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BENEFICIARIES OF DEREGULATION?

March 2025

President Trump looks set to roll back regulation across a wide range of industries. We believe the banking and energy sectors will likely be among those to be deregulated. This could lead to increased dividends by companies in those industries.

KEY POINTS

1. Trump may loosen capital requirements on banks.
2. Energy sector looks likely to see a cutback in regulation.
3. Both sectors may return more capital to investors in the form of dividends.

Trump's commitment to deregulation has been evidenced by a flurry of executive orders since his inauguration, tackling areas including government spending, defense, immigration and climate.[1]

The banking sector is expected to come under Trump's deregulatory lens. Prior to Trump's inauguration, the Federal Reserve (the Fed) announced a cut to a proposed increase to capital requirements under the Basel III regulation.[2] But we think there is a possibility that the Trump administration could water this down further.[3]

During the 2008 global financial crisis, more regulation was required, and the banks needed more capital. They have spent over a decade building capital levels and the banks in the US, especially the large banks, are now in strong standing.

If capital requirements are indeed left untouched, we believe financial stocks could help stimulate the economy through increased lending activity. They could also return more capital to shareholders in the form of dividends.

[1] BBC. What has Trump done since taking power. January 29, 2025.
[2] Financial Times. Federal Reserve halves proposed capital requirement rise for largest US banks. September 10, 2024.
[3] The Banker. Further Basel delays expected as UK and EU wait on Trump. January 20, 2025.

Energy

Energy is another sector potentially in line for a cutback in regulation. Trump's "drill, baby, drill" pledge could increase the domestic supply of oil and natural gas but that could be offset by a tougher diplomatic stance on Iran and Venezuela, restricting supply.[4,5] When you net these two forces, the oil price and natural-gas price appear to be favorable at their current levels.

We are positive on natural-gas players because of the huge electricity demand needed in the US to support the potential manufacturing renaissance that Trump is seeking to enable through lower taxes on domestic companies. We see this trend continuing.

We would also caution investors about getting too excited about a coming surge in US energy supply. Trump telling the energy companies to ramp up production is like "pushing on a string." Many of these companies have become much more disciplined over the last decade and have increasingly focused on returning capital to shareholders through dividends and buybacks as opposed to increasing production. We believe this could continue to be positive for dividend investors.

INVESTMENT VIEWS
IN PARTNERSHIP WITH NEWTON INVESTMENT MANAGEMENT.

Newton is a multi-strategy, active manager within BNY Investments.

[4] BBC. Trump vows to leave Paris climate agreement and 'drill, baby, drill'. January 21, 2025.

[5] The National. Trump-led US may tighten oil markets with stricter sanctions on Iran and Venezuela. November 6, 2024.

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