



## Fresh Worries About Trump-Led Trade War

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What will make the markets nervous?

There's no shortage of risks – we're all in an industry that's paid to worry for our clients. High on our list of risks is surging interest rates, North Korean leader Kim Jong-un, ISIS, and cyberterrorism.

What will become the first major market concern? Let's start with trade protectionism, a terrible idea that propelled Donald Trump to victories in the Rust Belt.

**HOW MUCH IS BLUSTER?** We understand that Trump plays a classic negotiators' role of talking tough and then softening his stance, but we don't think there will be much softening on trade. Trump's tweets apparently have dissuaded GM and Ford from building more plants in Mexico; the details on these episodes are murky – but it's clear that Trump could intervene in virtually any plant closing. "Make it in the USA or pay a big border tax," Trump says.

**A SHIFT ON TRADE POLICY:** We anticipate Trump will announce later this month that he plans to renegotiate Nafta, and he apparently will pull out of talks on the Trans-Pacific Partnership. We also expect him to announce tough new tariffs on China, while alleging that Beijing is a currency manipulator (the Chinese used to be, but there's no evidence of current manipulation). It's worth noting that several of the country's leading trade hawks have been nominated to serve in the new administration.

**A MOVE TOWARD PROTECTIONISM** – including a possible tax change that would punish importers and reward exporters – almost certainly would be challenged by the World Trade Organization, but more importantly it would prompt retaliation from China and other countries. Trump has public support for a trade war – the AFL-CIO and the Bernie Sanders left will be huge allies – but this will be viewed with alarm in the markets. Hopefully the Goldman Sachs faction in Trump's administration will tell him this.

**NEW SHERIFF IN TOWN:** Wow, did House Republicans cave quickly yesterday – a tweet from Trump apparently is sufficient to send the GOP running for cover. There are valid reasons for killing the Office of Congressional Ethics, but the optics were terrible – this was the first issue of business in the new Congress? Trump sent quite a message: I'll go directly to the people if Congress does something I don't like, and who do you think will win that fight?

**FEDERAL RESERVE SHAKE-UP?** Interesting piece yesterday by Jeff Cox on the CNBC Website about the possibility that former bank executive John Allison may be nominated to the Fed board to head banking regulation. Allison, now at the Cato Institute, has been a harsh critic of the Fed; he once said he would like to abolish it, “although it’s not do-able in practice.” He and other potential Trump nominees will send a clear signal to Janet Yellen: There’s no place for you in 2018 in the new Fed.

**SCHUMER TALKS TOUGH:** New Senate Minority Leader Chuck Schumer wants to unify his troops, so he offered them a huge dose of red meat yesterday: “I may keep the 9th Supreme Court seat open,” he proclaimed, a threat that a Trump replacement for Antonin Scalia may never win approval (Democrats, with 48 members, could have enough votes to filibuster). Schumer is jawboning, of course, for a relatively moderate pick but make no mistake – this will be the nastiest fight of the spring.