Trump 2.0: the first wave

Policy Outlook

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Executive summary

When Trump was elected as the new US president in January 2025, the US economy was registering the strongest economic growth out of the G7 since the Covid-19 pandemic, low unemployment (4%) and low inflation (2.4%). His new administration activated a range of policies advancing tariffs, federal government layoffs, deregulation, and considering reforms for the Federal Reserve.

The speed and width of implementation of Trump's agenda triggered shockwaves both domestically and internationally. The resulting uncertainty has exceeded anything we have seen before, so any predictions at the time of writing have excessive margins of error. Yet our analysis points to the following key takeaways.

Economic growth in the United States and the global economy will slow down. Consequently, domestic social economic pressures will increase, and the **fiscal space** available to governments to deal with these pressures will decrease.

Trump's **withdrawal from international institutions** signals the US's disinterest in maintaining the Liberal World Order. The US strategy of investing in a 'Western' world order is replaced by a **bilateral transactional doctrine** where everything is negotiable.

The new transactional world order advanced by the US as a superpower will reduce foreign aid and harm progress towards meeting **the Sustainable Development Goals**, including the transition of the global economy to a more sustainable model.

The new content and style of **US foreign policy** will weaken the dominant role of the **US dollar** in the global economy and the 'exorbitant privilege' enjoyed by the US in global trade and finance.

While a more multipolar world order is in the making, the current abrupt nature of **economic decoupling and fragmentation** creates broader systemic risks for global stability and prosperity, especially in a context where no single country is likely able or willing to fill the void left by the US.

APRIL 2

The US global 'reciprocal' tariffs announced

Canada reciprocates (25% tariffs on vehicles)

APRIL 3

China announces 34% tariffs on imports from US

APRIL 9

90 days suspension on US's higher reciprocal tariffs rates; on China, tariffs raised to 125%

APRIL 10

China reciprocates with a 125% tariff on US imports

APRIL 11

Short term exemptions to the US 'reciprocal tariffs' on China (incl. smartphones & laptops)

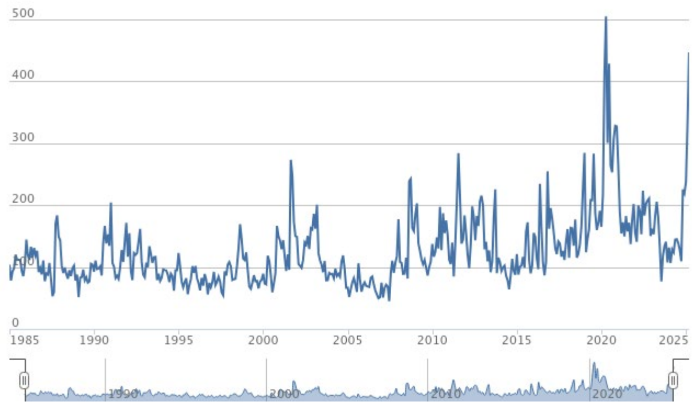
Background

Following Joe Biden's presidency, Donald Trump inherited a strong and resilient economy with a low unemployment rate at 4%, low inflation at 2.4%, and strong economic growth. Indeed the U.S benefited from the highest growth rates out of the G7 countries coming out of the COVID-19 pandemic. Donald Trump has sought to introduce large-scale changes to the global economic system following an 'America First' strategy. This strategy has introduced protectionist policies through blanket tariffs, compared to his selective and targeted tariffs during his first term as president. Many reasons have been put forward for these tariffs such as unfair trade practices, relocation of jobs back into the U.S, and the use of tariffs as leverage over other economic or political deals. Furthermore, Trump is seeking to introduce massive tax cuts and deregulation to spur growth and investment. However, combined with his tendency for unpredictable policy shifts, the pro-growth fiscal policies he is seeking to implement often seem to contradict his stated goals, such as seeking to introduce massive tax cuts while wanting to reduce the U.S deficit. Ultimately this strategy has drastically increased uncertainty among both domestic and international, consumers and investors.

