Global Macro Research

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#US / #Politics / #Scenarios

Trump scenarios: What has changed?

We've increased the tariffs we expect in our 'Trump 2.0' base case and in our 'Trump unleashed' downside scenario, having previously marked up the probability on the latter. Accordingly, we see our 'Trump delivers for markets' upside scenario as less likely to occur.

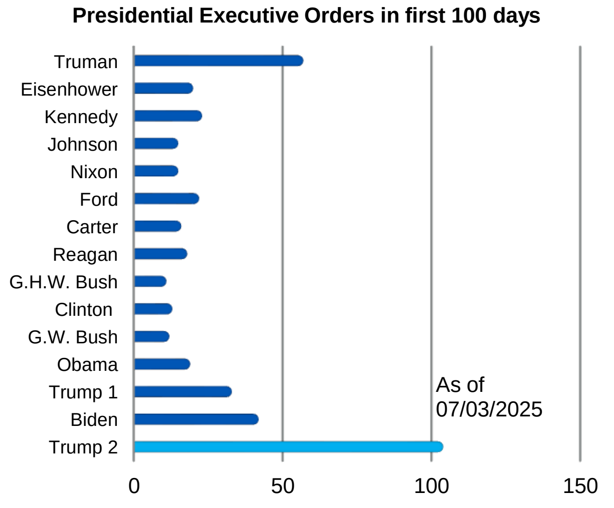
Key Takeaways

- Trump's rapid pace of executive actions, especially on trade, has led us to update our scenarios.
- We now see the US weighted average tariff rate going higher still, to 9.1%. We assume a reciprocal tariff to be implemented, albeit with various carve-outs; higher blanket tariffs on China; and more sector-specific tariffs, including on the EU, Canada and Mexico.
- Moreover, the risk of an even more disruptive trade policy has increased. Our 'Trump unleashed' scenario assumes reciprocal tariffs are consistently applied and include non-tariff trade barriers, while USMCA fully breaks down. This results in the US average tariff reaching 22%, above 1930s peaks.
- Limited progress on fiscal policy and immigration reflects divisions in Congress. But we expect progress before year-end and stick to our expectation for modest fiscal loosening and net migration falling to flat.
- DOGE's actions have curtailed regulatory functions even more than we had expected, although headcount reductions are unlikely to result in major cost savings. Our baseline assumption is for a 10% reduction in the civilian federal workforce and deregulation.
- This mix of policies has caused a sharp increase in business uncertainty and undermined the 'US exceptionalism' theme in markets.
- We still see the fundamentals of the economy as sound. But our updated baseline policy expectations, and the skew of risks in our forecast, will present growth and inflation headwinds to the US economy.

Executive orders to the fore

The Trump administration has moved quickly to deliver on many of its campaign promises, via a record pace of executive orders (see Figure 1), emergency powers, and political appointments.

Figure 1: Trump's use of executive orders early in his second term far exceeds his predecessors



Source: Aberdeen, White House, March 2025

Some of these early actions are testing the boundaries of executive power, and the courts will play a role in how lasting these changes prove. But, amid this flurry, a couple of trends are emerging.

First, President Donald Trump is pushing hard on trade and regulatory policy, taking advantage of the power the presidency has in these areas. As a result, we are becoming even more concerned about the scale of tariff increases.

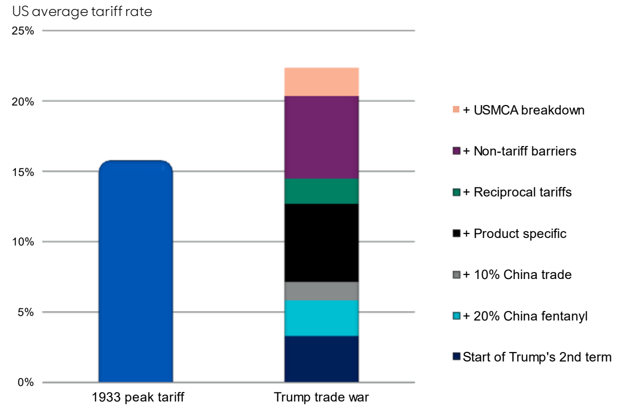
Second, and as expected, there has been limited progress in policy areas in which the president has to work with Congress. Tensions between the House and the Senate highlight the difficulty the president will face in delivering in full his promises on taxes, spending, and immigration.

In this note, we update our original Trump scenarios.

More tariffs

There has been a great deal of noise around US trade policy in the early stages of the administration (see Figure 2 for the current full range of threats), with Canada, Mexico and China seeing large increases in tariffs delivered, and then partially rolled back. Looking through this volatility, the new administration's trade policy is taking shape and we have updated our baseline assumptions.

Figure 2: Adding together all of Trump's tariffs threats would take the US average weighted tariff rate well above 1930s peaks



Source: Aberdeen, Haver, March 2025. Note: increase in effective tariff rate estimated pre-carve outs and pre-substitution effects

Specifically, our 'Trump 2.0' scenario (50% probability) now includes a global reciprocal tariff, likely to be introduced when the current trade review is concluded on 2 April 2025.

Admittedly, the precise form that the reciprocal tariff could take remains unclear.

