Flash Economics

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Donald Trump's presidency will be synonymous with uncertainty and volatility

Donald Trump's desire to make spectacular announcements on an almost daily basis (on tariffs, territorial claims, foreign policy, environmental policy, etc..), even if it means denying these announcements a few days later, will create a permanent environment of uncertainty and volatility.

Increased uncertainty will lead to, and this is already evident in some areas:

- A decline in corporate investment in the United States, but also in the United States' trading partners;
- A fall in stock market indices and the price of Bitcoin;
- A fall in long-term interest rates on government debt and a rise in the price of gold, as investors shift from risky assets to debt and other risk-free assets.

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Increased uncertainty over US economic, environmental and foreign policies

Since Donald Trump became the new President of the United States, he has been making surprising announcements on an almost daily basis:

- **On economic policy**: tariffs on US imports from Canada, Mexico and China, the announcement of tariffs on European products, followed by the abandonment, definitive or otherwise, of tariffs on Canadian and Mexican products; the closure of a number of federal agencies, the organised departure of a number of civil servants, and the halting of development aid....
- **Concerning territorial claims** (Greenland) or the demand to sever ties with China (Panama);
- **Concerning foreign policy** (pressure on Ukraine to stop the war);
- **US withdrawal from the Paris climate agreements**, incentives to produce more oil, natural gas and coal, and an end to subsidies for the purchase of electric cars.

What are the effects of increased uncertainty?

1. Increased uncertainty about US economic, climate and foreign policies is likely to **discourage corporate investment** (there is a negative effect of uncertainty on investment resulting from increased uncertainty about future corporate sales). This concerns **investment by US companies** (**Chart 1**), but also **investment by the US's trading partners** (**Chart 2**).

Chart 1
United States: Nonresidential fixed investment in value terms (as % of nominal GDP)

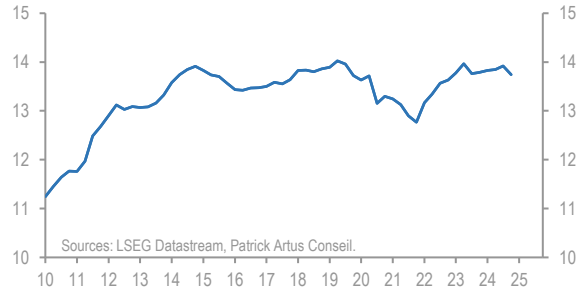
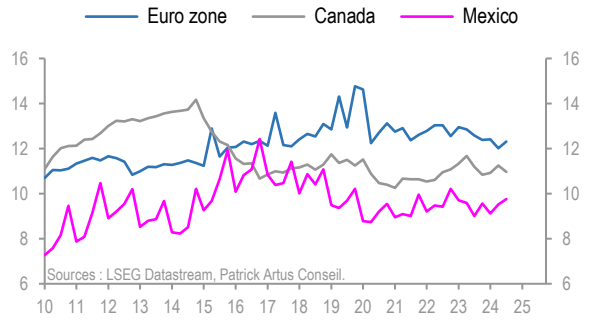


Chart 2
Investment of corporations in value terms (as % of nominal GDP)



2. **Increased uncertainty should also lead to a decline in stock market indices**, with a rise in the equity risk premium due to greater uncertainty about future profits. If we look at trends in the VIX, S&P and Nasdaq since Donald Trump became President of the United States (**Charts 3a/b**), we see that the VIX is now fluctuating between 15 and 19, which is higher than its level in the first half of 2024, and that the Nasdaq and S&P have stagnated since the end of 2024.

