A peachy Trump thump...

What the latest noise surrounding Trump means for the dollar

Source: iStock

The 'Trumpeachment'-led meltdown in global financial markets may have had a line temporarily drawn under it after the US Justice Department announced that it was appointing former FBI director, Robert Mueller, as special counsel to lead the investigation into Russia's role in the 2016 US elections. The move received support from both sides of the aisle, while Trump himself remains undeterred.

Here are our 3 key messages for investors:

- While the tail risk of a Trump impeachment is unlikely to fully recede, there needs to be another layer of bad news for markets to adversely react again. All eyes will be on the investigation, but it may pay to trade the facts here.
- Fears over a delay to potential tax reforms may be overblown; a number of Republicans (including House Speaker Paul Ryan) have pledged to continue working on their policy agenda since the 'Comey memo' incident. Behind the scenes, key players (Kevin Brady, Steven Mnuchin and Gary Cohn) will be thrashing out the details of a White House tax plan with Capitol Hill today. Our framework still sees a Trump tax plan reaching Congress around 4Q17.
- We doubt the above is the main driver for the latest fall in US yields and USD weakness, instead noting the re-pricing of expectations over a June Fed rate hike (down now to 75%).

> Investors are right to question this; when looking at the 'trifecta of factors' needed for a Fed hike – US data, financial conditions and market expectations – one could argue that the first two look a bit less convincing than was the case in March (especially if US equities remain soft).

A dovish Fed re-pricing still remains a risk to the $ but expect stability for now.

Read how markets could react to Trump's next 100 days

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