit.

Comparing the various fiscal policy outcomes yields a few interesting conclusions (Figure 9). First, all scenarios signal the continuation of historically wide fiscal deficits beyond the steady state - estimated to be -2.4% to -4.1% of GDP - with the marginal exception of the Trump + Divided (max tariffs) scenario.[13] Second, the various Trump scenarios vary widely, largely due to the range of tariff outcomes and the fiscal response from Congress. Third, Harris policies point to either a negative fiscal impulse under a divided Congress or generally stable fiscal deficits at the current, high levels.

FIGURE 9: Estimated Fiscal Deficits (% of GDP)

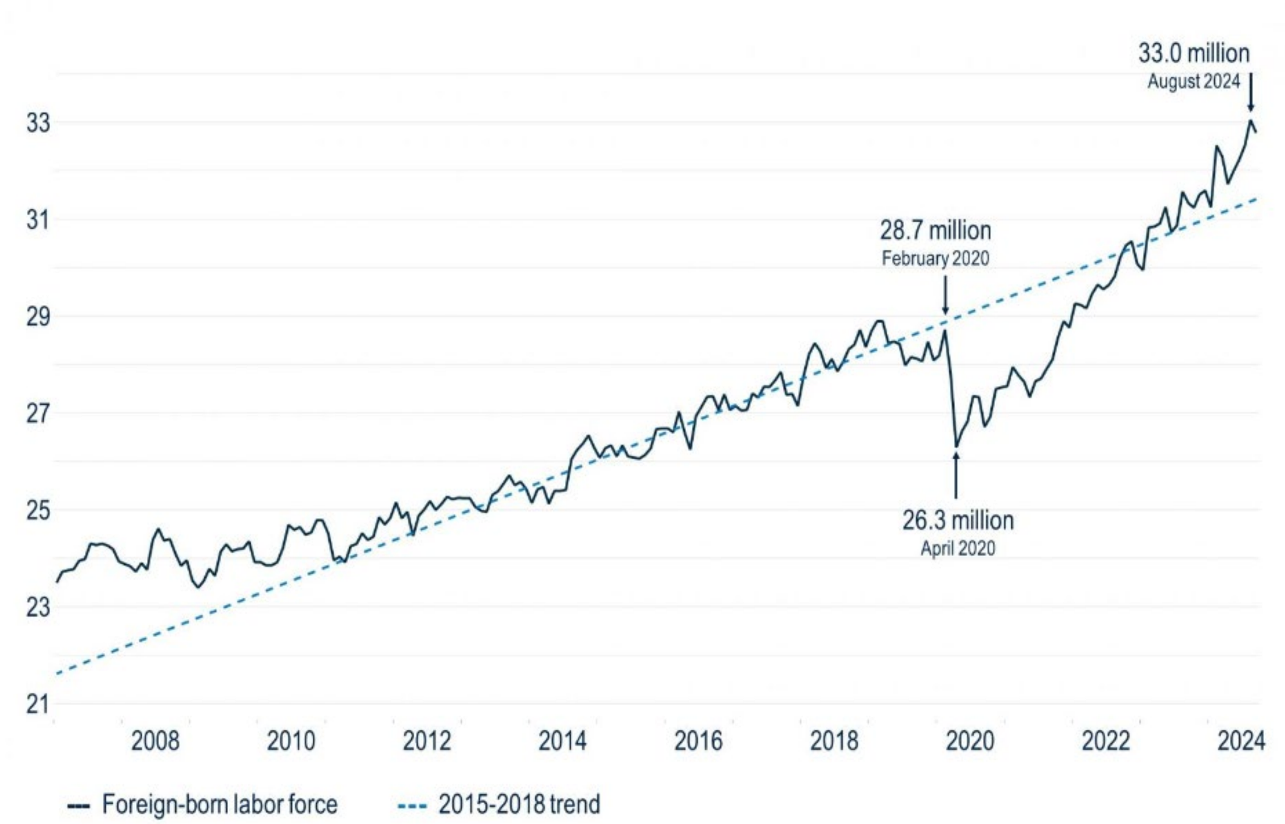
Election scenario	2025	2026	2027
Current policies	-6.1	-6.2	-6.6
CBO baseline	-6.1	-5.5	-5.2
Harris + divided	-6.1	-5.3	-5.0
Democratic sweep—28% corporate tax rate	-6.1	-6.2	-6.1
Democratic sweep—25% corporate tax rate	-6.1	-6.3	-6.3
Trump + divided—min tariffs	-5.9	-5.5	-5.3
Trump + divided—max tariffs	-4.1	-4.0	-3.8
Republican sweep—min tariffs	-5.9	-6.6	-7.2
Republican sweep—max tariffs	-4.1	-5.1	-5.7

Source: This table reflects the estimated fiscal deficits including the impacts of all policy outcomes discussed in this note, not just the fiscal policies. Estimates from PGIM Fixed Income. Data sources: CBO, BEA, Macrobond.