Uncertainty

Many anticipated that Trump 2.0 will generate turbulence and instability, but no one expected the degree of destabilising uncertainty currently experienced. In the first two months of Trump's administration, the US Economic Policy Uncertainty Index registered one of the largest increases on record, second only to the impact of Covid-19 pandemic.

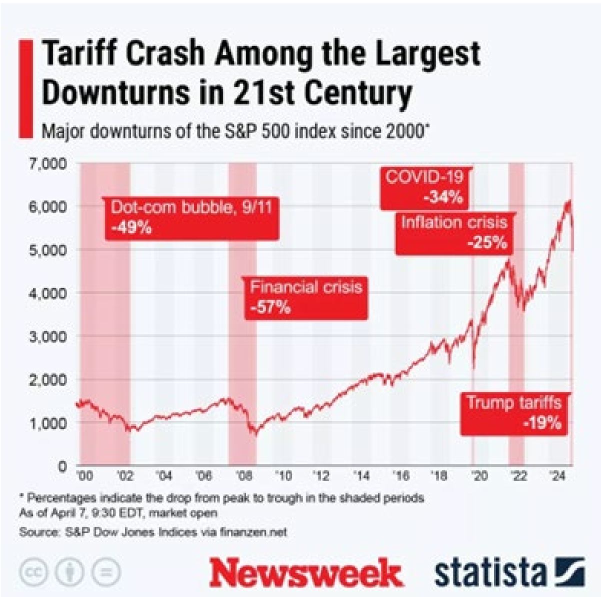
US Economic Policy Uncertainty Index (monthly)



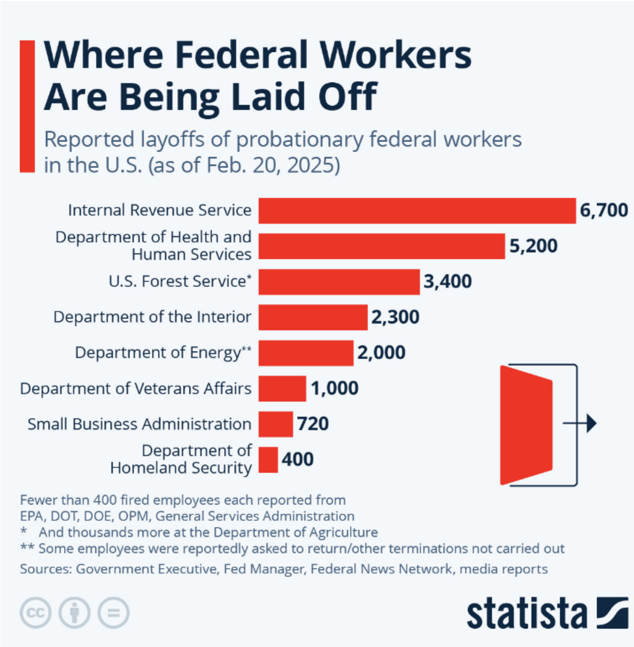
SOURCE: EPUI, February 2025

Capital markets losses and volatility

In comparison to his first administration, Trump showed more determination to uphold his administration's protectionist stance on tariffs despite the markets' negative responses. The losses experienced in stock markets have been monumental. The S&P 500 has lost $4 trillion since its February peak. Finally, Trump backed down and offered a 90-day pause in tariffs implementation to most of the US main trade partners, except China. Stock markets pressures on Trump will continue. Volatility in money flows between stock markets and bond markets has also reached disruptive levels.



