Mizuho Macro Themes

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MIZUHO

The Trump (Wild) Card (I): Will the Real Trump Trades Please Stand Up?

"There is nothing more deceptive than an obvious fact." – **Sherlock Holmes**

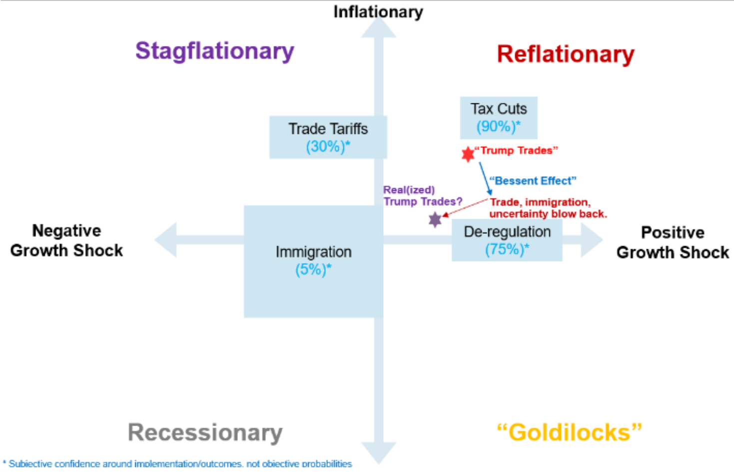
- Trump(-flation) Trades**: Assumptions of Trump-flation**, *conflated with* (growth- and inflation-boosting) *reflation* premised on a confluence of tax cuts, de-regulation, tariffs and immigration, **has driven the so-called "Trump trades"** expressed as;
    i. **brutal bear steepening** (higher yields led by the long-end) of the UST yield curve;
    ii. **unfettered USD bullishness** and**;**
    iii. **ebullient equities.**
- Priced to Perfection: And **Trump trades** appear to be **priced to perfection**, ***if not over-baked*** on account of the implied legislative firepower from the "red-wave" and efficiency/efficacy advantages from of inherited "inside knowledge" on Washington's machinery from the first term.
- But Clarity on Outcomes Low: Trouble is, appearances of **high conviction Trump 2.0 trades are deceptive**. Especially when **clarity on precise Trump 2.0 outcomes** from Trump 2.0 is ***problematically low***.
- Execution Uncertain: Moreover, Trump trades are invariably **subject to the uncertainty of execution** (both in terms of form and timing) of key Trump 2.0 policies, and consequent impact on Trumpflation (reflation).
- Chasing Exuberance: What's more, **this version of Trump trades risks chasing exuberance** *to the point of exhaustion*. Especially given already **richly-valued equities defying surging yields alongside an expensive USD**.
- Testing (US) Exceptionalism: Point being not only are "Trump trades" *over-saturated*, but arguably *inebriated on overly-optimistic narratives that push the envelope on US exceptionalism*.
- Realities of Risk-Rewards: Whereas the **"real(ised)"**,and certainly more realistic, version of **Trump trades must acknowledge less compelling risk-rewards from stretched valuations/positions** (across yields, the Greenback and equities); thereby *limiting unfettered one-way bets*.
- The "Bessent Effect": Crucially, the **"Three 3s" proposed by in-coming Treasury Secretary Scott Bessent warn of doubled down bullish USD-bearish UST bets** (from "Trump trades") **being wrong-footed**; as given the suggestion of a ***dis-inflationary, lower yield path to higher growth aspirations***.
- Taming (USD) & Tempering (UST) Bulls: Hence, there is a **case for softer UST yields** (from current elevation/ascendancy) ***even if/as term premium is decompressed***. In other words, a **bull** (not bear) **steepening**, with softer yields overall helping to **dampen excessive USD strength**.
- Fed & Trumped-up Reflation: **Especially as early Trumpflation (reflation) expectations prove to be trumped up, which sees the Fed relents on rate restraint amid mellowing reflation risks**.
- Consequently, the **real (and realized) Trump trades** may **temper**, and ***in some cases overturn***, the **current iteration of Trump trades**., resulting in;
    i. lower, not higher yields as inflationary shocks and fiscal deterioration are overblown;
    ii. a bull (rather than bear) steepener as a Fed that consequently relents on policy restraint (more rate cuts)

iii. a mellower , not unremittingly stronger, USD from elevated levels (albeit significantly more buoyant compared to pre-Fed tightening levels from late-2021/early-2022, and;

iv. more differentiated, perhaps *even divergent*, performance in equities as the broad boost to equities from tax cut (extension) are dampened with regards to already richly valued equities, and perhaps further tempered, if not overturned by, regulatory re-allocations and outright tariff dent.

- The upshot is that **tempered USD strength**, **bull steepening** of (a rather elevated) **UST curve** and **stark divergence in equities may be the real(ised) Trump trades** that take into account the execution gaps involved in campaign-to-Oval Office transition.

Trumpflation May Not be as Reflationary as Currently Assumed



The "Bessent Effect": A Dis-inflationary, Lower Yield Path to Higher Growth?