

What happens with the new Trump Sarkar in place?

Synopsis

Donald Trump's presidency creates economic uncertainty. His policies are unpredictable. He might impose tariffs, cut government spending, and change immigration policies. These actions could affect US GDP, employment, and inflation. The Federal Reserve, interest rates, and currency could also be impacted. Global markets, including India, will be watching closely. Geopolitical uncertainty adds to the complexity.



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One of the questions I get from every interviewer these days is, "What do you think will happen to the USA economy/ Global geopolitics/ US equities/ Indian markets with [Donald Trump](#) taking over as the US President?"

Let us look at what we can predict based on what we know. It is well known that many political campaign promises throughout the world are not meant to be kept, and are often contradictory.

One of the famous examples of this was the "Read my lips: no new taxes" phrase spoken by American presidential candidate, George H.W. Bush in 1988. All through the campaign, he would mouth this phrase, so that even with the sound off you could see what he was saying. But of course once he became president, he did raise taxes in 1990.

And compared to most other political candidates, [Trump](#) has never been a model of consistency anyway.

One main campaign plank for him has been that the ordinary US worker's income has not kept pace with rising prices. Now juxtapose this with his promise of imposing 60% tariffs on Chinese goods. Given that excluding food, a large chunk of what is on American supermarket shelves is made in China, were he to actually do this, inflation in the US would go through the roof. And of course to make the impact even more pervasive, he has also promised tariffs on goods from Mexico and Canada.

Then if he ships back all immigrants, one part of the economy which will be crippled for sure is agriculture and food as that relies heavily on immigrant labour. Even leaving the issue of wages aside, enough Americans will simply not be available to do this dirty work at the locations where it is required - remember, that the job market in the US has continued to be pretty buoyant anyway.

Defense stocks are part of the 'Trump basket' that went up after his election. But he has made enough statements about not being willing to fund wars throughout the world. Another one of the contradictions.

Then there is the talk of slashing government expenditure with his effective Chief of staff, Elon Musk. If you wanted to increase inconsistency and unpredictability

in the system, you could not have done better than compounding Trump with Musk. They are literally the dream team for this!

And Musk is pretty much there sharing the Oval Office - he has even been part of Donald Trump's calls with the President of Ukraine and Sundar Pichai of Google.

Coming back to the slash and burn plan for the US government, given that government expenditure is 36-37% of US GDP, a big one time cut would be deeply recessionary. Also there is more than a little doubt that even if Trump wants to remove a lot of people in the government whether that is to reduce costs or simply to replace them with his own appointees. And of course the government expenditure number has a direct impact on the fiscal deficit and the US debt levels.

Also there is the fact that while Trump wants the dollar to be weak to improve prospects of American exports, a number of the measures he has been talking about, if actually implemented, will likely strengthen the dollar.

What else do we have? There is Trump's past track record as president. While there may be much that was distasteful, or worse, in what he did vis a vis Human rights, including women's rights; on the margin he was good for the economy and business - improving the ease of doing business to some extent and even getting rid of some outdated laws.

The net result of all of this is that we are not even sure what Trump and his team will do in terms of the policies and the measures they implement.

What they finally do will have some direct impact on the US GDP, on employment, on inflation. The second order impact will be on Fed policy, interest rates and currency. The third order will be on US equity markets - both via corporate earnings and interest rates, as well as market sentiment. And then on to International markets like India.

And we haven't even really gone into geopolitics yet as to what Trump will do about the conflicts around Israel and in Russia Ukraine. And how will the other players in the world respond in endless game theory simulations.

There are a virtually infinite number of paths and outcomes possible, too numerous to even assign a probability to each at this stage.

Hence, I am surprised at those who confidently make assertions where the world and markets are headed.

These are what Daniel Kahneman calls areas of 'objective ignorance' which are things that you not only don't know but you cannot know and as he says in his book *Noise: A Flaw in Human Judgment*, "Objective ignorance accumulates steadily the further you look into the future."

In this particular case it is hard enough to predict even what one person (believed to be the most powerful in the world) will do; let alone what will be the implications, consequences, reactions, fall-outs in multiple rounds involving a whole host of other countries, people and markets.

All one can say is that uncertainty has surely gone up in the world and in the markets. Let us wait, watch and see how this unfolds.

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