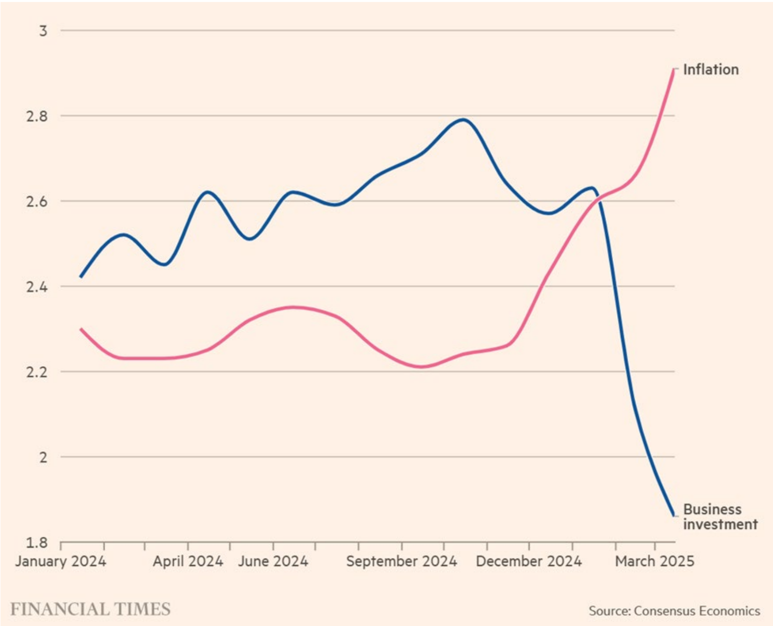
Federal workforce



The Trump administration has actively attempted to reduce the number of federal employees by 75%, using DOGE and the schedule F executive order. These measures have already disrupted governance, triggered lawsuits, and raised alarm among economists and public service experts. Public services are already being affected by mass layoffs, particularly of probationary employees who make up a significant portion of the federal talent pipeline. These workers, often recently promoted or newly hired, are critical to future agency leadership. Like other policies, this is also subject to uncertainty. Prominent Legal scholars argue this circumvents established civil service protections under Title 5 of the U.S. Code, and courts have already intervened, issuing restraining orders against OPM-led staffing directives. As it stands, it is unsure how feasible the new administration's goals are. Yet, public-sector layoffs will reduce household income, suppress consumer spending, and may also negatively impact local economic activity and business formation.

Investment & inflation expectations

Economists' expectations on US business investment and inflation (2025 by date of forecast, annual % change)



SOURCE: FT, April 3, 2025

There is a mixed picture of overall investment within the U.S. Trump's aim is to bring investment into the U.S as companies seek to avoid tariffs by setting up production within the U.S. This may generate significant investment. Donald Trump claims that he has already secured a $1.6 trillion pledge for domestic investment since he came to office. Major companies such as Apple have already pledged to invest $500 billion in the U.S. Other companies such as SoftBank, Open AI, and Oracle have also planned to spend $500 billion combined on U.S tech infrastructure within four years. However, most of these are still pledges. On the other hand, inflationary pressures from trade barriers is likely to negatively affect investment by temporarily raising import prices, reducing corporate profits and thus decreasing investment, especially amid heightened economic uncertainty. Therefore, despite a pledge of increased investment, it is becoming increasingly unclear if this will be realised. If take over, inflation may keep down both investment and consumption, creating a dynamic negative feedback loop between them.

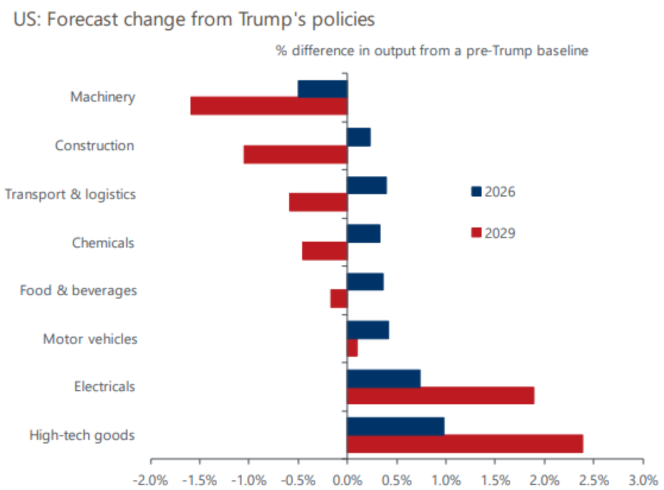
Industrial Performance

Considering the excessive level of uncertainty any predictions hove a high margin of error. Two things should be stressed here.

Different sectors will be affected differently. Two key factors here are exposure to immigration and global supply chains.

