Trump: The next 100 days...

He promised to win big but it hasn't quite worked out like that. Despite the slow progress, a moderate Trump policy regime is not exactly a bad thing.

Get in touch with our team

Rob Carnell
Chief International Economist
London, +44 20 7767 6909

Padhraic Garvey
Global Head of Rates Strategy
London, +44 20 7767 8057

Viraj Patel
Foreign Exchange Strategist
London, +44 7767 6405

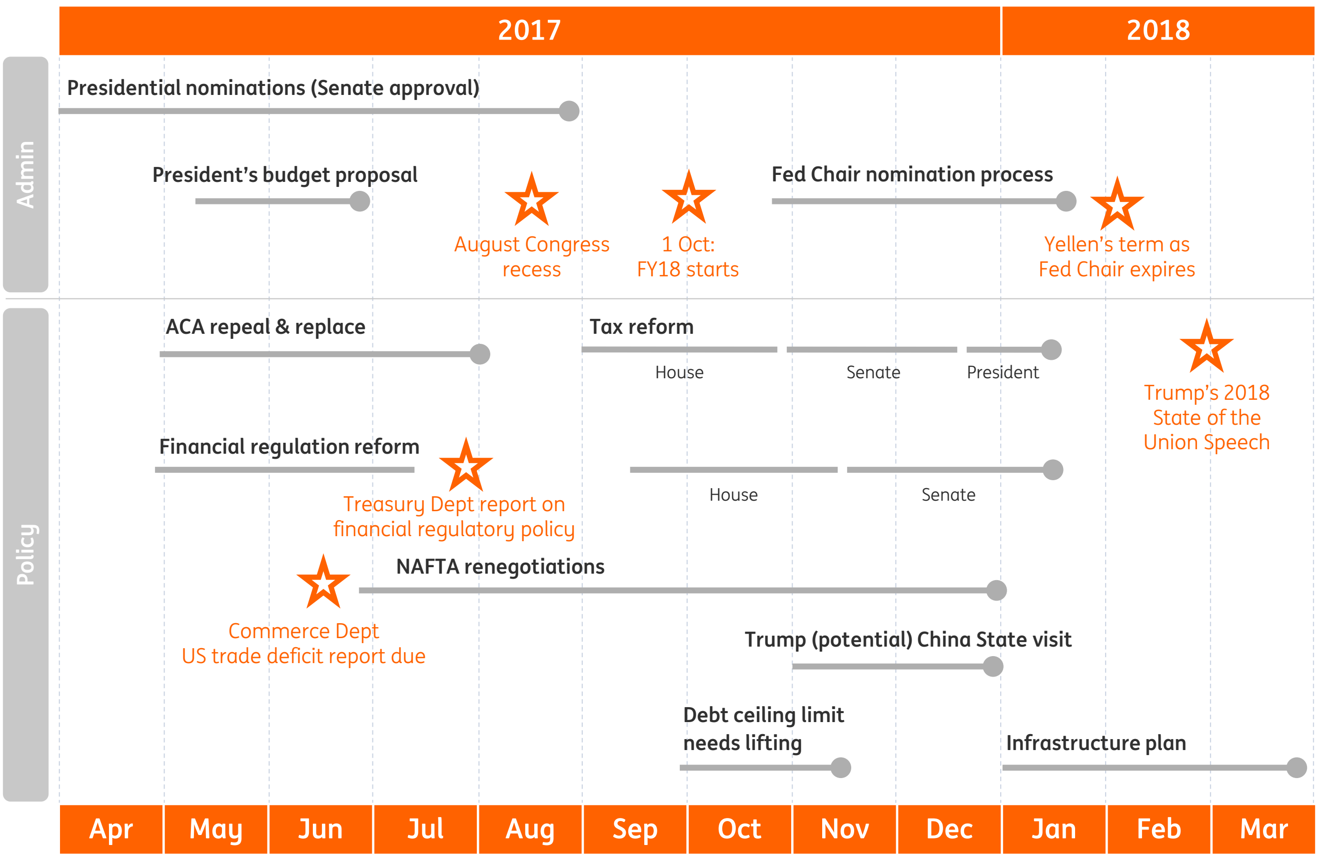
"We're gonna win so much you may even get tired of winning and you'll say please, please Mr. President, it's too much winning! We can't take it anymore!" – *Donald Trump (Rimrock Auto Arena, 26 May 2016)*

Click to see Rob Carnell's short video on Trump's first 100 days

It hasn't worked out quite like that. President Trump has had few big wins in his first 100 days, and quite a few misses. This says less about the new Administration than about the practical difficulties any US President faces, even with a notionally friendly Congress. It is also no reason to get too downbeat.

