

MACROCOSM

Another Trump Correction

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Donald Luskin

Trump has gotten out of control of the narrative. From all-time highs, stocks are at risk.

The stock market made new all-time highs yesterday, despite the latent risk in the Washington drama surrounding [President Trump's firing of FBI Director James Comey](#) last week, [stories](#) that Trump had supposedly demanded Comey's "loyalty," and [stories](#) that Trump had supposedly disclosed intelligence information to Russian officials. Apparently just another week in epic game of thrones being played out between outsider President Donald J. Trump, and the political and media establishments to which he is an existential threat.

We are rushing this short note out simply to say that, in our gut, we sense something more destabilizing in yesterday evening's [story in the New York Times](#) that Trump "asked the F.B.I. director, James B. Comey, to shut down the federal investigation into Mr. Trump's former national security adviser, Michael T. Flynn, in an Oval Office meeting in February, according to a memo Mr. Comey wrote shortly after the meeting."

- To be sure, like every "gotcha" media story about Trump, this one is exaggerated and thinly sourced.
- In its lead paragraph, [the Times cites](#) a memo by Comey which, only in the sixth paragraph, it admits it "has not viewed a copy of," but rather "one of Mr. Comey's associates" – unnamed – "read parts of it to a *Times* reporter" – also unnamed.
- And the lead paragraph's claim that Trump "asked" Comey "to shut down the federal investigation" is exaggerated. It's not until the seventh paragraph that the story discloses that the memo only claims Trump said, "I hope you can see your way clear to letting this go, to letting Flynn go... He is a good guy. I hope you can let this go."

In early March we correctly called the first stock market correction during the Trump presidency, with stocks also at what was then all-time highs (see ["A Trump Correction at Last?"](#) March 3, 2017), just after Trump's triumphant address to a joint session of Congress (see ["Joint Session Overshadows FOMC Session"](#) March 1, 2017). With the S&P 500 equity risk premium at a post-crisis low, and many clients suddenly expressing unbounded optimism about Trump's agenda, it seemed to us that bullish sentiment had gotten ahead of itself. *This call is different. Then things had gotten too good. This time, there is real risk.*

Update to strategic view

US STOCKS: From new all-time highs despite the Comey drama, we think we are in for the second Trump correction. The story of a memo that the media are construing as an attempt by Trump to obstruct justice, by supposedly asking Comey to drop the Flynn investigation, puts Trump out of control of the narrative, and risks bogging down the GOP pro-growth agenda. That said, drama in the White House gives the GOP Congress all the more incentive to "do something" – that is, to pass massive tax cuts and Obamacare repeal-and-replace. Just to examine extreme possibilities, the worst-case scenario is we get President Pence – not a terrible outcome. The critical thing to remember is that the global generational "turning" to greater risk tolerance has never been about Trump personally. He is its effect, not its cause.

[\[Strategy dashboard\]](#)

- For the first time, it strikes us – and this can never be more than a subjective and intuitive call – that master-persuader Trump has finally gotten a bit out of control of events.
- Until things stabilize, we think we're in for another correction. Trump is remarkably clever and resilient, so our going-in assumption is that things will indeed stabilize. But from the fragile position of all-time highs, markets will want to actually see it happen.
- The proximate risk is that the elements of Trump's pro-growth agenda that require working with Congress – notably tax cuts and Obamacare repeal-and-replace – get bogged down, or that critical GOP votes get peeled away in an effort by a few lawmakers to distance themselves from Trump.
- On the other hand, there is a strong GOP consensus, in principle at least, to push through those initiatives. And what better way to distract from drama in the White House than to actually accomplish pro-growth legislation?
- Just for the hell of it – simply for the sake of considering the worst-case scenario, however unlikely – consider that even if Trump has to exit, that would leave Michael Pence in charge. In some ways that wouldn't be a bad outcome – indeed, we think for most Republicans thinking back to the 2016 primary season circus, it would be an ideal outcome, even though it would be arrived at circuitously and torturously.
- Remember, we've been saying that the pro-growth "turning" in attitudes that has swept the political scene in the US and throughout the world isn't about the individual person of Donald J. Trump (see ["2017: It's Bigger than The Donald"](#) December 30, 2016). It's about the revival of risk tolerance, after a generation of risk aversion. Trump is the result of that generational "turning," not its cause.

Bottom line

From new all-time highs despite the Comey drama, we think we are in for the second Trump correction. The story of a memo that the media are construing as an attempt by Trump to obstruct justice, by supposedly asking Comey to drop the Flynn investigation, puts Trump out of control of the narrative, and risks bogging down the GOP pro-growth agenda. That said, drama in the White House gives the GOP Congress all the more incentive to "do something" – that is, to pass massive tax cuts and Obamacare repeal-and-replace. Just to examine extreme possibilities, the worst-case scenario is we get President Pence – not a terrible outcome. The critical thing to remember is that the global generational "turning" to greater risk tolerance has never been about Trump personally. He is its effect, not its cause. ▶

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Donald Luskin
Chicago IL
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

Terry Higgins
Ocean View DE
571 271 7743
terry@trendmacro.energy

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