- Some industries are more susceptible to immigration restrictions implemented by the Trump administration. If these are to come into effect this could lead to labour shortages, leading to higher costs and less output (construction, food and beverages).
- The degree of integration to global supply chains increases the vulnerability of these industries to retaliatory tariffs. This has already been felt in the automotive industry.

Estimated impact of Trumps's policies on US production, by sector

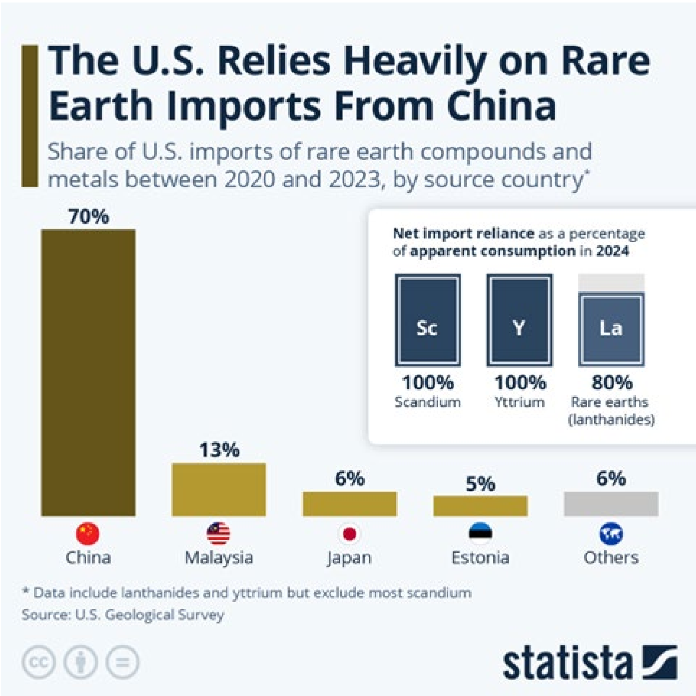


SOURCE: Oxford Economics

Adverse feedback loops related to global and domestic growth dynamics may neutralise any initial positive gains. Some initial econometric modelling [here and here] suggests that while tariffs 'may improve the U.S.'s terms of trade if trading partners do *not* retaliate, any welfare gains vanish under reciprocal retaliation'.

Strategic Sectors: Mineral production

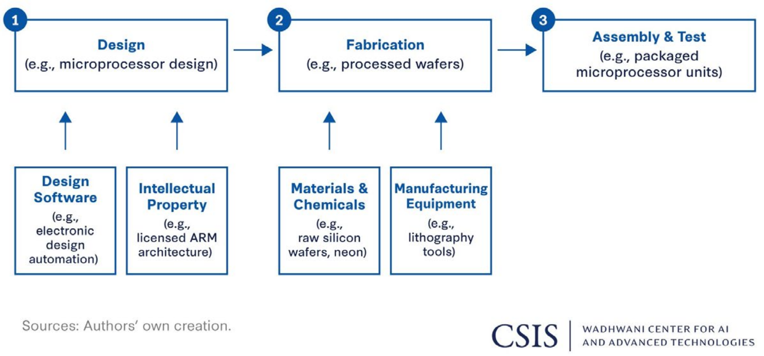
Whilst the use of tariffs is likely to undermine the flow of rare earth materials into the United States, Trump has invoked the Defence Production Act to compensate for any shortfall and stimulate US production. The US is a major importer of rare earths ($167 billion in 2023), and it is unlikely the US will become fully self-reliant in spite of domestic production gains. It is more likely that the Trump administration will try to use the threat of tariffs to posture for more favourable international agreements. The administration has talked up favourable deals in the democratic republic of Congo and Ukraine.



