Opinion **Markets**

Investors are frogs in a Trumpian pot

People are looking at becalmed market conditions and writing them off as the result of a quiet summer

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Stephen Miran, Donald Trumps' latest pick for a temporary (for now) spot at the Fed, is the co-author of a paper that calls for a 'fundamental overhaul' of the central bank © Donald J. Trump/Truth Social

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Markets are bending the knee to Donald Trump, opening up the possibility of a new level of recklessness in the US president's economic policymaking.

It was not supposed to be this way. The received wisdom in the run-up to Trump's return to the White House was that markets would provide useful ballast against his wilder impulses. A new band of so-called stock vigilantes was expected to rumble the big benchmarks on any sign of excess from the president, easing him back in to more conventional grooves.

For a short while, this expectation showed some merit. Stocks investors bared their teeth at Trump's early dalliances with import taxes, weakly at first, then more fiercely after the April 2 global tariffs farce, which Trump abandoned a week later, when the stock markets' bigger, scarier cousin — the bond market — pushed back.

Since then, investors have called Trump's bluff over and over again, disregarding a string of outlandish policy pronouncements, on the hope that he will chicken out soon enough.

The problem is, Trump has largely stopped chickening out. The result is that investors are shrugging off developments that, by most measures, should have them running for the hills.

Hop in to a time machine, go back a year, and tell a money manager what the world will look like in August 2025. US stock markets are more concentrated than ever on a handful of companies, the chief executive of one of which has secured favourable treatment from the president after handing out a golden gift in the Oval Office.

Trade taxes are all over the place, agreements with major partners are not worth the paper they are written on, largely because they are not written down, and certain countries are singled out based on Trump's personal preferences — ask officials in Switzerland, Brazil and India for details.

The president has just fired the head of the Bureau of Labor Statistics because he did not like the latest employment data. He is still hurling insults at the chair of the Federal Reserve, Jay Powell, and has relented on efforts to fire him only under duress. His latest pick for a temporary (for now) spot at the Fed, adviser Stephen Miran, is the blue-sky thinker behind the widely discredited Mar-a-Lago Accord idea and co-author of a paper that calls for a "fundamental overhaul" of the world's most important central bank, including the assertion that "board members and Reserve Bank leaders should be subject to at-will removal by the president". Oh, and America's cherished 401k savings plans have opened up to crypto.

From your perch in this time machine, you would expect your money management buddy to reach for a stiff drink, scurry out of risky assets and head for safety. But the reality is different.

Volatility is nice and low. US stocks indices are trading at record highs, government bonds are steady and the dollar is declining gracefully. Economist Paul Krugman is not alone in asking “policy has gone mad; why aren’t stocks down?”

Various explanations present themselves here. One is that Trump’s economic policy is great, actually. All this talk of “uncertainty” is, as David Zervos at Jefferies says, a “politically inspired hoax” propagated by “the macro intelligentsia crowd”. It is rare for investment banks and asset managers to fall prey to leftist propaganda, but the nervous ninnies do sometimes get it wrong.

Another is that all the bad news is in the price already. In an alternative non-Trumpy universe, maybe US stocks would not be 9 per cent higher this year, but 35 per cent higher, as German stocks are (when measured in dollars).

A third, though, is that this really does not make sense. Wonks are interrogating the details of who Trump will pick as the next Fed chair and what the intricacies of their stance could mean for which pocket of the bond market. They are stroking their chins and saying well, US jobs data has been iffy for a while.

They are sweating the small stuff and missing the existential threat of US institutional destruction, or struggling to bake its long-term implications in to short-termist markets. Hey, corporate earnings are OK and interest rates are likely to fall soon anyway, so to use a dangerous phrase, while the music is playing, we’re still dancing.

A lot of analysts and investors are looking at becalmed market conditions and writing them off as the result of typically quiet, warm summer days. I’m more minded to worry that investors are frogs in a pot, and the gathering warmth is rising from the flame underneath. Either way, subdued markets give the president a pass to push norms and institutions further and further towards the breaking point.

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