TRUMP 2.0

Carmignac's Note

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European media outlets generally portrayed Donald Trump in a very negative light during the election campaign. This Trump bashing has fuelled a lot of anxiety. However, if Trump does pose a threat, it's mainly with regard to the economy. Instead of shaking our heads at his outrageous statements and behaviour, let's look back on his pragmatic approach to the economy during his first term and from his current push to make the US government more efficient. Nothing ventured, nothing gained.

Trump's almost triumphal return to the White House – which may have surprised pollsters, but not bookmakers – is seen as a sign of major changes to come that will impact the economy, geopolitics, and society. Even before taking office, Trump has revealed the names of most of his cabinet members, who generally share his hardline view. And with both the Senate and House of Representatives also in the hands of the Republican Party, he will have considerable leeway to implement his platform, which should have significant consequences for the economy.

WHAT IS TRUMP'S PLATFORM?

As far as the economy is concerned, Trump was elected on a misunderstanding. On the one hand, the Democrats lost on inflation and the feeling among US voters that their standard of living has declined. But inflation was actually a global phenomenon, and US households were better able to absorb it than those elsewhere in the world thanks to substantial wage increases in the country. And on the other, **Trump's economic policy will pave the way to future inflation.**

Trump's economic platform is based on five measures that will initially result in faster economic growth and higher consumer prices. His plans to curb immigration should be quick to implement. That will soon push up wages and eventually affect all segments of the economy. His intention to cut taxes, and especially corporate taxes, coupled with large-scale deregulation, will bolster sentiment among business leaders and consumers. We're already seeing signs of this improved sentiment, and it should lead to greater capital investment and consumer spending. Trump's plans to increase tariffs will similarly lift consumer prices by raising the cost of imports and discouraging domestic manufacturers from lowering their prices. As far as Trump's push to "cut the fat out" of the US government is concerned, it could lead to a more efficient US economy and a marked decrease in the cost of administration. But we'd be overly optimistic to expect to see the effects anytime soon, even if Elon Musk is the one charting the course. Under "Trumponomics", the tax cuts would be funded by the higher tariffs, preventing a further expansion in the fiscal deficit and the need for additional financing. But any increase in tariffs – whether actually implemented or used as a negotiating tactic – would go into effect only after the tax cuts (if at all). **We can therefore be sure that the initial consequences of Trump's economic policy will be faster economic growth, higher inflation, and a worsening of America's public finances.**

On the geopolitical front, Trump won't be able to resist an isolationist stance. His penchant for isolationism led to a rather peaceful first term. He decided to withdraw US troops from Afghanistan, entered into no new conflicts (apart from a successful surgical strike against Daesh), and took steps to ease relations with North Korea. That said, Trump's isolationism should be put into perspective: **instead of refusing to defend America's "allies", he'll probably ask them to pick up some of the bill for US military protection.**He's regularly stated this is his aim, and if he's successful, the payments (along with the customs duties actually implemented) would redress the country's imbalances through a new Pax Americana that is more mercantile than the previous one.

From a more short-term perspective, Trump could attempt to bring a quick end to the war in Ukraine. Or he could decide to provide more unconditional support to Israel than that provided under the Biden administration, especially in the event of a more open conflict with Iran. In the first case, energy prices would gradually decline, which would be good news for Europe. In the second, energy prices could experience abrupt spikes. **The energy price volatility that would result from major developments on either front would have a smaller impact in the US than elsewhere, as Trump will likely promote domestic fossil fuel production and abandon environmental conservation efforts.**

On societal issues, Trump's intentions are clear. The Democrats may have lost because of inflation, but Trump won due to his fight against the woke culture. He has promised to introduce a law that would recognise only two genders in the US, and any affirmative action measures will be frowned upon. We can also expect to see an increase in tensions at American universities.

ECONOMIC AND FINANCIAL CONSEQUENCES

It's clear what the initial economic consequences of Trump's platform will be. **American exceptionalism (economic growth at any cost) will continue, fuelling inflationary pressure in the process.**China seems better prepared than Europe for the economic battle that will ensue, but sooner or later, Beijing will have to lend a hand to Chinese consumers, who are being battered by the country's ongoing property sector slump. Beijing will also have to direct its attention towards its new friends in the Global South, to be able to sell to them what countries in the North are about to tax heavily. While the US will see renewed inflation, countries in the Global South will benefit from an influx of low-cost Chinese imports. **Europe will soon have to make some tough decisions – although it's not yet clear who will take and implement those decisions.**Angelic Europe will find itself standing alone and defenceless against the belligerent Chinese and US. **In the near term, the region will need at the very least an attuned central bank.**

Turning to the outlook for financial markets, and even though modesty is called for when making forecasts, it's fairly safe to say that the US dollar will continue to appreciate against other main currencies, that the US Federal Reserve will slow the pace of and then stop its rate cuts, and that both bond yields and inflation expectations will steadily rise. The stock prices of companies and sectors that are best poised to withstand the stronger dollar and higher interest rates will continue to climb until the negative impact of the increase in the discount rate exceeds the positive impact of the continued increase in earnings on the valuation of the shares, as occurred in 2022. The next US recession will probably be triggered by a drop in the value of financial assets – leading to a negative wealth effect – prompted by excessively high interest rates. Only then can we expect to see financial markets in the rest of the world take the upper hand on markets in the US, helped by a weaker greenback. But we're not there yet.

CAVEAT EMPTOR

With Trump, more so than with any other major political leader, we need to make a clear distinction between what he says – which is generally akin to an opening bid – and what he actually does. Trump works on instinct and doesn't follow any particular ideology, which makes him particularly agile and adaptable. In these uncertain times, perhaps that is his main strength, along with his exceptional resilience that makes him appear unwavering. His volatility is unsettling but it is consistent with the world today. We therefore should not be surprised if there are in fact no tax cuts, no new customs duties, no deportations of illegal immigrants, and no dramatic decreases in immigration, since all those factors are inflationary and US consumers don't want inflation. Trump's instinct could very well lead to such an about-face from his platform.

In that case, it would be his friend Elon – another mercurial character – who would outline the main features of the Trump administration’s economic policy: less government, fewer regulations, less bureaucracy, and less needless spending, along with faster procedures, more innovation, more creativity, and greater efficiency. In short, more economic growth and less inflation. That would be Nirvana for financial markets in the US but total disarray for those elsewhere. Sit tight and stay tuned!