



Hi All,

Trump 2.1: Markets Grapple with the Dualities of Growth and Uncertainty

President Trump's re-election in late 2024, often dubbed "Trump 2.0", initially sparked a renewed sense of American exceptionalism. While his return to office has generated far more excitement and action than his first term, this period has also seen several notable market responses, alluding to a shift in economic dynamics; with the most recent downturn of the stock market re-affirming that **"the only certainty Trump offers is uncertainty"**.

The initial surge in stock prices reflected investor optimism about policies aimed at growth, deregulation, expenditure cutting, and revenue generation. Markets subsequently anticipated higher yields and a stronger US dollar. However, the Treasury Secretary has mentioned that the administration is focussed on reducing the 10-year yields – which have in fact come down since Trump's inauguration along with the strength of the dollar and oil prices.

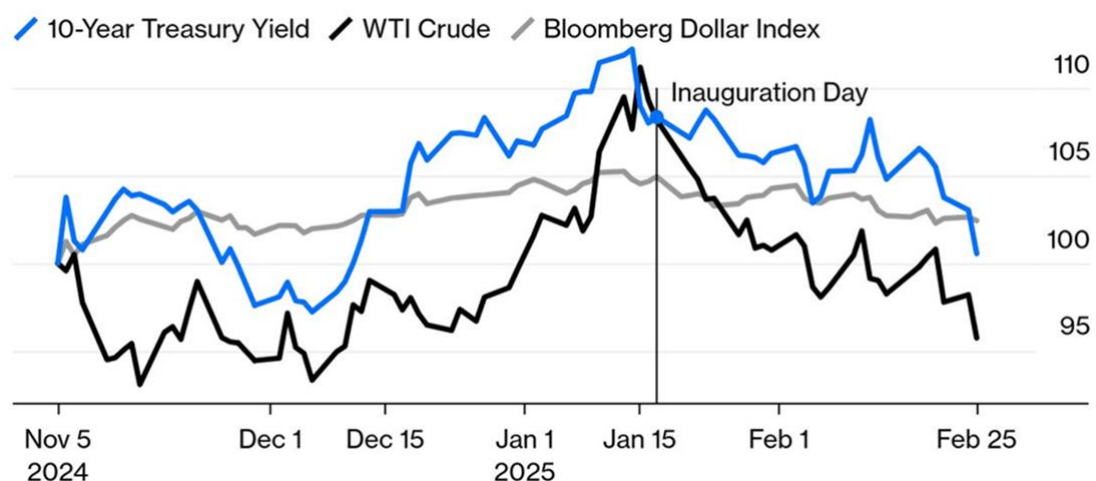


Figure 1: Lower yields, a weaker dollar and moderating oil prices have been achieved since Trump's inauguration (Bloomberg).

If lower yields and energy prices are sustained in the context of tax cuts and deregulation - and despite the looming effects of tariffs, could this lead to a strong upside for the economy? For now, the bullish “Trump trade” – has run out of steam, as investors have grown sceptical of Trump’s directives. Concerns about potential trade wars and international instability have tempered the initial market enthusiasm, creating a more cautious outlook. This shift in sentiment underscores the challenges of balancing short-term market reactions with the long-term implications of policy decisions.