Immigration and Labor Supply

The influx of immigration leading to above-trend growth in the non-U.S. born labor force has been a critical aspect in the outperformance of the U.S. economy over the last few years (Figure 10). However, there is considerable risk that this trend could change under various policy outcomes.

FIGURE 10: U.S. Non-Domestic Born Labor Force (millions of people)



Source: U.S. Bureau of Labor Statistics (BLS) as of September 2024.

We leverage research on the effectiveness and legality of immigration policies to model the four election scenarios. We assume general continuity of current policies under the Democratic Sweep scenario, as a more left-leaning Congress may pull Harris away from the stricter immigration policies in the bipartisan legislation negotiated by the Biden/Harris administration. However, we expect similar legislation to pass under the Harris + Divided scenario. **Our best estimates on the impact of this legislation would be the net loss of 325,000 in the labor force within the first three-years.**

Under the Trump + Divided scenario, we assume aggressive enforcement of immigration laws leading to the net loss of 650,000 workers. However, the lack of legislative support to provide additional resources leads to a less severe net loss than under the Republican Sweep scenario where a net loss of 1.3 million workers is possible. We then leverage CBO and Peterson Institute research to estimate the growth and inflation impacts attributed to the net loss of labor force growth in relation to the baseline (Figure 11). The estimates are the aggregate impact over three years.[14]

FIGURE 11: Policy Comparison—Immigration and Labor Supply

Election result (% probability)	Policies	Estimated impact
Harris + divided (26%)	• Passage of bipartisan immigration reform and stricter enforcement lead to slowing of foreign-born labor force growth	• Net loss of 325k workers w/in first three-years • Growth: -0.525% • Inflation: +0.325%
Harris + unified (19%)	• General continuity with current policies	• No deviation from baseline labor force growth
Trump + divided (16%)	• Strict enforcement of immigration laws. Resource constraint limits loss of workers	• Net loss of 650k workers within first three-years • Growth: -1.05% • Inflation: +0.65%
Trump + unified (36%)	• Strict enforcement of immigration laws. Increased enforcement resources authorized through legislation • Possible immigration reform, likely aiming to restrict additional forms of immigration	• Net loss of 1.3m workers within first three-years • Growth: -2.1% • Inflation: +1.3%

Source: Probabilities from Polymarket. Labor force growth forecasts from CBO. Growth/inflation impact estimates from Peterson Institute for International Economics.

In three out of the four scenarios, we see a sizeable negative growth effect and a significant inflation effect, spread over three years. Estimates show the negative growth effect outweighing the upside inflation impact, thus likely mitigating the economic impact of the latter.

Monetary Policy Effects

Before discussing the cumulative impacts of these potential policy outcomes on the direction of monetary policy, we want to touch upon any direct impact on the Fed. Figure 12 shows a list of Governors with terms ending within the next president's four-year term.

FIGURE 12: FOMC governors with terms ending within the next president's four-year term.

Board member	Appointed by	Term ends
Jerome Powell (chair)	Trump, Biden	May 2026 (chair) January 2028 (board)
Adriana Kugler	Biden	January 2026
Michael Barr (vice chair, supervision)	Biden	July 2026 (vice chair, supervision) January 2032 (board)

Source: Federal Reserve.

The next president will have the opportunity to appoint two Governors, one being the Chair and the other being the Vice Chair for Supervision. These appointees require Senate confirmation. The President will be able to nominate two of the twelve voting members of the FOMC. And while we certainly don't want to downplay the influence of the Chair or the significance of an FOMC member, this is unlikely to radically shift the direction of the FOMC. Finally, significant changes to the Federal Reserve (i.e., mandate, structure, etc.) could only be achieved through legislative action. Given the razor thin margins in both “Sweep” scenarios, we think the hurdle is high to see significant Fed reform (Figure 13).

FIGURE 13: A high hurdle for significant Fed reform.

Election result (% probability)	Policies	Estimated impact
Harris + divided (26%)	• Moderate board members and chair with bipartisan support	• Relative continuity; no changes until 2026
Harris + unified (19%)	• Relative continuity • Somewhat more stringent regulator as chair and vice chair for supervision	• Possible increased regulatory scrutiny with marginal macro impact
Trump + divided (16%)	• Moderate board members and chair with bipartisan support	• Relative continuity; no changes until 2026
Trump + unified (36%)	• Ability to remove Fed governors, with congressional approval? Unlikely • Legislation to impede Fed independence? Unlikely • More pliant chair and vice chair for supervision possible with unified party support	• No changes until 2026 • Short-term: supportive monetary policy? Unlikely • Lasting impact to Fed independence? Unlikely

Source: PGIM Fixed Income. Probabilities from Polymarket.