Although the first 100 days delivered more of a wish list than concrete actions, the next 100 days should see further concrete progress on a wide swathe of policy areas – though maybe not as much as Trump would want.

Trump: The next 100 days... What to expect on key policy areas over the next year



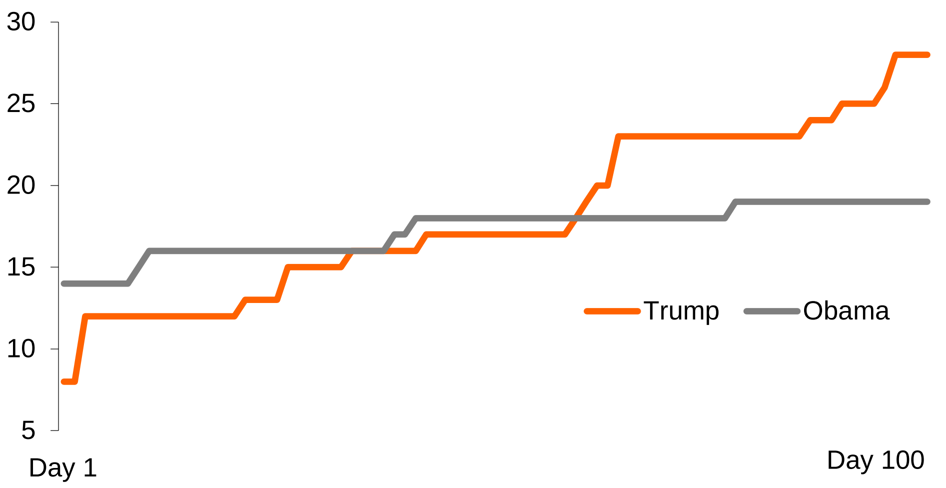
Source: ING

Executive actions

- **What happened – 28 vs 19**

The fanfare surrounding the signing of 67 executive actions has kept Trump in the media spotlight: only 28 of these actions are substantive executive orders, though this is rather more than the 19 actions President Obama did in his first 100 days. The media impact has been even higher. Though not always positive, eg, the Travel Ban.

Fig 1 Number of executive orders



Source: Committee for a Responsible Federal Budget (CRFB)

- **What's next – more of the same**

Executive actions are a good substitute for substantive policy, and help keep the media limelight. We expect to see many more of these over coming months on all aspects of policy.

Fiscal Policy

- **What happened – Big announcements, little detail**

It is way too early to judge Trump on fiscal policy, as this is really down to Congress to decide. But the President's "skinny budget" won few plaudits, shuffling funding away from almost everything towards defence and veterans affairs. But as a blueprint for Congress, it was very insubstantial.

Even the "Big tax announcement" was not new. It repeats the campaign pledge to cut corporate income taxes to 15% (and trim household income taxes). Interestingly it also seeks to eliminate worldwide taxation, and calls for a one-time taxation at 10% for repatriated earnings.

- **What's next – temporary or watered down?**

Despite the lack of detail, there are some interesting elements to Trump's big Tax announcement.

  - Cutting corporate income taxes to 15% from 35%
  - Simplifying the household income tax code and reducing rates
  - Eliminating the death tax
  - A one-time repatriation window for overseas earnings
  - Eliminating Worldwide taxation

