

MACROCOSM

Make My Inauguration Day

Monday, January 23, 2017

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Trump embraces his risky role as an unstoppable force of change. Europe is next.

We have to confess that we had fallen for the conventional wisdom. We hoped that Donald J. Trump in [his inaugural address](#) would be magnanimous, reserved – that he would [act “presidential.”](#) At first it looked like he would, with his clever and profound twist on that [tired inaugural cliché](#) about “the peaceful transfer of power.” He said, “...we are transferring power from Washington, D.C. and giving it back to you, the American People.” That’s not “populism,” which is just catering to mob rule. *That is devolution of rule to its Constitutional source.*

- After that, if what you were looking for was “presidential,” it was all downhill. The rest of the address, mostly, was a campaign-style barn-burner, full of anger and triumphalism.
- Our teeth were put particularly on edge by *this* passage, particularly its second sentence (underlined):

We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength.

- Well, at least he didn’t say *protectionism*, but that’s likely how he wished to be understood.
- It was a relief, then, when he set about later in the day signing executive orders, that he did *not* instruct the acting Treasury secretary to designate China a “currency manipulator,” something [he had promised right after the election to do on Day One](#). It appears he is doing what [he told the Wall Street Journal ten days ago that he would do](#) – “I would talk to them first.”
- Instead, Chief of Staff Reince Priebus, instructed all departments and agencies to [freeze planning and implementation of new regulations](#). Trump signed executive orders instructing departments and agencies to act to [mitigate the economic fall-out of the Affordable Care Act](#), and to the Department of Housing and Urban Development to [reverse Obama’s last-minute FHA premium subsidy](#).
- *So if we are to judge by what Trump actually did and didn’t do right out of the gate – rather than by his fiery words – then it would seem the devolution of power, rather than protectionism, is his priority.*
- We also got some relief on that score from his criticism, last week,

Update to strategic view

US STOCKS, EUROPE STOCKS, FX, US MACRO, EUROPE MACRO:

Trump’s aggressive inaugural speech initiates an uncompromising high-stakes game of brinkmanship. Perhaps now begins the moment of maximum uncertainty where we get a correction in stocks. Though he talked strongly about protectionism in his address, his first moves in office were all toward the devolution of federal power. At this time we think we’ll want to buy the dip if a correction sets in. Europe is next for the global pro-growth revolution, with elections in Netherlands and France that will move the EU further toward accountability and devolution of power. European stocks have performed as well as US stocks since the election in USD terms, even with the weak euro. The upcoming elections, relatively wide equity risk premia, and a likely weakening of USD all make European stocks especially attractive.

[\[Strategy dashboard\]](#)

of [the House of Representatives' "Better Way" tax reform plan](#), which would embed protectionism into the deep-tissue of the corporate tax code with so-called border-adjustments (see ["For Free Traders, Trump's Corporate Tax Cut Is the Better Way"](#) January 18, 2017).

- Trump [told the Journal](#) that border-adjustment is "too complicated... Anytime I hear border adjustment, I don't love it, because usually it means we're going to get adjusted into a bad deal."
- [Reportedly](#) Trump will announce today his official intent to pull the US out of TPP and renegotiate NAFTA – in the course of which we will quickly learn more about the true depths of his protectionist tendencies. At this writing, [reportedly](#) Trump is repeating to business executives at the White House his often-heard call for a border tax for US companies that relocate abroad.

Back to our main theme: Trump's address, and the devolution of power. The powerful don't want power to be devolved. So with the weekend to think about it – against the backdrop of [nationwide protests against Trump](#), and a [relentless media onslaught](#) designed to discredit him – we've come to a different conclusion about the inaugural address, versus the conventional wisdom with which we first approached it.

- *In game theory terms, Trump really had only one play – the maximax play – and he made it.* There's nothing for him to gain by showing weakness or offering compromises. His only chance to push through his radical devolution of power is to present himself as an outsider with a popular mandate – an unstoppable force of nature that can only be accommodated, not bargained with.
- The rightness of this play became obvious to us Friday night [at the Freedom Ball](#), when Trump asked the crowd, "Let me ask you, should I keep the Twitter going or not?" Raucous applause ensued.
- Expect more tweeting, more bragging about crowd-size, more