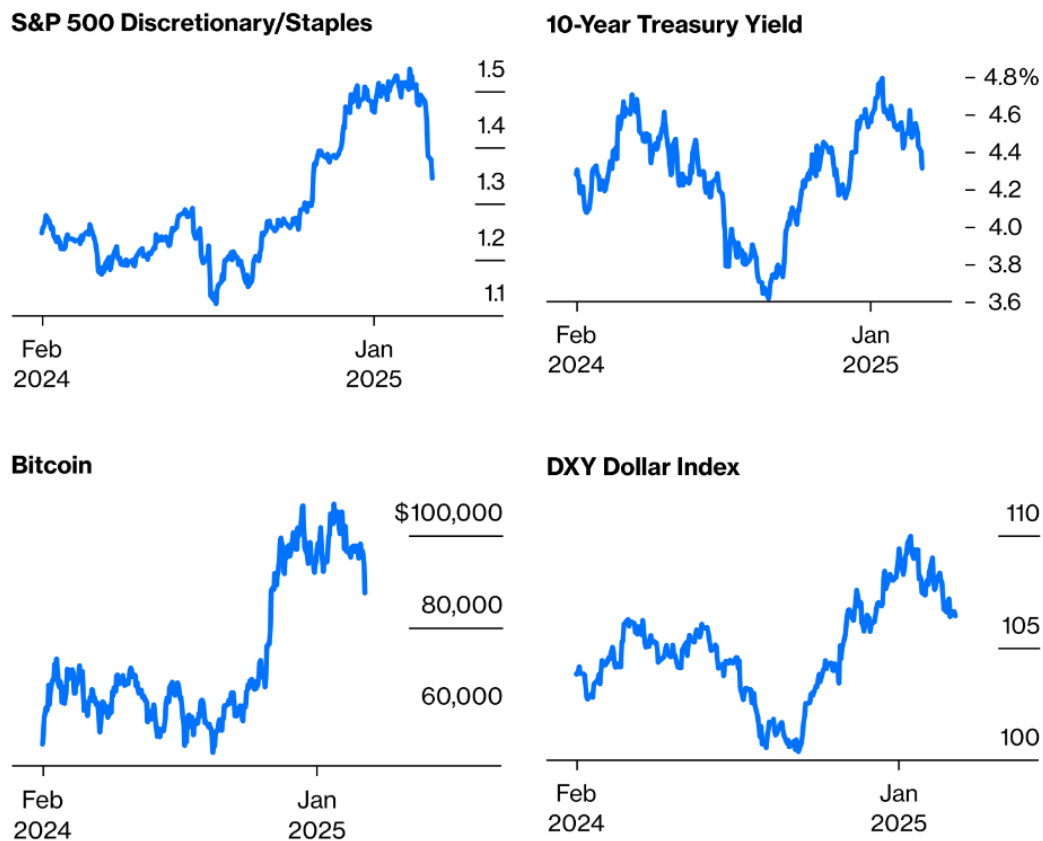


Figure 2: Across asset classes, market enthusiasm has dissipated on Trump 2.1 (Bloomberg).

The market’s risk-off sentiment has been exacerbated by tariff anxiety. Investors are wary of the negative impacts of tariffs on global trade and economic growth. Domestic firms face higher input costs, which could offset the benefits of increased output. Meanwhile, US consumers are anticipating higher costs and reduced real incomes, as evidenced by a decline in consumer sentiment. This development highlights the conflicting interplay between America-first policies and economic performance. That said, if a deregulatory boost materialises it could provide some growth stimulus, with small caps positioned to benefit the most.

