

DONALD TRUMP MAKES THE REST OF THE WORLD GREAT AGAIN

By institutionalizing uncertainty and instability, Trump is forcing the Rest of the World to focus on its own strengths and sovereignty

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The world has changed radically in the space of just a few days. You can think what you like about Donald Trump, but you can't objectively deny that he has ushered in – albeit boorishly – a new period of political resolve, or that the effects are already visible. His unconventional activism consists of arm-twisting other parties into agreements (or deals) through a brute-force approach that we are unaccustomed to in Western democracies. By institutionalizing uncertainty and instability, Trump is forcing the Rest of the World to focus on its own strengths and sovereignty – because in the end that will be cheaper for Uncle Sam.

WHEN SITTING ACROSS FROM A HUMILIATED ZELENSKY, TRUMP WAS ACTUALLY NEGOTIATING WITH EUROPE

Trump's various statements and the procrastination that typically follows his initial declarations are all part of a negotiation that the other parties may or may not be aware of – or even know they're taking part in. Two days after Trump humiliated the Ukrainian president on television and Europe summarily drew the conclusion that "the United States is no longer our ally", European leaders met to finally try to create a veritable "unified Europe" and Germany prepared to announce a large-scale investment programme on defence and infrastructure that will amount to 20% of GDP. Trump may have been sitting across from Zelensky, but he was actually negotiating with Europe.

By emphatically singling out their new enemy – Putin's Russia and the threat it could pose to security across Western Europe – the EU and Germany cast aside, in the space of just two days, their fiscal-deficit limits, which have long been one of their hallmark economic measures. Anything could be justified in the light of the "Russian threat". Most importantly, this threat suggests there may be a light of stronger economic growth at the end of the tunnel; an objective European policymakers had abandoned long ago, when they submitted to the Maastricht criteria and to their fear of inflation. By giving Europe a pretext for actively contributing to global economic growth and by requiring European countries to step up their defence efforts, as he had threatened to do several times during his election campaign, Trump is Making Europe Great Again.

IN CHINA, THE YET-TO-BE-STARTED NEGOTIATIONS ARE ALREADY HAVING AN EFFECT!

Before Trump has even begun negotiating with Beijing, but after he raised US tariffs on Chinese imports, China's premier declared that "boosting consumer spending is now a priority". The tariff negotiations haven't started yet, but they seem to already be having an effect! This would be the first time Beijing is planning to focus on domestic consumption; until now, consumer spending had been viewed as an unhealthy byproduct of liberal economies desperately seeking growth. Ever since China joined the World Trade Organization, it has been building the infrastructure and production capacity needed to flood the world with unbeatably low-cost products. China has always been a major driver of global disinflation. If its policymakers now shift their efforts to consumer spending, that would be a surprise, although one we sense may be possible. Now that Trump has made it clear the US will no longer be the buyer of last resort of goods produced by its current and former allies, Beijing seems to be preparing for the day when its own consumers and its other trading partners will be called on to absorb much of China's output. And why not give it a try? Such an upheaval – which of course remains to be confirmed – would be significant and would have meaningful effects on growth in global demand and on prices. Is it possible that, after four years of weak economic output and hints of deflation, Trump is Making China Great Again too?

TRUMP IS MAKING AMERICA DIFFERENT, BUT IT'S DOUBTFUL THIS WILL BE HIS NEW BASEBALL-CAP SLOGAN

While US investors, business owners, and consumers are worried about Trump's activism, the US Treasury Secretary has said that Main Street (i.e. the middle class) will be the focus of Trump's policies. This statement, if acted upon, is also quite significant – full employment and purchasing power would become priorities, whereas until now, they were the consequence of a policy that aimed to underpin domestic demand through the wealth effect, or the mechanism of pushing up financial-asset and real-estate prices by keeping interest rates low. The owners of such assets have benefitted from this policy while everyone else has mainly suffered from it, owing to the contained wage increases it came with. A policy of reindustrialising America to support Main Street should be inflationary, at least initially, and the attendant higher interest rates shouldn't be good news for Wall Street. Trump is working for his electors. He's Making America Different! But it's doubtful this will be the new slogan on his baseball cap.

THE CONVERGENCE OF SECULAR TRENDS WITH TODAY'S WORLD POINTS TO VOLATILE INFLATION, FIRM GDP GROWTH, AND HIGHER LONG-TERM INTEREST RATES

The predictions we've made here for Europe, China, and the US – predictions that stem from the belligerent geopolitical climate and turbulence in global trade – may not materialise. But they carry a message analogous to the one given in recent years by the turnaround in broad secular trends: today's demographics are less favourable to investment and low wages, the geopolitical climate is more belligerent (a shift that started even before Trump returned to office), global trade had already started running out of steam before the hike in tariffs, and sociological factors are less encouraging for productivity. Recognising these inflection points, and believing what we're seeing, suggests that we may be entering an era in which inflation will again be cyclical, economic growth will be an explicit political objective, and nominal interest rates will stabilise at higher levels. The convergence of secular trends with today's world points to a gradual, large-scale economic and financial-market rotation from the US towards the Rest of the World, a transition from the era of central banks to the era of politics, and a switch from a low-interest-rate environment that's good for stock markets to an environment that's good for middle-class purchasing power. This "great rotation" will weaken the US dollar, enabling emerging markets to outperform the developed world after 15 years of generally lagging behind. Trump is Making the Rest of the World Great Again. Maybe this isn't such a bleak period after all.

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