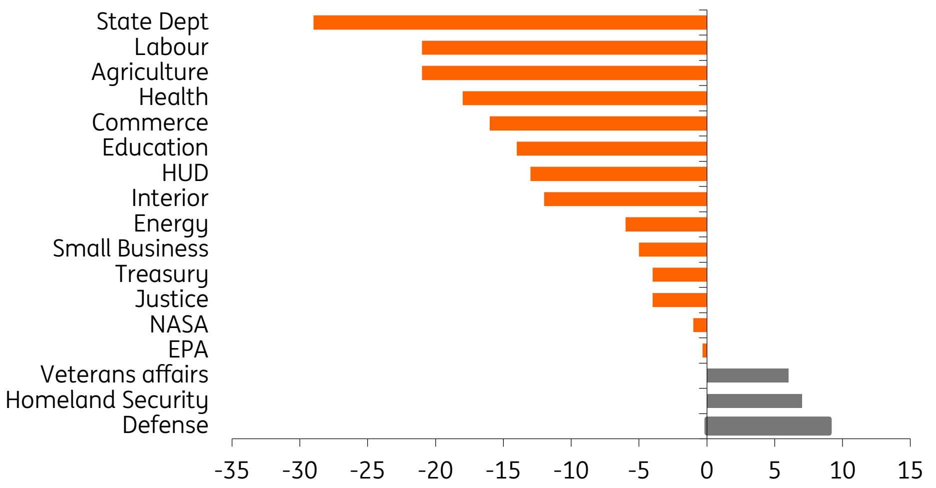
Trump will negotiate with Congress over the coming months to deliver this package – but despite a complete lack of detail, it looks as if it will add substantially to the deficit, and so struggle to make it through Congress unchanged.

Two options are possible. The tax cuts could be put through as temporary measures (in the hope that at some stage they become permanent), or the degree and extent of the cuts could be heavily watered down.

To help pay for any shortfall in revenues, some reduction of Medicare entitlements may be possible and some loophole closures could also provide some revenue. A new carbon tax seems anathema to Trump's goal to help US manufacturing and energy industries.

No substantial progress on this tax policy is likely until August, and perhaps not even then. And we don't expect to see any progress on funding infrastructure spending until taxation is sorted out. So nothing in the next 100 days on infrastructure.

Fig 2 Skinny budget (% change in department spending)



Source: ING

Trade

- **What happened – not very much so far**

Trump threatened tariffs and charges of currency manipulation. But his trade appointments have actually been surprisingly moderate. China has not been named a currency manipulator – and with the exception of a lumber tariff on Canada, no tariffs have been levied.

IMF communiques have dropped references to free trade at US insistence. And Trump did pull out of TPP[1] on Day 1. But TPP was not even running. And this was also a Clinton policy. Trump has scored some media wins with his smartphone, deterring outsourcing, and protecting American jobs. But not much has yet changed.

- **What's next – Negotiations, tough words and possible actions**

What the Canadian lumber tariff shows is that Trump is prepared to act, and not just talk tough. This will be important once NAFTA negotiations begin. Opening the discussion on NAFTA could start in the next few weeks. Trade Representative Robert Lighthizer first needs to be confirmed by a Senate vote – probably within the next two weeks. We expect the US position to be tough, and demand substantial concessions from Mexico and Canada. But we also expect Canada and Mexico to deliver.

[1] Trans Pacific Partnership

The Trade deal with South Korea is also likely to be renegotiated before too long – along similar themes to the NAFTA discussions. There could also be tariffs on countries (including China) as a result of an investigation into the global steel trade with the US in the next 100 days.

But trade policy is not likely to be all one way. Trump's administration is, in contrast, talking about re-opening trade talks with Europe, and Japan. A 100-day plan with China over the bilateral deficit is also likely to create fiery exchanges – but could deliver change and help avoid a trade war.

Health

- **What happened – "Miss", but no real damage done**

Trump's team withdrew his replacement to Obamacare after it was clear it would not get through Congress. Attempting to repeal and replace Obamacare so early was bold, but risky. Throwing in the towel early on this policy may have spared Trump from a greater loss of political capital leaving more for other projects. But this may also be an omen for how hard Trump will find it to pass other controversial bills that require Congressional funding.

- **What's next – amended policy could make it through**

Part of Trump's problem with the original American Health Care Act (AHCA), was that it was judged to be Obamacare-Lite by some Republicans. The Republican faction "Freedom Caucus" opposed the original bill, meaning that it could not pass, and so forced its withdrawal. With some amendments by New Jersey congressman, Tom McArthur, the Freedom Caucus is now on board, meaning that a re-submitted bill will pass, and it could go in front of Congress within the next few weeks.

Dollar policy

- **What happened - there is no policy**

There is some disharmony between what President Trump says, and what his Treasury Secretary says on the USD. Trump feels that the USD is too strong. Treasury Secretary Mnuchin says it isn't. In short, there is no dollar policy right now.