Strategic Sectors: Semiconductors

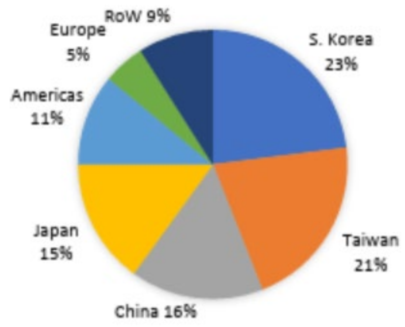
The Trump administration has ruled out the use of tariffs on specific semiconductor companies provided they produce chips in the US. Nvidia, having already pledged to invest $65 billion dollars, now plans to invest an additional $100 billion, moving chip production to Arizona. The Taiwan-based company TSMC has also pledged to invest $100 billion dollars to build five leading fabrication plants in the US. These investments can boost US production levels. This represents a continuation of actions [taken by the Biden administration](), particularly the CHIPs Act, which incentivised production through subsidy. The presented three graphs contextualise these possible shifts in the broader picture of global semiconductor value chains.

Simplified Depiction of the Semiconductor Value Chain



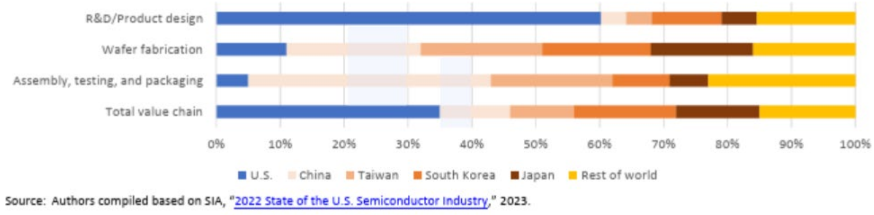
SOURCE: Thadani and Allen

Globally installed wafer fabrication capacity, 2021



SOURCE: Jones and Lotze

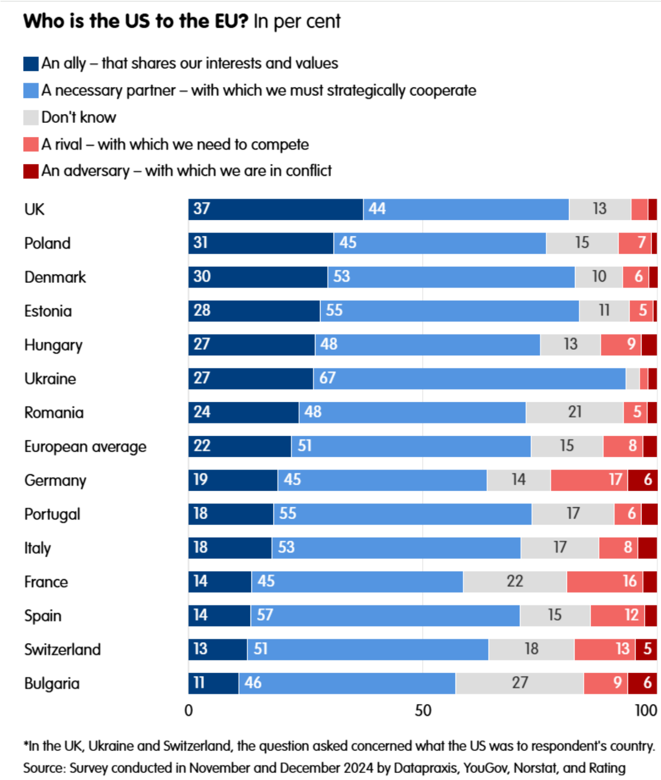
Share of global semiconductor value chains by activity, 2021