Putting It All Together: Aggregate Impact on our Macro Outlook

Harris + Divided: Similar Government, Similar Policies

Figure 14 shows the estimated marginal deviation from our 2025 base case under the election scenarios indicated. This includes mild growth and inflation pressure from a tightening of immigration restrictions and the subsequent slowing in labor force growth. Tighter fiscal conditions could start in 2026, as only a partial extension of the TCJA and limited discretionary spending cuts result from a divided government.

FIGURE 14: Harris + Divided and the Impact on the Macro Outlook (%)

Election scenario	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Baseline				
Growth	1.7	1.6	1.6	1.5
Core PCE	2.3	2.1	2.0	2.2
Fiscal deficit (% GDP)	-6.1	-6.1	-6.1	-6.1
Harris + divided				
Growth	1.7	1.6	1.6	1.5
Core PCE	2.3	2.1	2.0	2.2
Fiscal deficit (% GDP)	-6.1	-6.1	-6.1	-6.1

Source: PGIM Fixed Income.

Democratic Sweep: Fiscal Deficits Remain Wide

In 2025, we expect marginal deviation from our base case due to policy decisions. Starting in 2026, we would expect fiscal deficits to remain elevated around 6% as partial extension of the TJCA and increased spending is only modestly offset with increased revenue (Figure 15).

FIGURE 15: Democratic Sweep and the Impact on the Macro Outlook (%)

Election scenario	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Baseline				
Growth	1.7	1.6	1.6	1.5
Core PCE	2.3	2.1	2.0	2.2
Fiscal deficit (% GDP)	-6.1	-6.1	-6.1	-6.1
Democratic sweep—max fiscal				
Growth	1.7	1.6	1.6	1.5
Core PCE	2.3	2.1	2.0	2.2
Fiscal deficit (% GDP)	-6.1	-6.1	-6.1	-6.1

Source: PGIM Fixed Income. “Max fiscal” = max fiscal deficit, which in this scenario means corporate tax only raised to 25%, as opposed to 28% in the “min fiscal” scenario.

Trump + Divided: It Depends on Tariffs

This scenario depends largely on the effective tariff rate that Trump may implement and when. The tariffs themselves are stagflationary, putting downward pressure on growth and upward pressure on inflation. The “max tariffs” scenario points to a large enough shock to push the economy into stagflation. In the “min tariffs” scenario, the negative growth shock outweighs the upside inflation pressure from the tariffs. In addition, the immigration restrictions may yield a larger negative impact to growth than upside to inflation. This compounds the effects from the tariffs, providing sizeable impacts to both (Figure 16). This would put the Fed in a tough situation. It could look past the year-long temporary upside to inflation and provide supportive policy for growth.[15]

FIGURE 16: Trump + Divided and the Impact on the Macro Outlook (%)

Election scenario	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Baseline				
Growth	1.7	1.6	1.6	1.5
Core PCE	2.3	2.1	2.0	2.2
Fiscal deficit (% GDP)	-6.1	-6.1	-6.1	-6.1
Trump + divided—max tariffs				
Growth	1.6	-0.8	-0.8	-0.9
Core PCE	2.4	3.9	3.8	4.0
Fiscal deficit (% GDP)	-6.1	-4.1	-4.1	-4.1
Trump + divided—min tariffs				
Growth	1.6	1.3	1.3	1.2
Core PCE	2.4	2.4	2.3	2.5
Fiscal deficit (% GDP)	-6.1	-5.9	-5.9	-5.9

Source: PGIM Fixed Income. Max tariffs” = all three tariffs described in the Trade Policy section are fully implemented. “Min tariffs” = only the ad-hoc tariffs described in the Trade Policy section are fully implemented.

The fiscal impact of this scenario also depends on the effective tariff rate and the additional revenue it provides. Max tariffs would pair the stagflationary shock with a sharp fiscal contraction, bringing the deficit down towards 4% of GDP. We arrive at this estimate from assuming that a divided Congress would be unable to agree on how to spend the additional revenue and that the proceeds would likely go towards deficit reduction in the absence of legislation. The fiscal deficit contracts a bit under the minimum tariffs scenario as well.

Republican Sweep: Stagflation or Weakflation?

The Republican Sweep scenario is similarly determined by what the Executive Branch does with tariffs. Max tariffs would provide a stagflationary shock, while minimum tariffs reduce growth and raise inflation for the first year of implementation. But in this scenario, we would expect some fiscal response from a unified government. A full extension of the TCJA and another cut to the corporate tax rate, likely to 15%, provides marginal upside to growth (Figure 17).[16] We would then expect a larger fiscal response in 2026 as the negative growth from tariffs becomes apparent and the inflation shock begins to roll off.