- **What's next – progress on repatriated earnings**

Although wrapped up in terms of tax policy, the goal for a one-time repatriation of overseas earnings, and possible abolition of worldwide taxation provide some support for the dollar, but fall well short of the dollar implications of the border adjustment tax, which is likely to remain on the back shelf for the foreseeable future. We anticipate the official policy to remain one of supporting longer term dollar strength, moderated by comments from the President in response to any short-term strengthening (see below).

Monetary policy

- **What happened – Warming to Yellen**

Trump has recently sounded less critical of Janet Yellen, and hinted that he would prefer the Fed to remain cautious – this is wrapped up around his preference for a weaker dollar. Whether Yellen would want to have a second term as Fed Chair is not clear. We suspect not. But even mild political pressure may be enough to keep the Fed on a cautious tack over the summer, as the pace and extent of further tightening is finely balanced in any case.

- **What's next – filling the vacancies with doves**

Trump's recent supportive comments for Fed Chair Yellen suggest that he may look for any replacement among more dovish contenders, and also for the remaining and forthcoming vacancies on the FOMC Committee. That said, recent suggestion that Trump plans to appoint Randal Quarles – an advocate of rules-based monetary policy setting – as Vice Chairman of Supervision at the Fed does not support this idea. But a somewhat slower growing US, with less inflation does require a less activist/more dovish Fed and we expect replacements to fit this bill, rather than the more rules-based candidates many Republicans prefer.

Appointments

- **What happened – slow, but getting there**

One area where Trump has lagged behind Obama is the speed with which he has filled cabinet appointments. This is partly down to the speed with which he has named candidates, but also due to the slow pace of Senate confirmations. One major "win" was getting Judge Gorsuch confirmed on the Supreme Court.

Captains of Industry feature heavily in the Trump cabinet, which is also whiter, and more male than any cabinet since Ronald Reagan. Notable exceptions: Betsy DeVos (Education), Nikki Haley (UN), Linda McMahon (small business), Elaine Chao (Transport), Alexander Acosta (Labour), Ben Carson (HUD).

- **What's next – not much left to do**

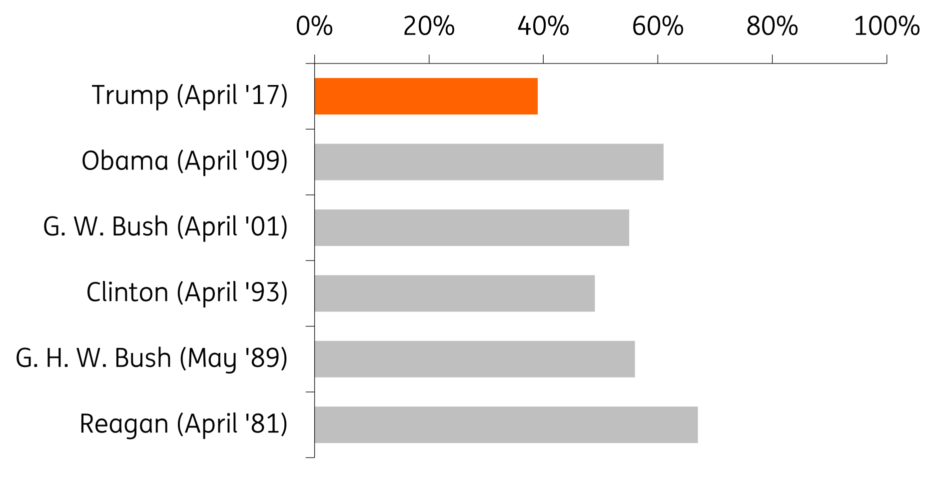
There are no Federal prosecutors, and this needs addressing quickly, and there are still big gaps in middle-level positions. But these do not require Senate approval, so filling them over coming months can be delegated to other members of the Trump team and rapid progress should be possible.

Approval

- **What happened – worst ever**

Perhaps one of Trump's biggest failures so far is translating his policy efforts into approval ratings. We believe that approval is important to President Trump. But it has not been helped by heavy criticism from some media sectors, though also bizarre comments from Press Secretary Spicer and Trump's continued and sometimes controversial tweets.