SOURCE: Jones and Lotze

Soft Power

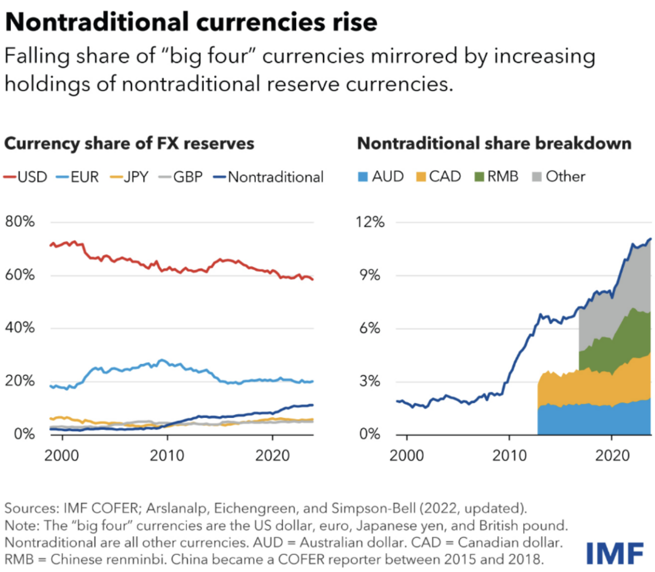
The Trump administration's largely transactional approach to global politics has the potential to profoundly damage the United States's soft power in Europe and the world. His plans to annex Canada and acquire Greenland, the US withdrawal as a guarantor of European security, his use of raw power and intimidation etc. This transactional diplomacy is also evident in the administration's treatment of peace in Ukraine, seeking a profitable deal which grants the United States rights to Ukraine's rare earth minerals and energy power infrastructure. It is clear from this behaviour that Trump believes American exceptionalism is a force stronger than any international agreements or alliance. Amid a world struggling to maintain peace for economic growth, the risks of uncontrolled decoupling arise with Trump's foreign policy choices—the impact of trade tariffs on the sentiment of the U.S.'s allies has disrupted the U.S. image among them before it reached its economic rivals, such as China. As a recent study conducted by the European Council on Foreign Relations (ECFR) shows a majority of Europeans (a sample of 18,507 respondents) considers the U.S. as a "necessary partner" rather than "an ally" while embracing a European opportunity to review its callousness towards the countries outside the block.



SOURCE: ECFR

Dollar as a global reserve currency

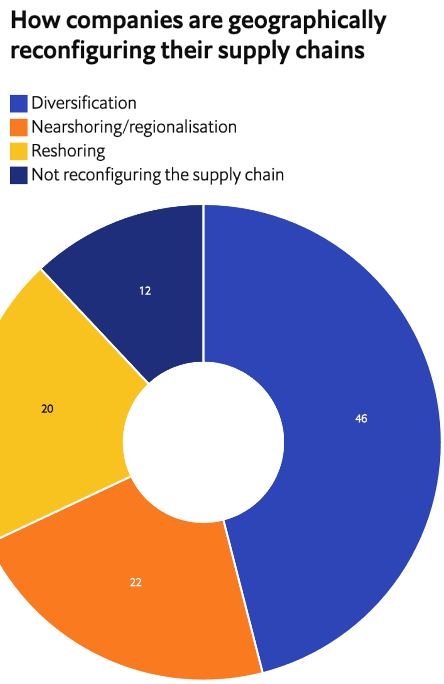
The global trend toward foreign exchange portfolio diversification is likely to continue. The US dollar makes up 58% of global FX reserves; down about 10% from the turn of the 21st c. To role of many "nontraditional" currencies remains small but is increasing. This trend will perhaps intensify as the US' global role is affected by Trump's industrial policy. A country's role in global trade encourages the international use of its currency. The US would see a diminishing role in global trade due to Trump's "America First" policies. The new US administration is also likely to upset financial markets through its planned policies of intervention in the Fed and restriction of US bond sales to foreign investors.



