Assessing the Trump policy balance of risks

Geopolitcs replaces protectionsm as the negative tail risk

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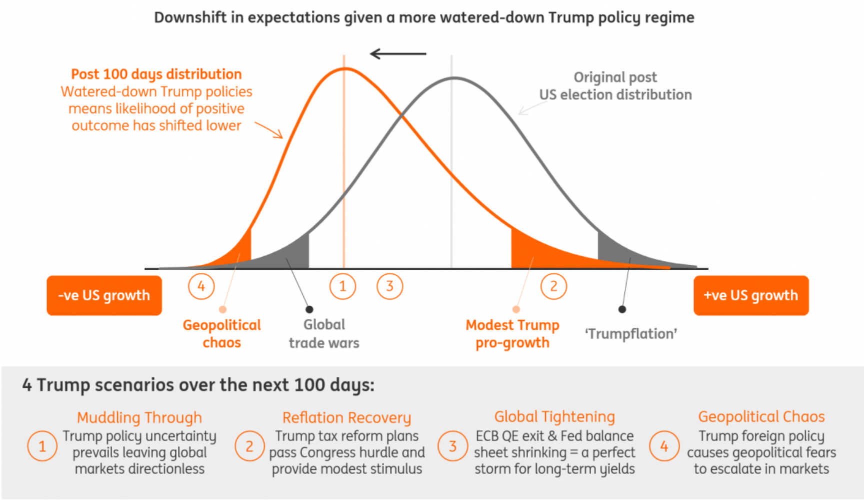
Market expectations were arguably far too high in the immediate election aftermath. The US economy is running close to potential and the labour market is tight. No radical tax cuts and no massive infrastructure spending means we will not see an unwanted surge in inflation or aggressive rate hikes from the Fed. No massive 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



Source: ING

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