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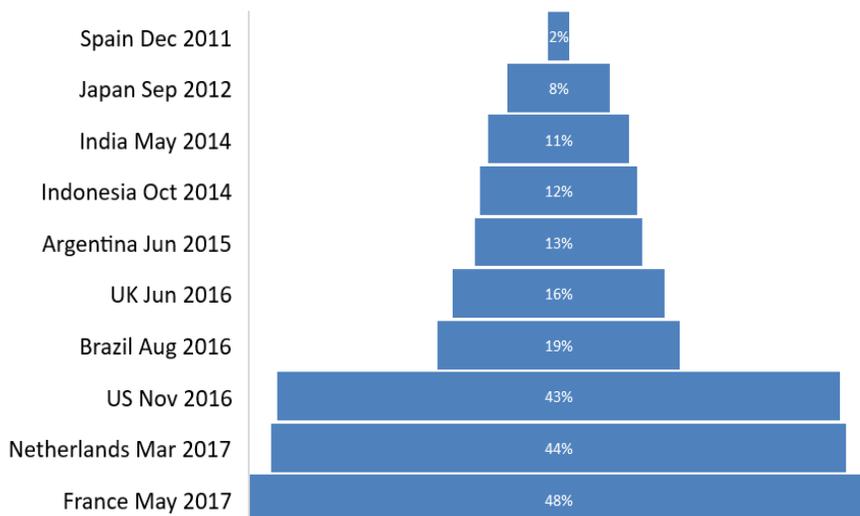
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The devolution revolution ■ Cumulative share of world GDP



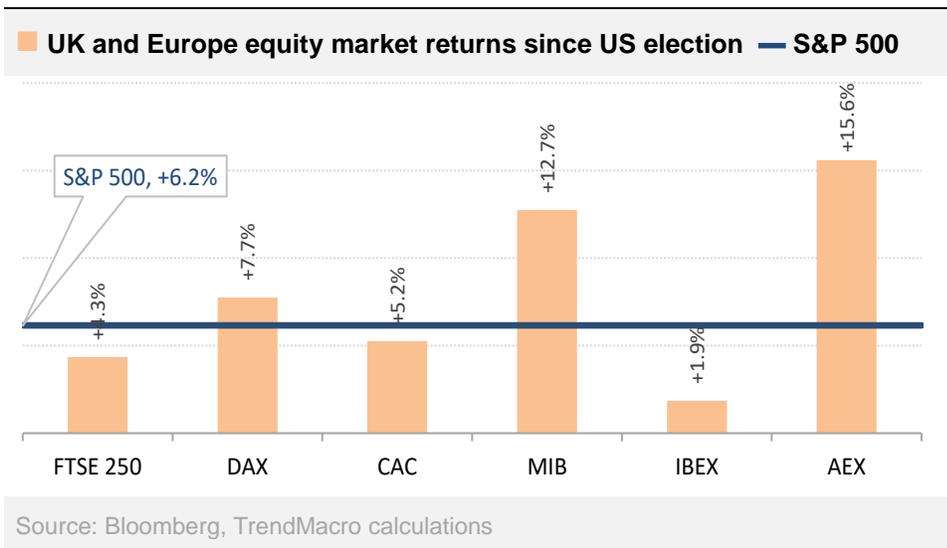
Source: Various, TrendMacro calculations

mass-rallies in the rust belt – and commensurable media pushback on all of it – as Trump fights to maintain his image as possessor of the [Mandate of Heaven](#) and his position as [Tribune of the People](#), and the establishment seeks to deprive him of it.

- Trump seems to grasp that, as we have argued, he is an effect, not a cause. He is an effect of the post-crisis global rejection of secular stagnation, and a new turning toward devolution of power from political elites – it's the devolution revolution. It began in Spain in 2011, and on its way to engulfing almost half of global GDP (please see the chart on the previous page, and ["2017: It's Bigger than The Donald"](#) December 30, 2016).
- As the American avatar of this long-standing global movement, it is appropriate and effective for Trump to warn his opponents simply to get out of its way.
- This is a strategy of brinkmanship. It is a power-play. It is not without its risks.
- We don't want to make too much of a small random vibration, but we do note that US stocks hit their best levels Friday early in the address, when Trump began with his call for devolution of power. Then stocks fell back to unchanged, and never fully recovered.
- Again, not to make too much of it. But maybe the coming week will be the period of maximum uncertainty where we finally get a correction in stocks. If that happens, our instinct now is that we will want to buy the dip.

While this plays out in the US, Europe is up next.

Since the election, investors have focused on various "Trump effects" or "reflation trades" which, they expect, will continue as Trump takes office and puts his policies into place: rising bond yields, small-cap outperformance, strong USD, strong financial sector, and so on. But too little attention has been paid to the fact that, since the election, even given that the euro is off 2.9% versus USD, the major stock markets of Europe have performed in USD terms almost as well, or in many cases better, than the US stock market (please see the chart below).



