CONFUSION AND CHAOS

What a mess! At first, the markets welcomed the arrival of Trump with excessive condescension who promised tax relief and deregulation. "Make America great again" seemed like the perfect slogan to enhance the centrality of Wall Street. Then, however, going towards "Liberation Day", on April 2, they realized that the president had a global and ambitious project: to revise globalization in its foundations, subordinating it to the needs of Washington. The announcement of heavy tariffs for allies, accompanied by statements that are normally expressed against enemies, have worried the markets more than the impossible tariffs aimed at the products of the Chinese enemy. A part of the press has contributed to the doubt that the tariff policy was essentially motivated by the tycoon's simplistic egocentrism. Others, on the other hand, focused attention on the reasons that motivate the search for a powerful structural change and the method to achieve it.

At the center is the dynamics of public debt which is around 36 trillion dollars and the risk of not being able to finance it in the near future. In 2025, nearly 25% of the federal debt is due ($9 trillion). While the historical average rate of debt is around 2.7%, today the yield on 10-year Treasury bonds is close to 4.5%, the 30-year one has even touched 5%. If these conditions continue, the federal government must budget for spending nearly $1 trillion in interest payments. The public debt must be corrected, but Trump cannot fail in his electoral promises. The centerpiece of the bill called "The One, Big, Beautiful Bill", approved by the House of Representatives on May 22, 2025, with a minimum margin, provides for the extension of the tax cuts introduced in 2017 and important new tax deductions. These measures could increase the federal deficit by about $3.8 trillion over the next decade. To partially compensate for the reduction in tax revenues, the administration proposes significant cuts in public spending, but excluding defense. The most affected sectors include public health, the environment, housing and international aid. On the contrary, spending on defense and security is set to increase substantially.

To cover part of the costs, which now permanently produce a deficit of $2 trillion per year, the administration counted on Elon Musk, appointed head of the Department of Government Efficiency (DOGE), established at the beginning of 2025. The stated goal was to eliminate waste and inefficiencies in the federal government, with an ambitious spending reduction plan. Initially, it was a matter of cutting $2,000 billion from the federal budget, then reduced to $1,000 billion to finally settle for $175 billion obtained through reckless public layoffs. After 130 days, the great entrepreneur Elon Musk had to raise the white flag to return to his company and try to contain the anger he aroused in a good part of his potential clientele.

But the highlight of Trump's financial strategy concerns the idea of making friends and enemies pay for the monstrous debt through customs duties. Arguably, a desire for personal power has overlapped with the deliberate strategy of using American military and technological superiority to demand major tributes (from a general minimum of 10 percent to a punitive 145 percent from China) to access the American market. Tariffs, after negotiations, can be reduced, especially if foreign companies decide to invest in the United States or if states buy American products.

The responses to Trump's impositions have been calibrated between availability and waiting, depending on the strength of the interlocutor. Beijing has chosen the open challenge by also applying import barriers and reminding Trump of the United States' dependence on production, some of which is currently unavoidable, coming from China. Europe reacted "with deep regret" by adopting a tactic that combines diplomacy, economic countermeasures and mobilization of public opinion. Trump's strategy is to maintain the general tariffs of 10% and to postpone the most important ones to allow the opening of real negotiations.

Wall Street reacted violently to the announcement of the tariffs, but then, with Trump's constant turnarounds, it became convinced that the businessman Trump will be able to negotiate and rebalance international trade and production in favor of the United States. The world stock markets responded positively in May with the S&P back in the positive since the beginning of the year (+0.5%), while the European indices rose by almost 10% (Eurostoxx50) and in some cases even exceeded all-time highs: the Dax marks +20.54% since the beginning of the year.

The May 9 agreement with the United Kingdom reduced several unreasonable tariffs, although the basic 10% remains in exchange for London's commitment to buy Boeing planes worth $10 billion and expand access to beef and ethanol. During President Donald Trump's visit to Saudi Arabia in May, Riyadh announced a commitment to invest $600 billion in the United States. These investments cover strategic sectors such as defense ($142 billion), artificial intelligence ($23 billion contracts with companies such as NVIDIA, AMD, Amazon, Qualcom), energy, infrastructure ($20 billion in *data centers* in the US) and critical minerals. These agreements are part of an investment package announced during Trump's tour of the Gulf, which also included commitments from Qatar and the United Arab Emirates totaling about $2 trillion. At the Geneva summit on May 13, an agreement was reached to reduce the exorbitant tariffs with China, with a 90-day suspension.

Markets have seen these developments as proof that punitive tariffs under "Trump 2" are just a bargaining chip. With allies, the president's goal now seems to be to ensure market access and increase U.S. exports. With rivals, the focus remains on national security and not on mutual destruction. This newfound optimism has therefore pushed the indices to restart, also helped by double-digit earnings growth (+13% in the first quarter), *buybacks* (which will continue until mid-June) and abundant liquidity (the M2 money supply of the world's major economies is not far from all-time highs).

From a short-term perspective, the stock markets still seem to be following a *positive momentum*. The rise of the American indices has been dragged by the *retail* population. Strong hands, investment funds, pension funds, *hedge funds* (according to some accredited statistics), lightened their positions between February and March and have not yet returned. Having missed the train, it is possible that in the next two weeks they will try to improve performance before the end of the *buyback period* and the technical expiry for options and futures on June 20, the day of the Four Witches.

But the next 3-6 months could be more volatile. Tariff anxieties are easing, but concerns about the U.S. debt market persist. Trump's excesses will have to deal with the only real power capable of containing him in the short term: that of the bond market. The US ten-year bond struggles to fall below 4% and apes 5%, close to which the thirty-year is located. Congress is debating debt issuance for the second half of the year and is spurred on by the recent downgrade of Moody's. The land that will have to accommodate these emissions must therefore be carefully prepared. Trump will continue to use tariffs as a means of offsetting the growth of debt. According to research by the Yale Budget Lab[1], a reciprocal tariff of 10% would be enough to offset 80% of the increase in the deficit. The Federal Reserve should take the next step by cutting rates.

To achieve this, Jerome Powell needs an economic slowdown to keep inflation under control. Trump has already found that threatening the Fed's independence scares the bond market. He and Treasury Secretary Scott Bessent must act to bring inflation down: he is trying with geopolitics that keeps the price of oil in check. This is the necessary context for Jerome Powell to decide to cut rates in September, perhaps by pausing *quantitative tightening*. But there is another aspect that can stimulate the bond market and that concerns banks. A suspensive change to the *Supplementary leverage ratio*, a regulation created after the 2008 crisis to strengthen credit institutions, would allow them to buy more treasury bonds helping to bring down rates without capital penalties.

The stock market, which is more short-term oriented by *animal spirits*, could welcome these possible transformations. The bond market, on the other hand, looks more long-term and is not convinced that tariff aggressiveness and military power are the right way to support the central role of the United States. As Warren Buffet says, tariffs are an act of war. Bond vigilantes will therefore play a central role in the coming weeks in judging the

[1] https://budgetlab.yale.edu/research/state-us-tariffs-may-23-2025?utm_source=chatgpt.com

dynamics of debt and its sustainability. Bessent must be able to convince the markets that Trump's chaos can strengthen the United States. To do this, it needs to resolve a contradiction: rates must fall and the dollar must strengthen. Are force and threats enough to bring monetary flows back to the dollar? Probably not. Short positions (forward sales of usd) are now so strong that it would take little to give breath to the dollar, which has lost about 9% against the major currencies since the beginning of the year. However, a climate of trust is needed that "Trump 2" is drowning in chaos and confusion, in a context that is now also worrying from a legal point of view.