FIGURE 17: Republican Sweep and the Impact on the Macro Outlook (%)

Election scenario	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Baseline				
Growth	1.7	1.6	1.6	1.5
Core PCE	2.3	2.1	2.0	2.2
Fiscal deficit (% GDP)	-6.1	-6.1	-6.1	-6.1
Republican sweep—max tariffs				
Growth	1.5	-0.9	-0.9	-1.0
Core PCE	2.4	4.0	3.9	4.1
Fiscal deficit (% GDP)	-6.1	-4.1	-4.1	-4.1
Republican sweep—min tariffs				
Growth	1.5	1.2	1.2	1.1
Core PCE	2.4	2.4	2.3	2.5
Fiscal deficit (% GDP)	-6.1	-5.9	-5.9	-5.9

Source: PGIM Fixed Income. “Max tariffs” = all three tariffs described in the Trade Policy section are fully implemented. “Min tariffs” = only the ad-hoc tariffs described in the Trade Policy section are fully implemented.

Summary

The election scenarios show relative policy stability and minimal deviation from the base case under a Harris Presidency. As such, our 2025 outlook would appear largely unchanged.

Under a Trump 2.0 Presidency, there would likely be a negative growth shock and upside inflation in response to tariffs, the level of which remains unclear. No surprise, but this is the key variable in these potential policy outcomes. This remains regardless of the composition of Congress and could be the dominating macroeconomic driver through at least 2025.

The case could be made that under either a minimum or maximum tariff outcome, the Fed would be more concerned about the negative impact on growth and labor-market conditions as opposed to the temporary inflation shock. Therefore, the Fed may end up accelerating its cutting cycle under a Trump Presidency regardless of the fiscal response. With the current odds of ~50% of this outcome, the probability of more Fed cuts in 2025-26 may increase.

1 See: Support American Innovation and Workers, https://kamalaharris.com/issues/

2 Based on analysis from the U.S.-China Business Council

3 While this may not earn unified Republican support, there is significant potential for some Democrats to “cross the aisle” and support this legislation if brought to the floor for a vote.

4 IEEPA, or the International Emergency Economic Powers Act, requires a declaration by the President of an "unusual and extraordinary threat… to the national security, foreign policy or economy of the United States." While the legal authority for using IEEPA to impose tariffs is untested, legal analysts see this as a potential option.

5 Section 301 tariffs require an investigation, but one has already been conducted on ~$550bn of imports from China. The tariffs were renewed by the Biden administration. This would allow a potential Trump administration to implement these tariffs almost immediately. Both options allow companies to petition for particular items to be excluded from the tariffs, though this can be a lengthy and uncertain process. We assume marginal exclusions, if any, that do not materially alter the effective tariff rate.

6 While the official campaign platform does not specify a tariff rate, and Trump recently mentioned a “10 to 20%” universal tariff. For this analysis we assume 10%.

7 This is the official campaign and Republican Party platform.

8 For the sake of this analysis, we assume that both implementation strategies result in an effective tariff rate of 10%, which could have staying power if it is enacted through legislation under a Republican Sweep scenario. Furthermore, it remains unclear whether this universal tariff would be applied to countries and products covered under an existing free trade agreement. We breakout the effects for whether this is implemented or not in the assessment tables within the trade section.

9 For this analysis, we assume the now existing legal authority and presumed increased effectiveness of a second Trump administration to result in a 2.0 percentage point increase in the effective tariff rate within the first year of his term.

10 Most research showed an inflation passthrough of somewhere between 0.9% and 1.1%, as at least most of the impact was absorbed by U.S. consumers and importers. The >1% research found domestic producers opportunistically raised prices despite no direct impact from the tariffs. (Caldera, et al, FRB), (Cavallo, et al, NBER).

11 Here we leverage the research of Federal Reserve staff and Goldman Sachs estimates (Flaaen, et all, FRB), (Caldera, et all, FRB).

12 We address fiscal response and corresponding impact in the proceeding section of Fiscal Policy.

13 In this scenario, Trump is able to implement all his tariff policies through executive action while a Democratic-controlled Congress blocks his attempts to spend that tariff revenue.

14 Estimated impact is based on a net-effect on labor force growth, relative to the CBO baseline. Growth/Inflation Impact leverages research from Peterson Institute for International Economics and methodology from CBO. Each scenario assumes the net effects on the labor force are spread over three years (2025-27) and the macroeconomic impact in the above table is cumulative over that time frame.

15 We stress the “max tariffs” scenario is used to illustrate the impact of the most extreme scenario, where Trump is effective in implementing his most impactful tariff proposals. While—at this point in the election cycle—the probability of this scenario may be low, we utilize these estimates to illustrate the sizeable impact.

16 Once again, we utilize these estimates to illustrate the sizeable impact of these proposed tariffs while acknowledging that the current probability of full implementation, at this time, appears relatively low.

Source(s) of data (unless otherwise noted): PGIM Fixed Income, as of October 2024

Important Information

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