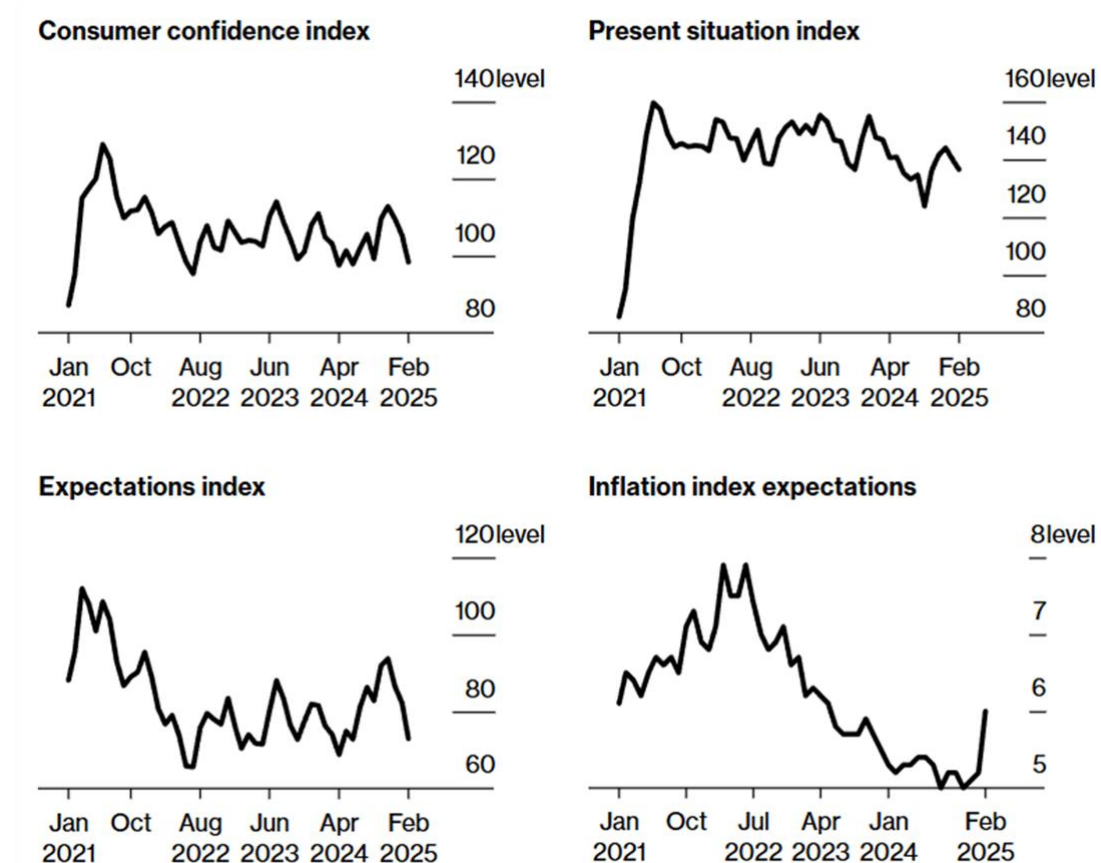


Figure 3: US consumer confidence dropped by the most since August 2021, on concerns about the future of the economy (Consumer Conference Board, Bloomberg).

It is worth noting that for inflation to become a significant problem, it would require sustained increases in prices rather than a once-off rise due to tariffs, as well as increasing consumer demand. If tariff-induced price hikes do lead to short-term inflation, the resulting economic slowdown could reduce inflationary pressures and lower commodity prices. However, recent US data signalling rising inflation and slowing activity has introduced the potential for stagflation – a dreaded scenario characterised by stagnant growth and high inflation.

Undoubtedly, Trump’s on-again, off-again tariffs are dominating market movements, spurring elevated levels of volatility and uncertainty. A gauge of global trade-policy uncertainty has reached its highest level in more than six decades, surpassing the previous peak in 2018 when Trump targeted China. Amidst this backdrop of uncertainty, Fed Chair Jerome Powell reiterated the central bank’s view that the economy remains steady. Powell emphasised that the Fed would not allow Trump’s policies to inform monetary policy decisions until it could assess the full impact of those policies on the economy. The Fed’s independence remains a critical factor in maintaining economic stability, even as political pressures mount.