Chart 3A
VIX Index

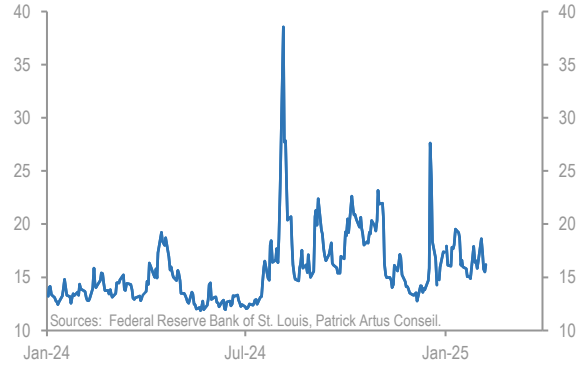
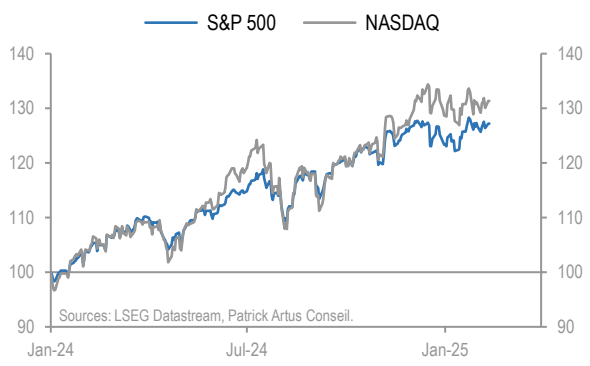
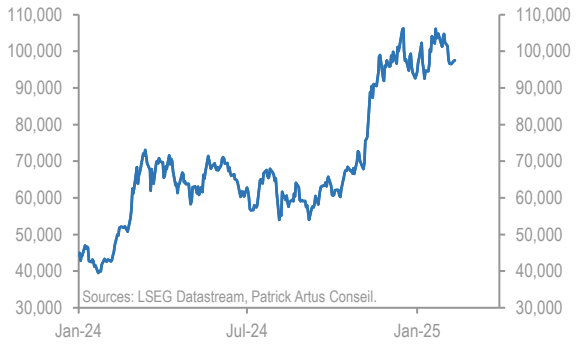


Chart 3B
United States: Stock market indices (01.01.2024 = 100)



3. There has been **a sharp fall in the price of Bitcoin since Donald Trump took office** at the White House, which is also consistent with this rise in risk perception (**Chart 4**).

Chart 4
Price of Bitcoin (USD)



4. **The heightened uncertainty should cause investors to switch to risk-free assets**, and thus push up the prices of these assets. Indeed, **long-term interest rates have fallen**, more sharply in the United States than in other countries (**Chart 5**), and the price of gold has risen (**Chart 6**).

Chart 5
Interest rate on 10-year government bonds (as %)

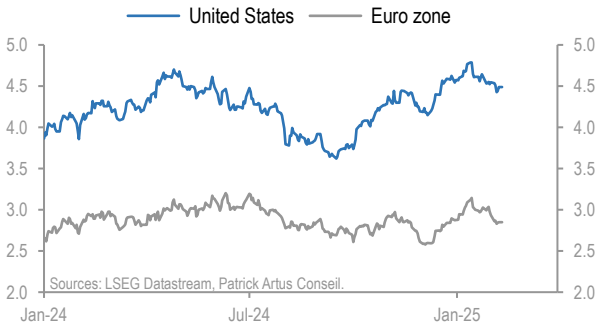
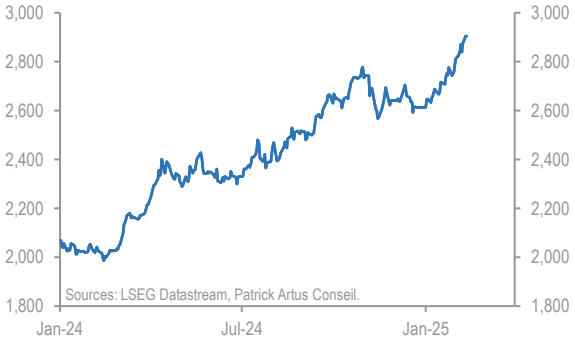


Chart 6
Gold price (USD per Troy Ounce)



Summary: increased uncertainty is not desirable

The numerous and sometimes contradictory announcements made by Donald Trump in all areas (economy, international relations, climate policy, etc..) increase the level of uncertainty and the perception of risk, and therefore normally:

- Reduce corporate investment;
- Depress stock market prices and the prices of other risky assets;
- Shift investment and savings towards risk-free assets.

If the heightened uncertainty about US policies does indeed reduce investment and savings invested in risky projects, this uncertainty is clearly undesirable.

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