SOURCE: Arslanalp, Eichengreen, Simpson-Bell

Global Production and Supply Chains

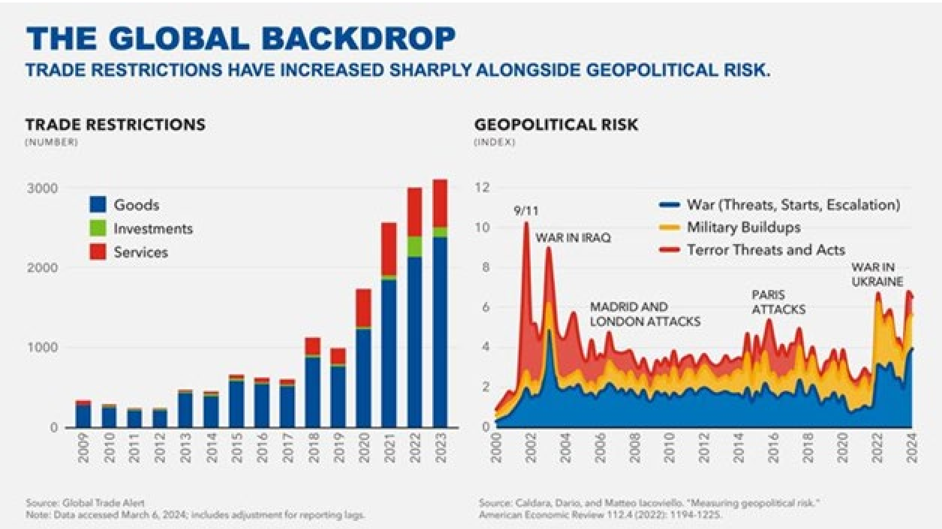
Global supply chains are changing fast. Companies are reacting to geopolitical tensions, climate change, and unexpected bottlenecks. According to a recent Economist Impact report, up to 88% of companies plan to reconfigure their supply chains in 2025, focusing mainly on diversification and localization. Additionally, Trump's "America First" policies is reshaping global trade flows, forcing companies to seek alternative production locations to avoid the rising costs associated with tariffs. In response to the new U.S. trade measures: 40% are increasing U.S. sourcing, and 33% are cutting costs to offset tariffs. Diversification is preferred over regionalization and reshoring, with 46% diversifying geographically, 22% regionalizing, and 20% reshoring. This new regionalization led companies to diversify suppliers across Latin America, Eastern Europe, and Southeast Asia, rather than relying heavily on Asia for their global supply chains. Moreover, many U.S. firms began reshoring production back to the U.S. (see also the section on 'Investment' above)



SOURCE: Economist Impact

Global Fragmentation

The above dynamics suggests the possibility of a fragmented global economy and a new era of blocs based on geoeconomic proximity. Trade restrictions have already been on the rise over the last decade. This uncontrolled decoupling could lead to a lose-lose global outcome. As the International Monetary Fund (IMF) predicted in 2023, the global economy might lose around 7% of its GDP in the long term due to such a decoupling. This raises the alarm that the effect of short-term policies being implemented may determine the longer-term options that the American administrations, and the world, after Trump might face. The spillover effect will double the challenges faced by developing countries, hindering the global economy's

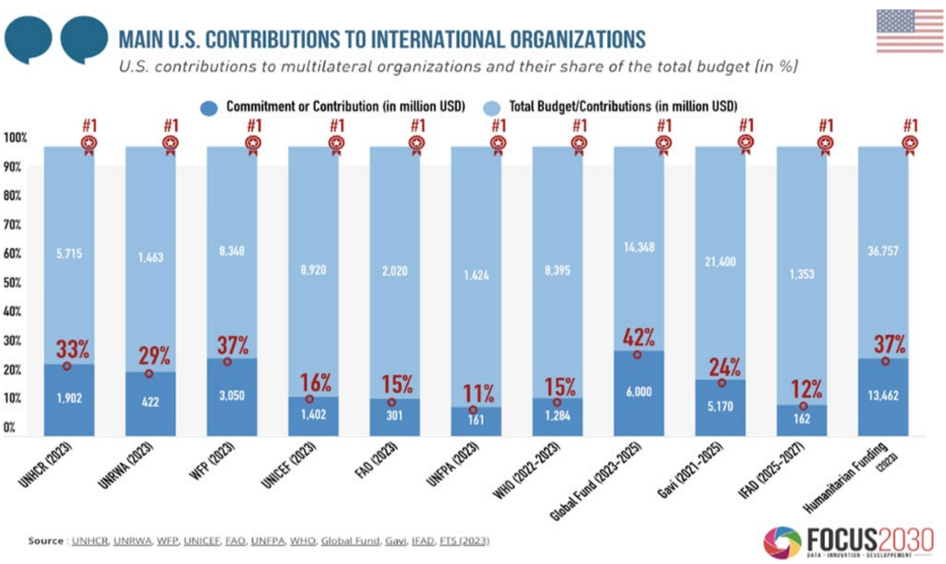


SOURCE: IMF

growth and intensifying the race to find alternatives that replace the traditional role of the U.S. in the global economy, and reduce the risk of being exposed to the same vulnerabilities in the future. In this regard, an interesting development on the eastern side of the world is the meeting of Chinese, Japanese, and South Korean diplomats to seek common ground on security and economic issues in the region amid escalating global uncertainty. In this context, the WTO's capabilities in preventing trade conflicts are constrained as the US has blocked the appointment of new judges to the Appellate Body, leading to the paralysis of the appellate review process. Global economic stagnation gradually emerges as the most probable trend of Trump 2.0.