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E21
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[Billionaire George Soros Lost Nearly \\$1 Billion in Weeks After Trump Election](#)

Gregory Zuckerman and Juliet Chung
Wall Street Journal
January 14, 2017

[Trump May Herald a New Political Order](#)

John Steele Gordon
Wall Street Journal
January 14, 2017

[Artist Wants Trump to Ditch 'Racist' Wall for Orange Fence by Christo](#)

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ArtNet News
January 9, 2017

[Director Alejandro Jodorowsky — 'Tweeting is a spiritual form'](#)

Nigel Andrews
Financial Times
January 6, 2017

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- This performance has come despite two upcoming elections in the core of Europe, both of which implicate risks of more “exits” from the European Union.
- The Netherlands general election to be held on March 15 [will likely see](#) Geert Wilders’ *Partij voor de Vrijheid* (PVV) more than double its seats in the 150-member House of Representatives from 15 to 33 – far from a majority, but the largest single bloc. PVV is anti-Europe and anti-euro, and would seek to hold a national referendum on European Union membership. This is actually unlikely to happen, as all other parties have thus far said they would not participate in any coalition with PVV.
- Nevertheless, PVV’s advance in the Dutch House would send a clear message to Berlin and to Brussels: the impulse underlying “Brexit” is alive and well in the very core of Europe. We expect this would have the salutary effect of both easing the way for the United Kingdom to make a success of Brexit, and for the European Union to begin to make the necessary governance reforms toward devolution and accountability that would make other exits unnecessary, and put Europe on a higher growth-path (see [“Brexit: Who Won, Who Lost, What’s Next?”](#) July 11, 2016).
- Now onward to France.
- Marine Le Pen, of the anti-Europe anti-euro *Front National*, is presently [leading in the polls](#) for first-round presidential elections to be held April 23. A far-right nationalist, who has had to distance herself from her overtly anti-Semitic father, her party’s founder, she has sought to identify herself as part of a global Trump revolution. [Reportedly](#) she showed up at Trump Tower two weeks ago for a photo-op, but Trump declined to meet with her.
- Le Pen’s current estimated vote-share is only 27%, but that’s ahead of the competition – François Fillon of *Les Républicains* with 25% and Emmanuel Macron of *En Marche!* with 18% – and it gets Le Pen into the two-way May 7 run-off.
- For that final round Le Pen is [polling well behind](#) in match-ups with either Fillon or Macron. Just based on what we know now (and respecting how wrong polls have been world-wide for the last several years), Fillon will be the next president, but there will have been a disturbing brush with Le Pen’s far-right nationalism.
- If Fillon is the next French president – that’s our guess at this time – then that will be a double-win for the ongoing global devolution of power. The near-miss with Le Pen will get the EU establishment’s attention, much as will Wilders’s advances in the Netherlands. At the same time, with Fillon, a G-7 nation with 4% of global GDP will have placed at its helm a small-government pro-growth reformer [who says he identifies with Margaret Thatcher](#).
- *We didn’t know there even was a Thatcherite in France. Turns out there is one. And it so happens he’ll probably be the next president.*
- As all this plays out in the Netherlands and France, we expect there will be the same kind of overblown alarmist outcry – dare we say it: *fake news!* – that preceded Brexit (see [“On the Brexit Referendum”](#) June 24, 2016) and the Italian constitutional referendum (see [“On Sunday’s Italian Referendum, and the November Jobs Report”](#) December 2, 2016).

- The content of that outcry is not likely to hit on what we think the one realistic tail-risk there actually is: the fact that if the Netherlands, France or anyone else who uses the euro currency decides to exit the European Union, then by treaty they will at the same time exit the euro currency. This would likely cause a disorderly break-up of the currency bloc, which would likely have very strong systemic global financial spillovers.
- We do not believe that the Netherlands or France will, in fact, leave the European Union, at least not now, and not as the result of these upcoming elections – so the euro currency threat is only a hypothetical, and not a forecast.
- Having identified and pretty much ruled out that very consequential negative tail-risk, we think that the dominant scenario for Europe is actually quite positive – because the elections in the Netherlands and in France will advance Europe’s place in the global pro-growth devolution revolution.
- With these elections coming up, the news in Europe isn’t “out” yet. And at the same time, most European stock markets have much wider equity risk premia than the US, making them better value-plays (see [“Data Insights: Global Equity Risk Premia”](#) December 28, 2016).
- European stocks would be all the more attractive to US investors if we are right that USD is due for a significant retracement of its major 2016 strengthening.

Bottom line

Trump’s aggressive inaugural speech initiates an uncompromising high-stakes game of brinkmanship. Perhaps now begins the moment of maximum uncertainty where we get a correction in stocks. Though he talked strongly about protectionism in his address, his first moves in office were all toward the devolution of federal power. At this time we think we’ll want to buy the dip if a correction sets in. Europe is next for the global pro-growth revolution, with elections in Netherlands and France that will move the EU further toward accountability and devolution of power. European stocks have performed as well as US stocks since the election in USD terms, even with the weak euro. The upcoming elections, relatively wide equity risk premia, and a likely weakening of USD all make European stocks especially attractive. ▶