EDMOND DE ROTHSCHILD

MAR-A-LAGO UNDER WATCH

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THE U.S. STOCK MARKET IS CORRECTING

Investors were caught wrong-footed as they headed into 2025: they were expecting corporate tax cuts and deregulation; instead, they are facing a new trade war. Raised tariffs were understood to be bargaining tools to secure concessions, not a priority goal. Furthermore, President Trump no longer appears to care about the stock market, in stark contrast with his first term of office. Leaving investors feeling deeply baffled.

A DETERMINED POLITICAL PROGRAMME

The Trump 2.0 programme was largely drawn up by the deeply Republican and libertarian *Heritage Foundation* and with a focus on *America First.* The plan aims to encourage global companies to re-shore their manufacturing facilities in the United States, using all means at hand: raised tariffs, weakened dollar, lower corporate tax rates, regulation stripped down to essentials, and eliminating the constraints and *best practices* pursued by the Western world, notably on climate change, diversity, and biodiversity. The timing chosen by the Trump administration – starting with the toughest, maybe to avoid polluting preparations for the *midterms* – may be surprising but does not mean that the programme has been abandoned.

DEPRECIATING THE DOLLAR

Stephen Miran, nominated to chair Trump's *Council of Economic Advisers* (CEA), has very clearly expressed[1] the connection between tariffs and the dollar. Tariffs would only be a prelude to a Mar-a-Lago accord, a 2.0 version of the Plaza accord of 1985. The idea is to convince allied foreign countries - in exchange for maintaining the U.S. security umbrella and cancelling the new tariffs in full or in part - to sell a share of their dollar reserves, while agreeing to swap some of their U.S. Treasury bonds for zero-coupon perpetual bonds. Engineering a weaker dollar is a high-risk operation, as the United States is currently experiencing twin deficits (budget and current account): to prevent long-term yields from rising as a result of private investors selling their U.S. bonds in dollars, having public investors on the buying side would no doubt help. If a multilateral Mar-a-Lago accord is not reached, a "user fee" tax could be applied to the central banks of foreign countries (with under-valued currencies) that hold U.S. debt, to encourage them to switch to other currencies.

[1] A User's Guide to Restructuring the Global Trading System, Stephen Miran 2024, Hudson Bay Capital

"MAR-A-LAGO" IN LIGHT AND SHADE

It is difficult to know to what extent the Mar-a-Lago accord is fully embraced by the U.S. administration. Interestingly, Scott Bessent, U.S. Treasury Secretary, refers to the agreement in his speeches, and some media believe that the project is backed by JD Vance[2].

On the one hand, Stephen Miran indicates that inflation should first return to normal to avoid creating too much market turbulence. And this is not quite the case yet. On the other, it seems that European countries have asked for maintained U.S. military protection in Europe for the next 5 to 10 years, to allow for a managed transfer[3]. As the "security umbrella" is an explicit bargaining tool in the Mar-a-Lago accord, negotiating the geostrategic repositioning could also expedite the monetary reset project. Assigning a probability to such an occurrence and its timing is an impossible task, but it certainly isn't zero.

IMPACT OF A "MAR-A-LAGO" ACCORD

This sequence of events could put markets under pressure. The mere announcement of talks on a Mar-a-Lago accord could initially cause the dollar and U.S. sovereign bonds to plunge, which would in turn impact stock markets. One cannot brutally revise "Bretton Woods II" without causing some damage.

It is likely that plans for a Mar-a-Lago accord would be met with strong resistance and trigger a crisis. While in game theory, allied foreign countries would lose less by accepting such an agreement, how can a politician facing constituents agree to sacrifice some of the nation's financial wealth to purchase zero-coupon perpetual U.S. bonds? Particularly as such a concession would come with security guarantees by the United States - which have become increasingly uncertain with the new administration. It seems feasible that a refusal would lead to a new wave of tariffs and additional pressure for capital markets. The dollar would be swayed by opposing forces: U.S. tariffs would cause the dollar to strengthen, while the U.S. authorities' clear drive to weaken the dollar would push it down. In any event, the dollar would initially plunge.

IMPACT ON PORTFOLIO MANAGEMENT

This outlandish and still rather sketchy "Mar-a-Lago" project remains speculative and does not feature in our core scenario. But it is also too latent and established to be ignored. As such, opting for hedging strategies or lowering exposure to the dollar makes sense. In a "Mar-a-Lago" scenario where stocks and bonds could fall sharply, the dollar would be on the front line. Hedging the dollar comes at a cost (currently around 2% per year) but does allow continued investment while shielding international portfolios from accumulated risks in such an environment. Within our investment committee, we have chosen to underweight the dollar; we do not have a negative view on the currency but are keen to avoid the risk of such an accord gaining ground. More often than not, the dollar protects portfolios in periods of high volatility. But if the political shadow the Trump administration has cast over the economy and monetary systems spreads to the markets, we may be heading for an exception.

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[2] https://theweek.com/business/economy/what-is-the-the-mar-a-lago-accord
[3] Financial Times, 20 mars 2025, European military powers work on 5-10 year plan to replace US in NATO

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