TRUMP'S CONFUSED CLARITY

The month of March, after the doubts of February, confirmed that Donald Trump's second term will not be a simple replica of the first. The apparent confusion that seems to characterize the work of the forty-seventh president of the United States could actually express a complex and calculated political-economic project, which aims, paradoxically, to temporarily slow down American growth, and the related stock markets, to preserve its supremacy. Of course, it is difficult, given the Wild West tones, to imagine such premeditation. But the choice of the main people who support the president is a strong indicator. Trump, with the help of Treasury Secretary Scott Bessent, seems to have embarked on a path of "planned confusion" to weaken the economy in the short term and, he hopes, to strengthen it in the medium term.

Wall Street had welcomed the businessman's return to the presidency. The promise of tax relief for companies, the reduction of bureaucracy and unconditional trust in the new digital economy, represented by Elon Musk, had created an exaltation that was immediately evident in the performance of the S&P and especially the Nasdaq. In January, the bond vigilantes had drawn attention to a problem that the markets know about but had deliberately decided to ignore: public debt and the need to refinance it. The American 10.year Treasury, which reached 4.8% on January 12, marked the sound of the alarm bell. The United States must refinance over seven trillion in Treasury bonds in the coming months. The annual cost of interest to support public debt has already exceeded that of defense. Renewing bonds with rates close to five percent becomes dangerous for the sustainability of the American reliability rating, which had already launched the first worrying signals in August 2023.

In the current conditions, Bessent cannot count on the help of the Federal Reserve. Jerome Powell cannot cut rates too much, despite Wall Street's wishes and the implicit pressure from the Treasury. Expectations of cuts have already been scaled back: from four to two in 2025. The Fed is in fact blocked by more tenacious inflation than expected with the PCE at 2.8% in February. Core inflation remains sticky, driven by structural dynamics (wages, tariffs, energy) that are not easily resolved. Powell is therefore forced to move with extreme caution, in a context where monetary policy is increasingly subordinate to fiscal policy. Trump is well aware of this new context. With the leverage of duties, he wants to push Europe and China in particular to launch internal expansionary policies that can support global growth and the related aggregate demand, preventing the planned slowdown of the American economy from turning into a recession. In short, its short-term objectives are essentially three: to curb inflation by reducing demand (less consumption, fewer imports), to provoke exogenous growth in Europe and China and to encourage the devaluation of the dollar by making American exports more competitive.

As we approach April 2, Trump's day of liberation, when tariffs will be generalized on a reciprocal basis, American sentiment, as measured by the University of Michigan, among both the public and businessmen, has collapsed to its lowest level in the last twelve years. Fears and uncertainties about the Trump administration due to the fearful threats of tariffs, state layoffs arranged by Elon Musk, deportations of immigrants and spending cuts have undermined American confidence in March. Sure, the American economic data are still good and sentiment indicators are considered by economists to be "soft" tools for assessing the future. But when the indications are this clear, historical experience shows that the risks of recession are really important.

The US ten-year Treasury bond has gone from 4.8% to 4.2% in a few weeks. This movement is not yet the expression of the slowdown of the American economy, but rather the effect of a rotation of geographic and asset portfolios: Trump-fear has pushed to exit from highly overvalued stocks - the Fang+ index, which contains stocks such as Apple, Amazon, Nvidia, lost more than 10% in March - to move to sectors with more contained valuations. The equally-weighted S&P has lost 1.8% since the beginning of the year, against -5.2% of the S&P by capitalization, where the weight of the big names in digitalization has a large impact. Some of the liquidity was parked in treasury bonds, while other financial flows ended up in Europe (+8.8% since the beginning of the year), in particular in Germany (+12.8%), Switzerland (+10.7%) and China (Hong Kong +16.8%), due to low valuations and the prospects of investments to relaunch their respective economies to offset the expected slowdown in exports hit by tariffs.

The inflation growth pattern (CPE) and the sharp decline in sentiment (University of Michigan) in the last week of March did not, however, push Americans to consistently reposition liquidity in Treasury bonds, as they remained around 4.2%, despite the dollar strengthening. The market has some fears of stagflation in the United States (rising inflation and falling growth). The end-of-quarter movements cannot therefore be sufficient to satisfy Bessent and Trump's plan.

There is another ingredient in Trump’s unscrupulousness: geopolitics. The threat of taking Greenland by hook or by crook, the idea of annexing Canada, a conditional NATO, all seasoned with heavy duties, should push big American investors to favor the security of home, expressed in treasury bonds.

The reality is that the real winner of this strategy for the moment is gold, which exceeded $3,150 an ounce in March, giving support to the dollar, since it is traded in this currency. The search for peace in Ukraine gives hope to Europe and business prospects to the United States that claims to control the rare earths on the border with Russia.

Whether Bessent and Trump's plan in the economic sector will come true in the coming weeks remains to be seen. It is likely that the short-term goal is to bring the American ten-year below 4%, perhaps around 3.7%. Therefore, the S&P should fall further, towards 5,400 points. However, it is not certain that this will happen immediately. Trump must prevent extreme levels of negativity in sentiment from going beyond a soft landing. His is an extremely dangerous game. In physics, every action corresponds to an equal and opposite reaction. Europe is starting up again, with a narrative that has materialized in the positive performance of its stock markets. Thanks to Trump, Germany, as its chancellor says, "has been reborn". In the short term, this evolution goes in the direction of what the current American administration wants. In the medium term, this is truly the sign that the old continent may have rediscovered the true engine capable of ferrying words into actions. A great Germany in the heart of Europe has a natural predisposition for complementarity with Russia. In Europe, Trump's reckless somersaults open the door to a new dynamic already highlighted by Henry Kissinger in 1992, the last time Europe experienced a historic turnaround: "If the two powers (Germany and Russia) were to integrate economically by establishing closer relations, the danger of their hegemony would arise!"[1] China, for its part, is already upsetting Trump and Musk's plans for digital hegemony, with the appearance of Deep Seek.

[1] Henry Kissinger, "Welt Am Sonntag", May 3, 1992, in Giulio Tremonti, *War or Peace*, Solferino, 2024, Milan, p.35.