

TRUMP TRAIN ROLLS ON

REVIEW OF THE WEEK
3 FEBRUARY 2025

Donald Trump was born into the property business, but the US President was born for dominating the media and ruling the airwaves. During his previous term, it felt like President Trump was on every channel, his supporters and detractors were arguing around the clock on social media, newspaper columnists wrote reams trying to interpret his next moves – you couldn't get away from him if you tried. Last week was a blast from the past.

Most politicians start with a policy that they believe will meet a certain goal and then craft the message to win over the people to their thinking. But Trump is not a typical politician. He starts with a message that he thinks will play well with most people and then creates policies that bang the drum for that message. This has been an immensely successful strategy in building a powerful base of supporters and controlling the news agenda.

Trump's policies and pronouncements are often very simplistic, but they get cut-through. He makes it easy for people, especially those with little interest in politics (or suspicion of it), to quickly understand his message and feel like he's on their side. Whether he is or not is harder to tell. One of the great ironies of recent times is that Trump retook the White House by promising to tackle inflation while also **proposing a shopping list of policies** that are widely believed to make inflation worse. Then, in his first week in power, Trump changed tack, saying inflation was no longer his main goal, and he was fully focused on lowering immigration (a path that would drive up wages and therefore inflation).

It's important for investors to remember just how much Trump chops and changes because it suggests that, with Trump, the policy is often not the point. Anything can be dispensed with or completely reversed once it's no longer helpful for driving the message of the day.

Trump's communications strategy works so well because it's a reaction to an era of hyper-polished politicians. He stands out like a tie-dyed hippy at a penguin colony. Most politicians talk in anodyne soundbites; Trump says whatever he thinks will get heard. Most politicians steer clear of talking about specific policy because it's often complicated or too broad to explain. Trump makes his policies simple enough to articulate in a sentence or two.

For the ultra-polished politics of today, lots of people would point the finger at the 1990s vintage of young political hotshots (your Tony Blairs and Bill Clintons), who made generous use of media training and PR counsel.

There's likely a lot of truth to that – the decade spurred huge growth in such message merchants on both sides of the political spectrum that continues today. Yet arguably that increase in political professionalism – and the media grooming that comes with it – had already been building for decades before. Professional politicians know that alienating voters is a sure-fire way to lose, so their excessive media management is an attempt to answer questions and give speeches that don't offend anyone or think they are going to lose out. Has politics lost its way in its drive for professionalism?

We can't just blame politicians, however! Politics isn't the only industry that's awash with PR help and media polish. Many businesses and charities and even ordinary working people say or write things that are awash with jargon and 'word salad' – strange phrases that sound sophisticated yet are often meaningless. Is this because we've all become worse at communicating with each other? Or is it simply a consequence of a world that has become increasingly complex in the last 50 years, of living in a world dominated by social media and the digital – the impersonal – realm?

Politics is how a society balances trade-offs. There is no free lunch. What is given to some, ultimately must be taken from others – in the short term at least. Freedoms conferred often intrude on other people's rights. There are arguments for well-managed redistribution and state intervention that seek to prevent unfairness, just as there are arguments for allowing people and businesses to gain from their own industry and bright ideas, and to not overburden them with ill-thought levies or rules.

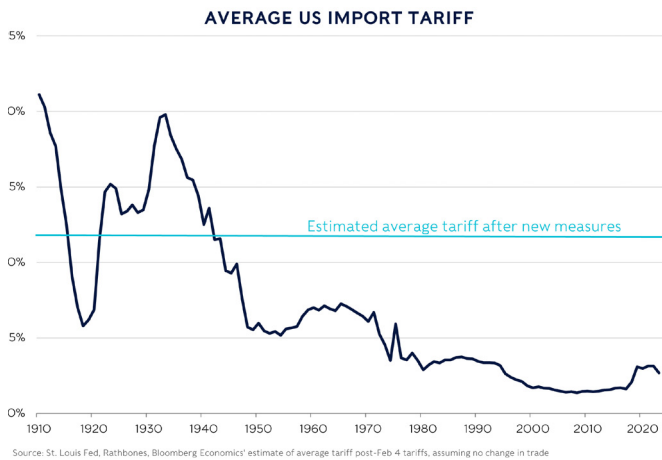
If done well, these decisions benefit the whole nation in the long run as productivity increases and people's lives get better. If not, some gain in the short term but the country fails over the span of decades. These days it seems like these bedrock truths of give and take are forgotten, or obscured, in our political discourse. Let's hope they come back into vogue soon.

Tariff town

Late on Friday, Trump announced tariffs on several nations by declaring a national emergency due to illegal immigration and imports of illegal drugs (particularly fentanyl). Imports of all goods from Canada and Mexico will be subject to 25% tariffs from 4 February (with a reduced 10% rate for Canadian oil, gas and electricity). This isn't actually allowed under the 2020 US-Mexico-Canada Agreement (formerly known as the North American Free Trade Agreement, or NAFTA) that Trump renegotiated in

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2018. Canada has already said it will seek redress through the World Trade Organisation, which is the global arbiter of trade disputes. China has also been hit with an additional 10% tariff.



These tariffs raise the overall average tariff on US imports from 3% to 11%, according to Bloomberg Economics. The same article suggests that 16% of Mexican GDP and 14% of Canadian GDP is directly linked to exports to the US. China is a bit more insulated at 2.3% of GDP. Referencing OECD data, Bloomberg Economics also suggests that, should the tariffs remain in place, Mexican exports to the US would decline by 70%, Canadian exports to the US would decline by 60% and Chinese exports to the US would decline by 40% over the medium term. The tariffs themselves affect just over 40% of US imports (equivalent to around 5% of GDP). Investment bank Goldman Sachs' original estimate of the effects of such tariffs was an increase of 0.7% in the US central bank's preferred inflation measure and a reduction of 0.4% in GDP, both of which are material. This is a big policy change. And it came with little chance for negotiation by trade partners or preparation by border officials and merchants.

In response, an already strong dollar has appreciated

significantly against its major trading partners. It's difficult to be too granular about the potential effects on equities because much will depend on where in the supply and demand chain the hit is taken. How much will exporters to the US be willing to cut their prices to maintain sales volumes? How much will companies importing to the US be willing to shave off their own profit margins and how much of the price increase will they pass on to consumers? Will consumers pay up, switch to domestically produced goods or just tighten their belts and buy fewer goods? It would seem logical to suggest that it's going to be a bit of everything. But the mix will prove important. There's certainly insufficient dollar appreciation to offset the higher prices that comes from higher tariffs, so the total volume of trade will shrink (or grow more slowly than otherwise).

Meanwhile, that wasn't the only firecracker that the administration set off last week. The White House had already issued a memo to federal agencies ordering them to "temporarily pause" all financial assistance schemes, grants and programmes, with exceptions for Medicare (state health insurance for the elderly and disabled) and Social Security only. The pause was to take effect the very next day. All the agencies were to deliver to the White House in a fortnight a comprehensive review of whether the programmes were consistent with the President's agenda. This covers trillions of dollars in funding and the abrupt move caused pandemonium until it was temporarily blocked by a federal judge until a hearing could be held on it.

Welcome back aboard the Trump train.

If you have any questions or comments, or if there's anything you would like to see covered here, please get in touch by emailing review@rathbones.com. We'd love to hear from you.

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