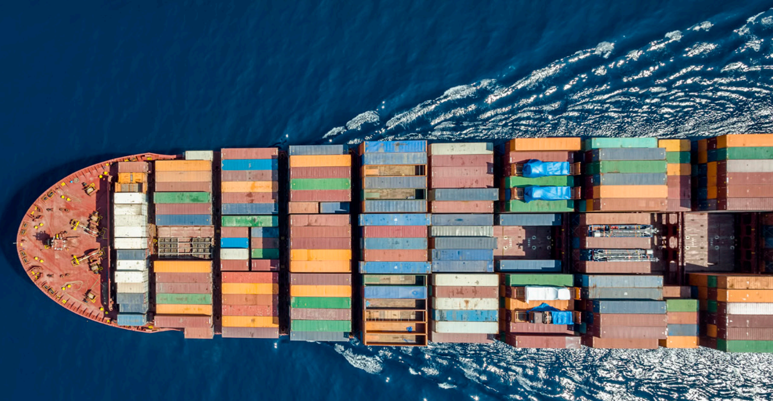

HIRTLE CALLAGHAN & CO
Chief Investment Officers

TRUMP'S ECONOMIC PLAYBOOK: NAVIGATING MARKET VOLATILITY

"I think Trump may be one of those figures in history who appears from time to time to mark the end of an era and to force it to give up its old pretenses."

— Henry Kissinger, July 2018

From the U.S. election to the inauguration of President Trump, global markets coalesced around a facile narrative for the Trump plans. The Trump administration would:

1. **Deregulate**
2. **Cut taxes**
3. **Apply tariffs**

The result would be increased economic activity and rising inflation. The prescribed investment was to be long U.S. equities, short non-U.S. stocks, short U.S. bonds and long the U.S. Dollar. The Trump trade succeeded marvelously, for a time. However, what benefits from simplicity often suffers from logical coherence. If the U.S. economy succeeded, how could that not inure to the rest of the world? How could tariffs somehow be unambiguously positive for the U.S. and simultaneously negative for our trading partners? How could the U.S. experience accelerating inflation and a strong currency? The received wisdom was rife with contradictions.

Our view of the Trump plans was very different. The primary object of the U.S. economic policy would be to reduce long term interest rates. The obstacle to this goal was inflation. Therefore, the Administration would need to reduce aggregate demand and stimulate aggregate supply. These targets would be accomplished by strangling government expenditure (the DOGE project) and re-shoring productive capacity (Stargate et al). The corollary aim was to re-orient the global imbalance of trade. While tariffs might be a nudge in that direction, the real mechanism to achieve that end would be the weakening of the U.S. dollar and the reduction of the budget deficit. This alternative narrative suggested a very different positioning. We increased our overweight to non-U.S. assets and non-U.S. dollar exposure and bought duration in fixed income. We remained cautious on U.S. equity and credit.

Our view was informed by a careful reading of Treasury Secretary Bessent's views and those of important economic policy advisors such as Stephen Miran. Above all, it was motivated by Henry Kissinger's framing in the epigraph. Trump is not what he appears on the surface—a jingoistic populist. He is a deeply transformative figure. And the great transformation is to address the disequilibria of the post 2002 WTO trading system. Fixing the U.S. over consumption and non-U.S. overproduction engendered by concurrent current account deficits and capital account surpluses will be a generational project with massive dislocations. In brief, we will have to break things to fix them. Kissinger referred to Hegel's depiction of Napoleon as the catalytic figure of such a paradigm shift. We may be on the cusp of a similar metamorphosis. There are no ineluctable movements in history. In this go-round the Girondistes may overpower the Jacobins. The restorationists may yet succeed. It is sufficient to be aware that we are witnessing a struggle of ideas of that degree.

Recently, markets have seemingly reacted to the shock of tariffs and Trump's reordering of U.S. foreign policy. We were shocked too—but more in the way Captain Renault was upon discovering gambling at Rick's Café Americain. This turbulence is not due to an epiphany but rather a correction of a prior mistaken belief. We have used the draw down in markets to harvest a good deal of the insurance we were holding in the form of defensive and low-volatility positions. We have deployed the proceeds into the market at more reasonable valuations on growth expectations that we now consider more achievable. We continue to hold some downside protection in the form of a longer duration and up-in-quality orientation in fixed income as well as some tail insurance. We continue to be overweight Europe despite the revaluation based on the increasing momentum of positive economic developments and still attractive valuations. In summary, we have let out a little more sail and are watchful for a shift in the wind direction.

BRAD CONGER, CFA / bconger@hirtlecallaghan.com

Brad is Chief Investment Officer. As CIO, he chairs the Investment Committee and leads our Investment Team, which is directly responsible for the firm's asset allocation strategies and the selection of investment managers for client portfolios. He has been with Hirtle Callaghan for fifteen years during which he has overseen manager selection in equities and fixed income. Before taking on the CIO role, Brad served as Deputy CIO, taking the lead on asset allocation and portfolio construction and building our private credit strategy. He is a frequent contributor to the financial media, the host of our regular investment webcasts and the author of our quarterly investment commentary. Brad has over 30 years of experience managing global multi-asset strategies. Prior to joining Hirtle Callaghan, Brad was a Director of the Global Equities strategies at Clearbridge Advisors; General Partner and Managing Member of Narragansett Asset Management's Overseas Fund; Managing Director of a global equity long/short affiliate of HBK Investments; and Vice President and Portfolio Manager of AIM International Equity & Global Growth funds. Brad began his career with Goldman Sachs in European Equities (NYC & London). Brad received his MBA from Harvard Business School and B.A. in Economics (Highest Honors) from the University of North Carolina at Chapel Hill where he was a Morehead Scholar. Brad is a CFA Charterholder.

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