Fig 3 Approval ratings



Source: Pew Research Centre

- **What's next? – the only way is up**

After a shaky start, the next 100 days should deliver more concrete wins for President Trump on a wide range of policy areas, and this ought to translate into a stronger approval rating. But the risk is that Trump continues to make unguarded and controversial comments on social media, and this could undermine progress on policy areas if he is not careful.

Foreign policy

- **Surprisingly diplomatic – at times**

Trump did score some early points in foreign policy, with Germany's Merkel for example, and Japan's Abe. But there has been controversy too – with Mexico's Nieto, and recently with China's President Xi (missile strikes on Syria whilst he was visiting).

An alternative perspective is that the Syria strike could be viewed as more credible than Obama's "red-line" threat to Assad after the use of chemical weapons, when he threatened, but then did not strike.

- **What's next – this is where it could all go wrong**

Our big fear is that low approval ratings and delay or failure to secure notable wins on issues like health, or tax policy, may encourage President Trump to seek such victories in areas of foreign policy.

Recent military overtures against North Korea are perhaps early warning signs of this – as was the recent MOAB bombing of ISIS in Afghanistan, and cruise missile attack on ISIS in Syria. Destabilizing the Korean peninsula, or the Middle East are key risks to our sense that the risk curve was being condensed around a somewhat lower median.

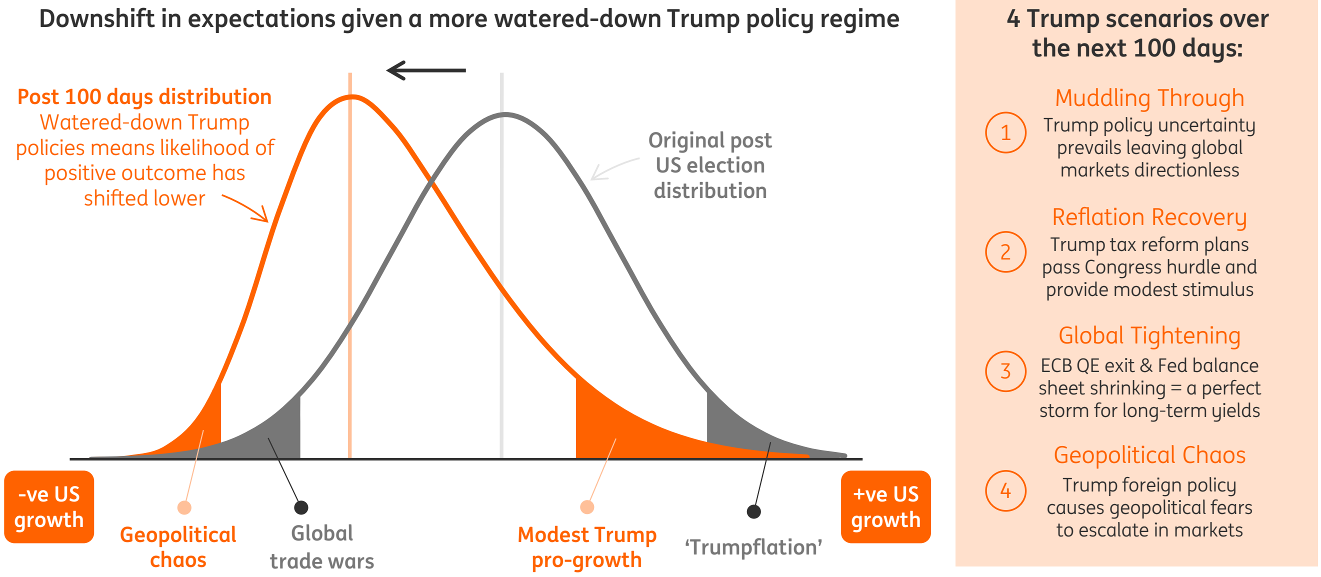
Assessing the balance of risks for Trump policies

Market expectations were arguably far too high in the immediate election aftermath. The US economy is running close to potential and the labour market is tight. No radical tax cuts and no massive infrastructure spending means we will not see an unwanted surge in inflation or aggressive rate hikes from the Fed. No material rise in protectionism also means we should not see the economy tipped into a deflationary spiral of weaker trade and slower growth.

Limited policy success is therefore not really an economic problem as much as a political problem for the Trump administration. As such, the two “fat tail” risks to our previous forecast – Trumpflation on the upside and protectionist-driven deflation on the downside – have diminished.

