

## Strategy Report

## Understanding Trump's Foreign Policy

## In this Issue

- 2 First, A Look At The Selloff ...
- 3 Now, About Those Tariffs ...
- 5 Putin's Reasons To Accept Ceasefire
- 6 Understanding Trump's Threats Against NATO
- 8 Understanding Trump's Outreach To Russia
- 10 Understanding Trump's Foreign Policy
- 11 Housekeeping
- 13 Investment Takeaways
- 14 Appendix 1
- 15 Appendix 2

## Editorial Board

Matt Gertken  
Chief Geopolitical Strategist

Jesse Anak Kuri  
Editor/Strategist

Yushu Ma  
Associate Editor

Max Malak  
Research Associate

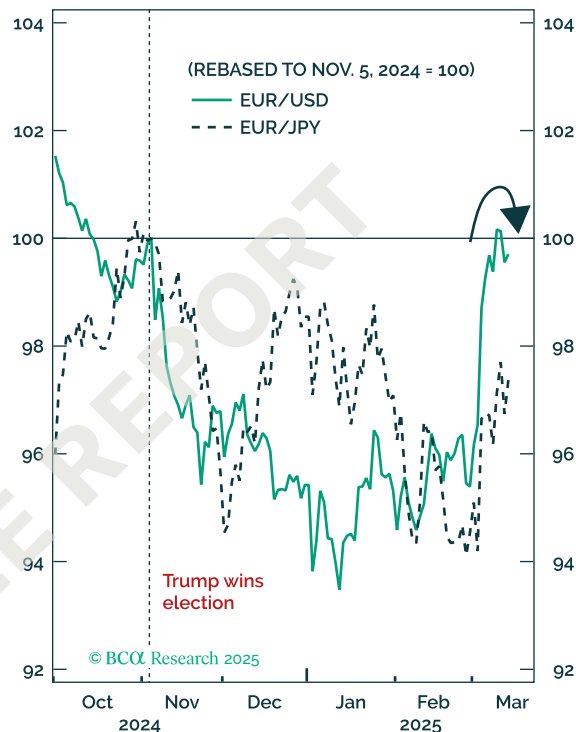
Junfei Guo  
Research Associate

Chester Ntonifor  
Vice President

## Executive Summary

- Trump's foreign policy is ultimately about countering China, not destroying US alliances.
- As stocks near bear market territory, Trump's team will try to reduce trade tensions with Canada, Mexico, and Europe. But the trade war with China will escalate.
- Ultimately Trump can go rogue on the trade war, but that is more likely when he is a veritable "lame duck," not while he still has a chance of a successful second term.
- The US, China, and especially Europe are marginally increasing fiscal stimulus.
- Trump's foreign policy with Russia is likely to succeed in the short run, unfortunately for Ukraine. Again, Europe benefits.
- The US economy is slowing and global manufacturing is weak, so the near-term remains dangerous for risky assets. Risk of recession remains elevated.

## Tactically Book Gains On EUR-USD



## TRADE RECOMMENDATIONS

LONG EUR / USD (CLOSED)

## INITIATION DATE

MAR 4 / 2025

## RETURN

3.3%

**Bottom Line:** Trump's foreign policy can be explained from the point of view of US interests, but that requires compromising on the trade war against US allies. Close long EUR-USD for a gain, but stay overweight European equities tactically.

# Understanding Trump's Foreign Policy

We've been taking some flak from readers about our coverage of the Trump administration. This happens every time a new president takes office.

Our geopolitical method has not changed: we focus on how politicians and states rationally pursue power. We recognize irrationality but we relegate it to risk, which we try to quantify, or uncertainty, which cannot be easily quantified.

If Trump's policies can be explained from the perspective of the US's rational self-interest, then they are not simply the outgrowth of his head. They may last longer than his four years in office. That would be important for global investors to know.

(And yes, he will leave office no later than January 20, 2029 ... we give 100% probability.)

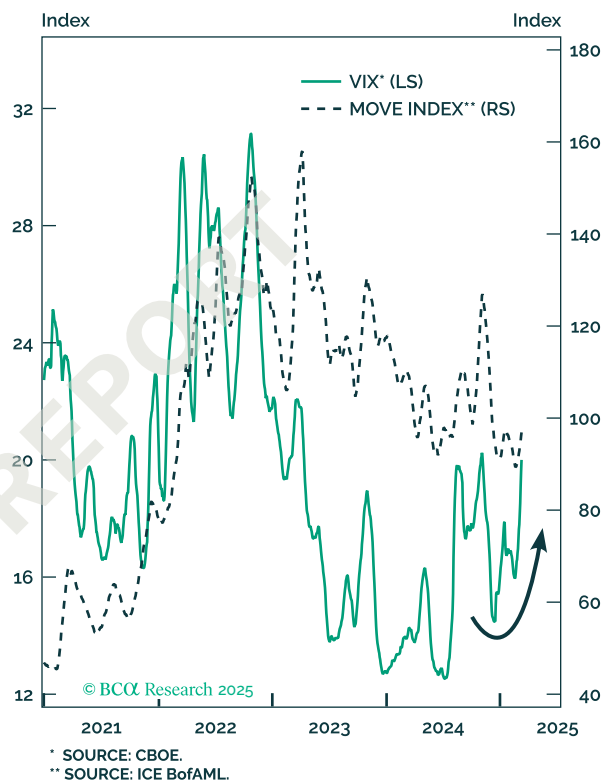
## First, A Look At The Selloff ...

