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Four scenarios for markets over Trump's next 100 days

All Trump policy paradigms remain on the table, and our scenario analysis should serve as a useful framework for investors over the next 100 days



Source: iStock

There's four scenarios for the next 100 days

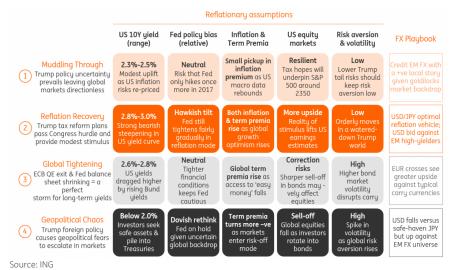
One of the major issues facing investors is determining which Trump policy paradigm will prevail over the next 100 days. The reality is that all possibilities remain on the table. To shed some clarity, here are 4 paths that we think global markets could take:

- 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

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of geopolitical fears and risk-off behaviour in markets.

Four scenarios for global markets



Key takeaways

Our scenario analysis 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 a bit of
 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.

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