> The central scenario is for slightly slower, but still reasonable US growth, core inflation close to trend, and a dovish but gradually tightening Fed. Policy achievements may be less radical, but also less risky than was imagined on Day 1. There are still risks – especially if Trump feels he needs to deliver a ‘big win’ through foreign policy.

Assessing Trump policy risks: Geopolitics replaces protectionism as the negative tail risk



Source: ING

The next 100 days for markets...

Click to see our short video on the next 100 days for markets

In this section: We present our Trump Reflation Dashboard, try to decode the administration's dollar policy and provide four potential paths that global markets could take based on President Trump's policy pursuits over the next 100 days.

Trump Reflation Dashboard: No need for a full unwind

The first 100 days of Trump have been clouded with regime uncertainty, which has seen markets temper their reflation optimism. But in the absence of a spike in global risk aversion, we see enough supportive factors to prevent a full post-election unwind.

- Since the inauguration there have been three main rates implications: (1) the 2/10yr curve is 30bp flatter; (2) the terminal Fed funds rate is 50bp lower and (3) the 10yr yield is 25bp lower. Therefore there's been a strong unwind of the Trump effect.

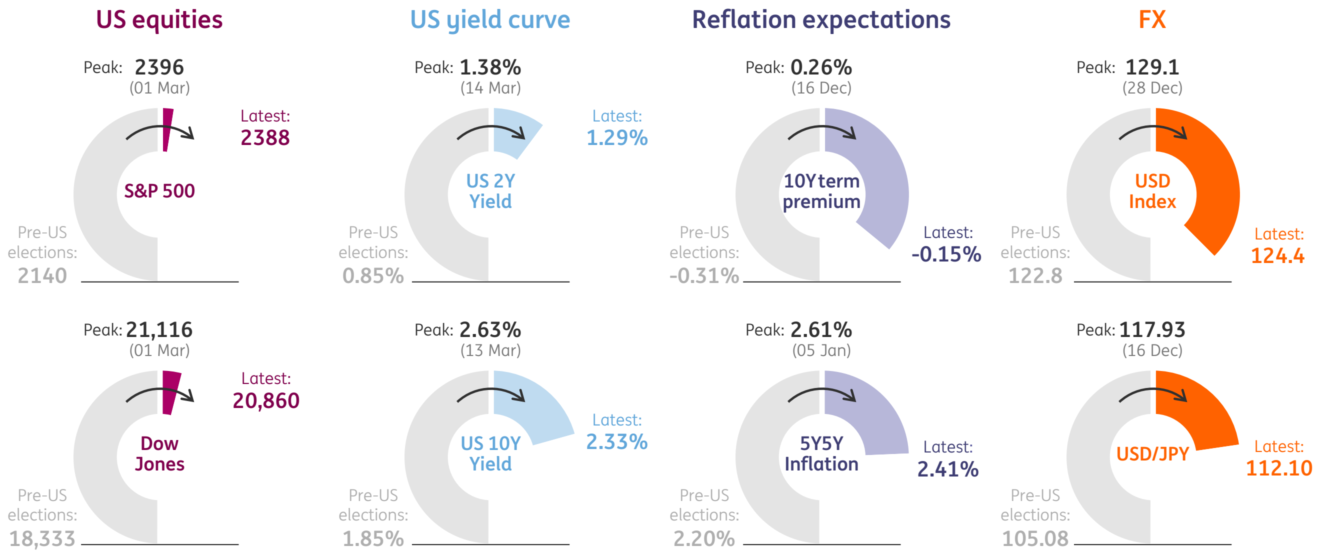
The path of least resistance has been slowly but surely to test in the direction of lower rates...

- The election effect also manifested in a significant duration short built by market participants, with market talk centred on a target of 3% for the 10yr yield. But the theme since inauguration has been a failure to get much above 2.6%. The path of least resistance has been slowly but surely to test in the direction of lower rates.
- The first 100 days have concluded with the notion that the Fed could severely undershoot its "dots" in the coming years. If so, and PCE inflation remains subdued, then US 10yr rates could in principle move back below 2%.