In our annual outlook we argued that "This Trump Is Different" because as a second-term president he was ineligible for reelection and less restricted by his political party or public opinion.

We said that he would implement tariffs early in his administration – and that tariffs, combined with the exhaustion of excess consumer savings, would result in a downturn in the US stock market.

Volatility bottomed in early 2023, then tested that bottom in mid-2024, around the

CHART 1  
Volatility Returns, Will Go Higher

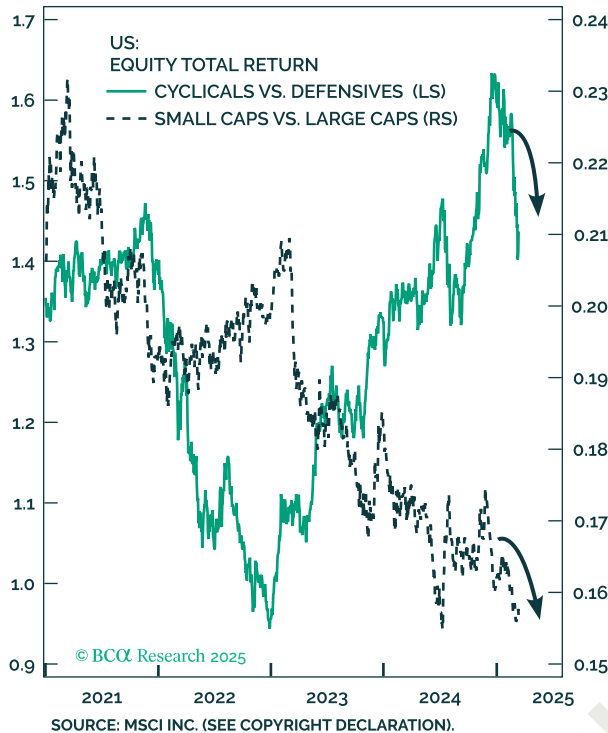


time President Biden fell apart in the June presidential debate (**Chart 1**).

Today volatility is surging on the tech selloff, falling consumer confidence, and spiking trade uncertainty.

Bond market volatility has not spiked as much as equity volatility in recent weeks but it has stayed elevated throughout the past few years (**Chart 1** again). The MOVE index is likely to rise further in the near term, as the bond market faces the combination of growth risks, tax cuts, tariffs, and immigration curbs, which will pull in different directions. Credit spreads are widening. The term premium is climbing upward.

CHART 2  
Rerating US Recession Risk

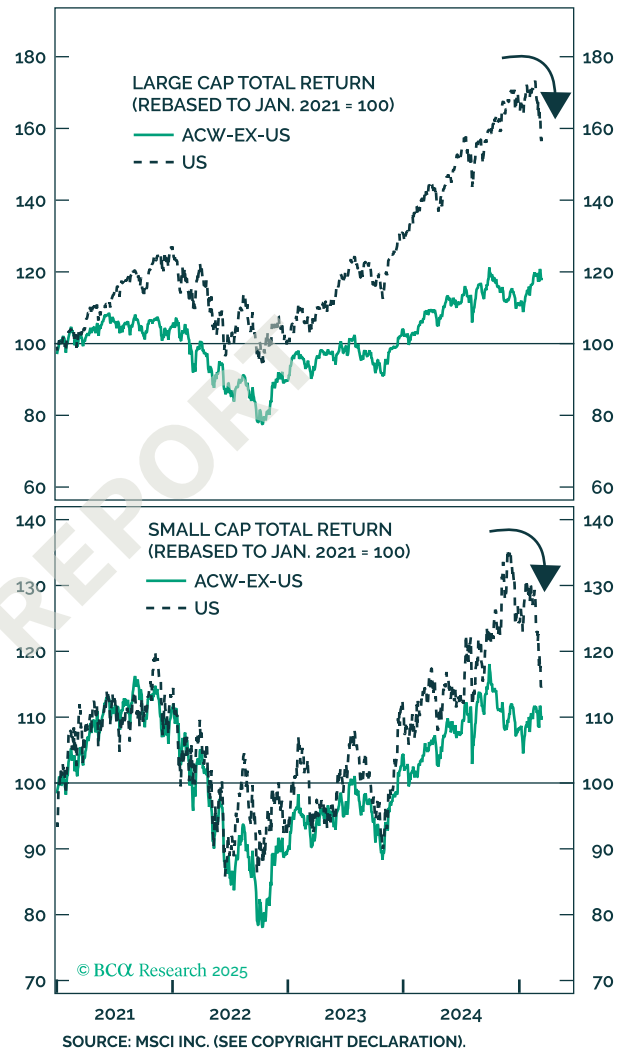


The stock correction reflects not just tariffs but growth fears. Defensive equity sectors finally started outperforming cyclicals, while small caps resumed their long, brutal decline relative to large caps (**Chart 2**).

Global large caps and small caps are outperforming US peers in 2025 so far (**Chart 3**). That is the opposite of what was expected from trade war but it makes sense given the US's long outperformance in earnings growth and valuations.

Going forward, if the US economy falls into recession, global large and small caps will also roll over, and US assets may briefly outperform again.

CHART 3  
Global Stock Rotation



## THIS IS A SAMPLE REPORT.

Our team will be in touch shortly with the full report.

If you do not receive a call, please contact our Client Services team  
[clientsuccess@bcaaresearch.com](mailto:clientsuccess@bcaaresearch.com)