TRUMP'S 'MAGA' DESIGN

The markets immediately liked the first Trump: they were convinced that a businessman would put Wall Street in a position to grow thanks to the tax cut. His "America First" was also a call to re-evaluate the old economy based on fossil fuels and manufacturing that had progressively moved away from the United States in search of cheaper production shores, such as China, Asia, but also Mexico and Canada. Trump was so convinced of the need to re-evaluate old energy sources that he appointed Rex Tillerson, former president of ExxonMobil, as Secretary of State. This return to the past, the inability to create a capable government team and his intemperance, probably contributed to the defeat in 2021.

The second Trump, at least so far, is much more liked than the first on Wall Street. The big names in finance have chosen to attribute to the old tycoon a consistency that has yet to be demonstrated. For now, they are convinced that the president wants to use the levers of the old economy to finance a totally new one, digitized and reshaped by the incredible transformative and destructive power of Artificial Intelligence (AI). In this design, the role of *corporate America* is essential and therefore must be protected with tariffs, threats and generous taxation for those who produce, or return to production, in the United States.

To succeed in his MAGA design ("Make America Great Again"), Trump needs oil prices to remain low, but not too low: American oil companies must flood the world with black gold, but without destroying themselves. The American stock market and the dollar are central to this path. His fellow citizens and the rest of the world must be convinced that the United States is the best place to invest: companies in the old economy, as well as smaller ones operating in the local market, benefit from energy and tax costs capable of enhancing their profitability, while the large multinationals of digitization (the Magnificent 7) have long held the keys to change that, in fact, they are at the disposal of American power. Elon Musk, with a role in the government structure, is the exasperated expression of this interpenetration.

For entrepreneur Donald Trump, who grew up in the field of real estate construction, wars are a cost. Biden, on the other hand, a man of power even during the years of the Cold War, was perhaps more inclined to assess the economic effects of military investments. Wall Street expects Trump's promise of muscular action on trade flows that must adapt to America's interests, but without resulting in armed conflict. On the contrary, the wars in Ukraine and the Middle East must return.

The central problem of Trump's strategy concerns inflation. The old manufacturing economy is potentially inflationary. For this reason, it is essential that the price of oil remains at levels not too far from seventy dollars per barrel. But the tariff policies, which started as early as February 1 against Canada, Mexico, China and probably soon also against Europe, are inflationary as are the provisions concerning immigration: manufacturing needs labor. On the other hand, the digital economy exposed to artificial intelligence tends to be deflationary: the rationalization of production functions requires less human labor.

In this context, the market, as well as the Federal Reserve, do not currently have sufficient elements to assess the future inflation that Trump could exacerbate. The U.S. labor market proved to be solid, creating 200,000 jobs in December, a number higher than expected. At the same time, unemployment remained at 4.1%, a low level. Consumer price inflation (CPI) is around 3.2%. And PCE, the Fed's preferred measure of inflation, is, in line with expectations, at 2.6%. For now, inflationary pressure, while remaining above the 2% target, is relatively contained despite solid labor market conditions.

After all, if prices have not formally shown excessive excitement, it is also thanks to the Gross Domestic Product (GDP) which fell to 2.3% in the last quarter of 2024, while in the third quarter it had grown by 3% year-on-year. But inflation could regain momentum with the entry into force of the first tariffs, while the growth figure is distorted by the sharp increase in imports in December: precisely in anticipation of the new tariffs, American companies have stocked up on the most important intermediate products and foreign consumer goods, bringing the United States' trade deficit to an all-time high ($122.11 billion). Higher imports have a negative impact on GDP because their added value is not created domestically.

On the basis of these contrasting elements, the Federal Reserve interrupted the cycle of interest rate cuts at its last meeting on January 29, leaving them in the range between 4.25% and 4.5%, displeasing Donald Trump. Markets have gone from expectations of four rate cuts in 2025 to two. The euphoria of the markets, which greeted the election of the new-old president, with the advent of 2025 has begun a phase of consolidation, waiting to see if the glimpsed and supposed coherence of Trump's MAGA design resists the clash with reality.

In January, despite some significant shocks, the markets held up. These have weathered liquidity uncertainty, rising long-term rates in opposition to central bank policies, the sudden appearance of DeepSeek (China's challenge to artificial intelligence), the important valuations of major digitization companies, tariff and geopolitical tensions. The markets seem to have done everything to confirm the statistics of January: the month closed in positive is a good omen for the entire year. The first business results for the fourth quarter of 2024 were positive overall: for example, Microsoft's decline was matched by Meta's rise. The balanced weighted S&P (+3.4% since the beginning of the year) has run more than the capitalized S&P, where the Magnificent 7 define its strength (+2.7%). Financial flows have also gone in search of undervalued countries and securities, helped by a cycle of rate cuts that has not stopped. The Eurostoxx50 grew by almost 8%, more than double the indices on the other side of the Atlantic, while Switzerland - with the conservative stocks of the pharmaceutical and food sectors, forgotten last year - scored +8.6%.

The markets want to give Donald Trump the first hundred days, before assessing whether the coherence they have glimpsed between the new and old economy confirms the driving force on which they have already bet and which the dollar at 1.03 against the euro reflects. Wall Street can still count on the wealth of American households, of $168.8 trillion (data from the third quarter of 2024), largely held by *Baby boomers* who are retiring, benefiting from the wealth effect of financial investments and therefore ready to support consumption. While waiting for clearer indications on the future, gold has hit a new all-time high, getting closer and closer to three thousand dollars an ounce. Signaling, probably, that we will have to get used to a lot of volatility in the markets.