...but a resilient US economy and tax reform hopes should provide a buffer and prevent a full post-Trump unwind

- But this also depends on the Trump policy agenda over the next 100 days. US macro data – a story which has largely been ignored in recent months – point to a solid base for US assets. More attention will be paid to the state of the US economy as we get clarity on tax reforms – which even if watered down are a net stimulus.
- The other key point to bear in mind is that there is no term premium in the 10yr yield now. In other words the 10yr yield only discounts future rate hikes. With the term premium moderately negative, investors are not being compensated for extensions out the curve – another argument for why 10yr rates should be higher.

Trump Reflation Dashboard: Rise and fall in markets shows fading fiscal stimulus hopes



Source: ING, Bloomberg

Decoding the Trump administration's dollar policy

Looking at the next 100 days of Trump, there are two reasons why we think this could be as good as it gets for the dollar: (1) a more watered-down Trump policy regime; and (2) real interest rates in the US staying lower for longer.

- 100 days in and we're none the wiser on the administration's dollar policy. It's clear that the President is struggling to accept the positive dollar effects of his pro-growth agenda – with the rhetoric instead being that further dollar strength is undesirable.

The White House could appoint up to 5 new Board of Governors on the Fed over the next year...

- But what can the White House actually do? In the extreme case, they could u-turn on their reflationary policies – but this seems highly irrational. It's more likely that officials will take subtle steps to keep dollar strength contained – and the most obvious to us at this stage is exerting some dovish influence over the Fed.

...the risk of dovish nominees have increased after Trump's latest interest rate comments

- Trump's comment about preferring low interest rates was a game-changer and creates a credible action point when it comes to influencing the dollar. Even if inflationary pressures modestly build, we suspect the Fed – under the watch of the new administration – will stick to a fairly gradual normalisation path.

> **ING's Fed outlook:** We have not changed our view on policy rates and continue to look for only one further hike this year in September. Where we may be diluting our view is with respect to the timing and speed of balance sheet shrinking – pushing this back until early 2018, with any adjustment phased in via partial reinvestments.

The Fed seems in no rush to hike – even if inflationary pressures continue to build...

...which takes away a key pillar of dollar upside potential

- There will be some focus on the type of Federal Reserve governors appointed by the White House – especially with the possible appointment of a new Chair on the cards should Yellen opt to step down. But there may be little need to rock the boat; the White House's preference for a low interest rate regime wouldn't be too dissimilar to the 'inflation overshooting' bias which some FOMC members are leaning towards.
- Our assumptions over the US fiscal-monetary interaction have changed; fears of falling behind the curve and prospects of front-loaded Fed hikes to offset any Trump stimulus are now low. **Flatter real US yields do not lend support to a bullish $ view.**

Our USD outlook can be seen as a balanced seesaw, with supporting factors likely to be offset by medium-term headwinds. Investors will want to see the finer details of Trump's proposed tax reforms – as well as Congressional backing – before buying into a significantly positive US growth story.

Dollar supportive factors

Pro-growth Trump policy regime
- **Tax repatriation holiday** will create $ demand
- **Tax reforms** (corporate & household tax cuts)
- **Deregulation policies**
- **Infrastructure spending plans** ($1trn package)

US economy close to full capacity
- **US inflation risks underestimated**
- **Fed balance sheet reduction**

USD

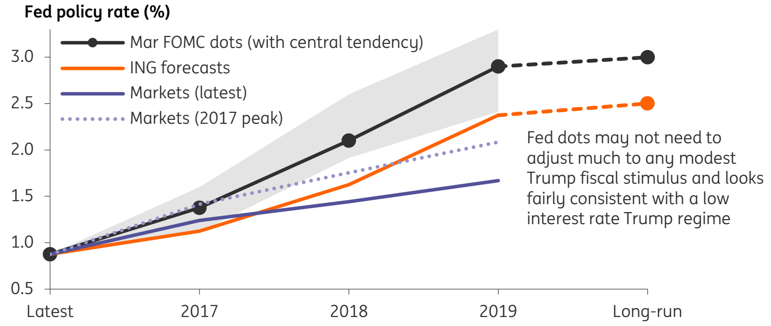
Dollar downside factors

Short-term
- **Trump "jawboning"**
- **Geopolitical tensions**

Medium-term
- **Neutral Fed philosophy**
- **Structural twin deficit (trade & fiscal)**

'Credible jawboning'

Fed policy rate (%)



Source: ING, Federal Reserve, Bloomberg

All Trump policy paradigms remain on the table...

