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Global Risk Watch Newsletter

Would the normalized Trump regime be able to hold back rewinding of the Trump rally?, etc.

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1. Overview Macroeconomic and Financial Risks (Trends & Topics)

 # Would the normalized Trump regime be able to hold back rewinding of the Trump rally? (Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy (CRMS) at Deloitte Touche Tohmatsu LLC/Deloitte Asia Pacific Risk and Capital Management Leader)

After witnessing the strong momentum that has consecutively renewed record highs, the U.S. stock market has finally come to a standstill. This is mainly due to the revoked submission of the Obamacare alternative bill, which signalled a clear red card for the Trump regime whose capability in policy execution has already been questioned. It is indeed shocking to see even one of the most achievable policies such as the abolition of Obamacare could not be managed by the administration so as to reach agreement with the Republican hard-liners and deliver its campaign pledge. It is no surprise for the market to be more pessimistic on feasibility of tax reduction and expansion of infrastructure investment, which are more awaited but challenging.

The U.S. economy itself has remained robust as before. The divergence is rather alarming between strong soft data and somewhat weak hard data, but the unemployment rate is marking a historically low level at 4.5%, which is likely to entail mounting inflationary expectations sooner or later. To the contrary, as discussed in our last Newsletter, FRB turned out not to be as “aggressive” for rate hikes as the market predicted. Under this circumstance, even if confidence diminishes in the Trump government’s capability to implement policies, the stock market may not fall significantly. Even though expected drastic tax breaks may be postponed and their scale may be considerably shrunken, suspension of new financial and environmental regulations that have already been introduced can provide reasonable reflationary effects for the time being.

Meanwhile, some see that the recent Trump policies are beginning to “normalize” themselves. “Normalization” refers to return to more conventional Republican policies, or the “Establishment” policies in a sense, away from the policies that the regime has advocated thus far, based on extreme isolationism and protectionism. For instance, in the diplomacy aspect, from previous policies such as withdrawal of stationary troops in Japan and Europe, interventionist policies are becoming more prominent, including bombing in Syria and Afghanistan, as well as deployment of an aircraft carrier to threaten North Korea. On the economic front, designation of China as a currency manipulator is shelved, and President Trump now refrains from radical remarks, with trade deficit reduction in mind. Furthermore in monetary policies, the president implies possible reappointment of FRB Chair Yellen, which he has completely denied previously, and he now admits he does “like a low-interest policy.” Vis-à-vis financial regulation, substantial deregulation including banks was expected initially, but today, large banks may potentially face stricter policies in their operations and capital, while alleviation of regulatory burden is suggested for small- and medium-sized financial institutions.

This change in policy stance can be understood as a desperate measure in the midst of declining approval rate. Simultaneously, this may simply be in line with materialization of the majority’s view that, among two major camps of the administration, i.e. a former military/corporate executive group, and a fundamentalist group that has established the regime’s political ideology, ultimately the former expels the latter. In either case, this type of “normalization” may be a welcoming phenomenon for the “rest of the world” which has loathed the Trump government’s extremity. However, these policies clearly do not represent the voices of the “infuriated white Americans in the Midwest” who have enabled the birth of President Trump. Thus the American politics potentially face further instability toward the midterm election next year. Additionally, augmentation of military expenditure and focus on the cooperation with the Republican Party could consequently serve against the expected policy implementation like tax reduction and infrastructure investment. President Trump’s “love call to low interest rates” can raise concerns over FRB’s independency and possible inflation while fiscal deficit grows.

When the Trump administration transforms itself from the regime that “cannot do anything” to one that “does something,” ironically it might be time for seeing the complete reversal of the Trump rally to begin.