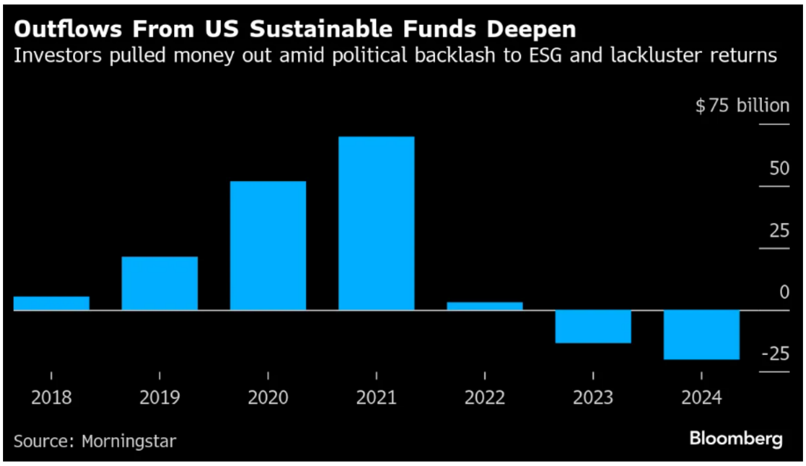
International institutions & foreign aid

In his first day in office, Trump ordered a 90 day pause on all US foreign aid. As a result, the US Agency for International Development (USAID) was largely dismantled and more than 80% of its grants terminated. A joint Ipsos/Reuters poll found that 56% of Americans supported cutting foreign aid. Trump has also paused financial contributions to the World Trade Organisation (WTO), withdrawn the US from the Paris Climate Agreement, the World Health Organization (WHO) and the United Nation Human Rights Council (UNHRC). This has deprived the WHO of its largest contributor. In 2020-2021 the US provided the WHO with $1.284billion. The driving rationale for these actions is that the administration believes that these institutions are detrimental to its 'America First' strategy.



Considering the magnitude of the US foreign aid in absolute terms (more than $60 billion in 2023), neither other governments nor private foundations are likely to fill the void left by the US. US Courts have blocked some of the administration's actions while Congress has passed a continuing resolution that funds foreign assistance at existing levels through the 2025 fiscal year.

Sustainability transition



Source: Bloomberg, 3 March 2025

As mentioned above the Trump administration withdrew from international organisations and key climate treaties, including the Paris Agreement. This decision has profound implications, including undermining the Loss and Damage Fund, which provides financial support to developing nations struggling with the effects of global warming. The Trump administration further rolled back Biden-era incentives for renewable energy, such as subsidies for electric vehicles and clean technology investments. This shift has altered investment patterns within the U.S., with many asset managers and banks pulling out of global net-zero and climate action alliances. This trend in the U.S. could influence emerging markets where U.S. policies set investment trends. With less global funding for climate action, developing countries, which are the least responsible for climate change but the most vulnerable to its effects, are now deprived of crucial support. Moreover, this trend will contribute to the increase of extreme weather events and their destructive impacts, which will demand ever more resources, thus reducing the fiscal space available to governments around the world, including the US.

Concluding

No secure predictions can be made at the time of writing. Almost paradoxically, early indicators suggest that in the aggressive pursuit of America First—prioritising growth, deregulation, lower taxes, increased employment, and improved living standards for Americans—the administration may unwittingly create a situation where trade wars lead to increased inflation, economic recession, higher unemployment and intensified climate change impacts. In this scenario, the US administration will likely be forced to employ some form of quantitative easing. These actions may ultimately increase volatility and foster uncertainty, undermining further global economic growth and prosperity.