...our scenario analysis should serve as a useful framework for investors over the next 100 days

Four scenarios for global markets over the next 100 days

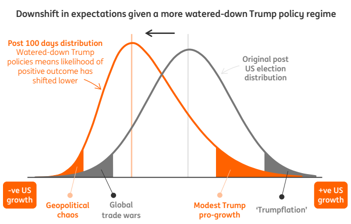
One of the major issues facing investors is determining which Trump policy paradigm will prevail over the next 100 days. The reality is that all possibilities remain on the table. To shed some clarity, here are 4 paths that we think global markets could take:

1. **Muddling through:** Markets adjust to a US economy at full capacity, while Trump stimulus hopes provide a buffer for US assets. Goldilocks environment for EM assets.
2. **Reflation recovery:** The administration's (watered-down) pro-growth policies gain the backing of Congress, prompting a positive re-pricing of US growth expectations.
3. **Global monetary tightening:** Simultaneous signals from the ECB and Fed over a change to their respective balance sheet policies sees a secular bearish steepening of global yield curves. A sharper bond market sell-off could dampen risk sentiment.
4. **Geopolitical Armageddon:** Trump's quest for a 'big' foreign policy win leads to an escalation of geopolitical fears and risk-off behaviour in markets.

Our scenario analysis below should serve as a useful framework for investors when it comes to navigating the next 100 days of Trump. Here are some key takeaways:

- The bond market implications are fairly intuitive: three out of the four scenarios point to a move higher in US 10-year yields (albeit to varying degrees).
- We have seen that global markets like a stronger US economy and can handle monetary normalisation pressures coming from a low base. So long as moves are orderly, we would expect this 'nirvana' market backdrop – where stocks and yields rise slowly in tandem – to continue. EM assets with a positive local story should stay resilient, though high-yielders remain vulnerable to a Trump-led rise in US yields.
- Geopolitics would be the only sting in the tail for a bearish US bond market outlook; our bell curve graphic shows that the probability of this is relatively low, but the consequences could be dire for markets that are positioned for a global recovery.

Click here to see our bell curve graphic for Trump policy risks



4 scenarios for global markets based on Trump policy pursuits over 'the next 100 days'

	Reflationary assumptions					
	US 10Y yield (range)	**Fed policy bias (relative)**	**Inflation & Term Premia**	**US equity markets**	**Risk aversion & volatility**	**FX Playbook**
1 **Muddling Through** Trump policy uncertainty prevails leaving global markets directionless	**2.3%-2.5%** Modest uplift as US inflation risks re-priced	**Neutral** Risk that Fed only hikes once more in 2017	**Small pickup in inflation premium** as US macro data rebounds	**Resilient** Tax reform hopes will underpin S&P 500 around 2350	**Low** Lower Trump tail risks should keep risk aversion low	Credit EM FX with a +ve local story given goldilocks market backdrop
2 **Reflation Recovery** Trump tax reform plans pass Congress hurdle and provide modest stimulus	**2.8%-3.0%** Strong bearish steepening in US yield curve	**Hawkish tilt** Fed still tightens fairly gradually in reflation mode	**Both inflation & term premia rise** as global growth optimism rises	**More upside** Reality of stimulus lifts US earnings estimates	**Low** Orderly moves in a watered-down Trump/Fed world	USD/JPY optimal reflation vehicle; USD bid against EM high-yielders
3 **Global Tightening** ECB QE exit & Fed balance sheet shrinking = a perfect storm for long-term yields	**2.6%-2.8%** US yields dragged higher by rising Bund yields	**Neutral** Tighter financial conditions keeps Fed cautious	**Global term premia rise** as access to 'easy money' falls	**Correction risks** Sharper sell-off in bonds may -vely affect equities	**High** Higher bond market volatility disrupts carry	EUR crosses see greater upside against typical carry currencies
4 **Geopolitical Chaos** Trump foreign policy causes geopolitical fears to escalate in markets	**Below 2.0%** Investors seek safe assets & pile into Treasuries	**Dovish rethink** Fed on hold given uncertain global backdrop	**Term premia turns more –ve** as markets enter risk-off mode	**Sell-off** Global equities fall as investors rotate into bonds	**High** Spike in volatility as global risk aversion rises	USD falls versus safe-haven JPY but up against EM FX universe

Source: ING

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