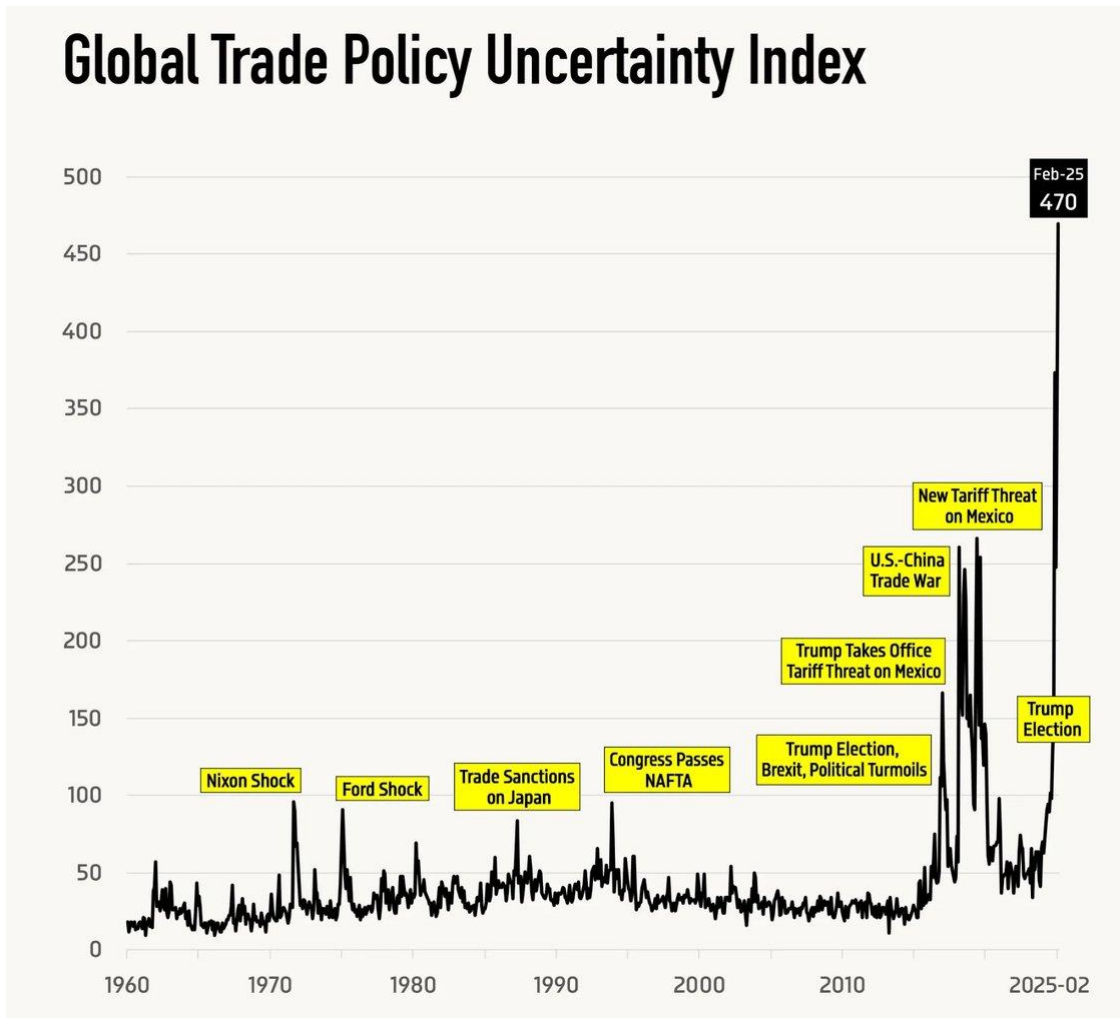


Figure 4: Global Economic Policy Uncertainty has reached an all-time high (Global Trade Policy Uncertainty Index, Econovis).

The juxtaposition of hope and fear surrounding the world's largest economy has created a complex landscape for investors to navigate. On one hand, the administration's focus on growth, deregulation, and efficiency has the potential to stimulate economic activity and boost corporate profitability. On the other hand, the unpredictability of policies and the risk of escalating trade conflicts introduce significant uncertainty. The interactions between policy measures, market reactions, and economic fundamentals has resulted in a challenging environment for decision-making.

While the initial optimism has been tempered, from an investment perspective, the need for a strategic and diversified approach to investment remains paramount to ensure that portfolios are not adversely affected by passing storms while identifying opportunities in changing tides. Diversification across asset classes, sectors, and geographies will be key to managing risk and capitalising on potential gains presented by the Trump 2.1 era.

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