

JANUARY 27, 2025

PHILEQUITY CORNER

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The Trump show has begun

On his first day in office, US President Donald Trump signed a record 26 executive orders and unleashed a flurry of policy pronouncements. His Make America Great Again (MAGA) agenda is an encompassing raft of policies that will supposedly benefit the US but will also have far-reaching consequences.

“I’ll demand that interest rates drop immediately.”

Trump said, "I'll demand that interest rates drop immediately. And likewise, they should be dropping all over the world." The Federal Reserve (Fed) is cutting its policy rate yet bond yields are still high. It remains to be seen if the Fed can cut rates faster, and if market-driven interest rates will come down.

Asking Saudi to bring down oil prices

Trump said, "I'm also going to ask Saudi Arabia and OPEC to bring down the cost of oil." It will be a positive development if Saudi Arabia and the OPEC can increase production which would result in lower oil prices. This can lead to lower inflation especially for oil importing countries such as the Philippines.

“Drill, baby, drill”

Trump signed executive actions that would boost fossil fuel production and "solidify the US as a global energy leader long into the future." These policies support the expansion of drilling and natural gas exports and the review of new liquefied natural gas (LNG) projects. An increase in US oil and gas production would lead to lower energy prices.

Tariff threats

Trump said that he is mulling the imposition of 25% tariffs on Mexico and Canada by February 1. Trump is contemplating the imposition of 10% tariffs on China. Most recently, Trump said that he'd rather not impose fresh tariffs on China even as he maintained the tariff threat. Meanwhile, Trump threatened Europe with tariffs due to a widening trade deficit. He is also looking at plans to impose 10% duties on all countries. Lastly, Trump demanded that Russia should make a deal to end the war in Ukraine and threatened Putin with high levels of taxes, tariffs, and sanctions.

National emergency on borders

Trump declared a national emergency to justify the deployment of additional troops to the US-Mexico border to prevent the entry of illegal border trespassers. He also said that he will implement a mass deportation of illegal immigrants. Trump ordered to end birthright citizenship which automatically gives American citizenship to children born in the US. With Trump's order, only children of American citizens born in the US will automatically get US citizenship.

"Largest AI infrastructure project in history"

Trump announced that OpenAI, SoftBank, and Oracle will create a new company called Stargate which will build AI infrastructure in the US. Trump called it the "largest AI infrastructure project in history" and said that the project is expected to create 100,000 jobs. The project will be funded by an initial investment of \$100b with plans to increase this up to \$500b in the coming years.

Deregulation

As part of his deregulation agenda, Trump seeks to undo some of the tougher rules introduced after the 2007-2008 banking crisis. This may involve watering down Basel 3 rules which are meant to ensure that banks hold enough capital to absorb potential losses. Trump is expected to advocate a friendly stance on mergers and acquisitions to encourage consolidation and M&As in the banking sector.

Tax cuts

Trump called for massive tax cuts for workers and families, as well as local producers and manufacturers. He called for an extension of the tax breaks under the Tax Cuts & Jobs Act of 2017. He also proposed various additional cuts from eliminating taxes on tips, senior citizens, and Social Security income.

Tiktok, WHO withdrawal, and other policies

Below are other actions and statements that Trump made during the past week.

- Trump ordered federal workers who are in remote or hybrid arrangements to report back to office.
- Trump approved a temporary reprieve on the US ban on Tiktok. He encouraged the entry of investors such as Elon Musk and Larry Ellison to become Tiktok's US partner.
- Trump called for the country's withdrawal from the World Health Organization (WHO).
- Trump ordered the withdrawal of the US from the Paris climate agreement.
- Trump signed an executive order to promote the advancement of cryptocurrencies and potentially introduce a national digital asset stockpile.

The bark may be bigger than the bite

As a result of Trump's policy pronouncements, the S&P 500 touched a new all-time high last week. Oil prices came down at the prospect of higher US and OPEC production. AI stocks moved higher in anticipation of increased investments. Meanwhile, banking stocks rose amid impending deregulation efforts. Bitcoin reached record levels as crypto investors look forward to supportive regulations.

However, Europe, Japan, China, and other markets recovered as US stocks consolidated. Likewise, global currencies bounced as the US dollar stabilized. The recovery in some markets ensued as Trump's recent statements on tariffs and other policies were not as harsh as pronounced in his campaign. This move may continue if Trump implements policies that are not as hawkish as previously feared.

All eyes on Trump

In just one week, Trump has moved markets and startled investors with his bold actions and statements. Trump was brutish, aggressive, unconventional, and demanding in announcing his agenda, like a big bully in the playground who is throwing his weight around. Given his powerful electoral mandate, Trump is resorting to his tough ways in order to push his agenda and get what he wants. The whole world is watching as Trump's policies will have far-reaching consequences to the global economy and financial markets.