But our baseline assumptions involve average US tariffs on other countries rising to the level that country imposes on the US, which is generally the World Trade Organisation (WTO)'s most favoured nation (MFN) rate. But US tariffs would *not* decline when they are higher than those imposed on it by other countries.

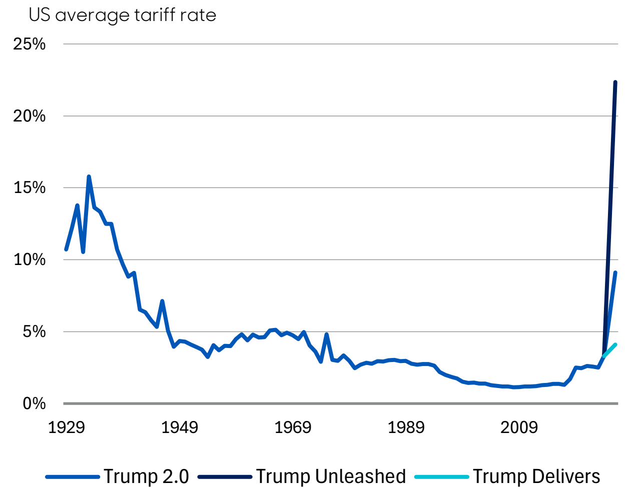
However, we've also factored in a range of tariff concessions by US trade partners that in turn bring down the reciprocal tariff imposed by the US. Any concern that carve-outs violate WTO MFN rules is likely to be brushed aside.

Meanwhile, we continue to expect a variety of product-specific tariffs. In addition to the planned 25% tariff on steel and aluminium, we think US tariffs of up to 25% on autos, pharmaceuticals, and semiconductors are likely. Again, however, we also incorporate a range of carve-outs – for example, for Canada and Mexico on autos, or for Taiwan and the Netherlands on semiconductors, given the scale of self-inflicted damage tariffs here would cause the US.

Finally, we continue to think US-China tariffs will move meaningfully higher. The additional 20% tariff already applied is likely to be permanent, because China may struggle to deliver initiatives to assuage the administration's fentanyl concerns. We are incorporating another 10% increase in tariffs on China on top, for a mix of reasons: fentanyl-related concerns; the result of the administration's investigation into the 'Phase 1' deal and the drivers of the bilateral deficit; and broader economic decoupling.

All told, this means the US average weighted tariff rate is increasing from 3.3% at the start of Trump's term to 9.1% in our updated 'Trump 2.0' baseline (see Figure 3). This is roughly 3.3 percentage points higher than we originally envisaged. These estimates take account of substitution effects, as US consumers buy fewer tariffed goods.

Figure 3: We are expecting a meaningful increase in US tariffs in our base case, with risks they go substantially higher still



Source: Aberdeen, Haver, March 2025. Note: increase in effective tariff rate estimated post-carve outs and post-substitution effects

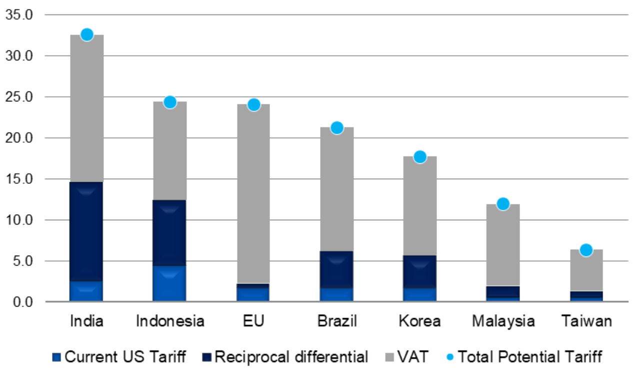
The risk of an even more disruptive trade policy has also increased. We raised the probability on our 'Trump unleashed' scenario from 20% to 35% earlier in February. We are now pushing the assumed US average weighted tariff rate in the scenario higher, to 22% from 14% previously. This reflects the risk that reciprocal tariffs also target non-tariff trade barriers, such as VAT and standards (see Figure 4).

Many countries would struggle to remove these via changes to consumption taxes, regulatory frameworks, and state subsidies.

And this downside scenario also includes a full breakdown of the USMCA trade deal and permanent blanket 25% tariffs on Canada and Mexico.

This could see the US effective tariff rate rise above levels seen in the 1930s.

Figure 4: Inclusion of VAT within reciprocal tariffs would have a significant impact on some countries



Source: Aberdeen, Haver, March 2025

Note, however, that the introduction of some of these measures wouldn't *necessarily* indicate that our downside is playing out, because these measures could prove temporary. The imposition and then partial reversal of 25% blanket tariffs on Canada and Mexico within the space of a week is emblematic of the amount of tariff noise that is likely to occur over coming years.

Finally, in our 'Trump delivers for markets' scenario (15% probability), aggressive trade announcements end up being entirely about extracting concessions. Even a US-China grand bargain involving minimum purchase agreements and market access could occur, meaning no further increases in tariffs on China. We see the US weighted average tariff rate at perhaps 4.1% in this scenario.

Political hurdles to Trump's fiscal policy goals

Trump continues to call for significant tax cuts. He has instructed Congress to pass a full extension of the Tax Cuts and Jobs Act (TCJA), a higher cap for state and local tax deductions, a lower tax for US manufacturers, and reductions to taxes on tips, overtime, and social security. This would cost between $5-11 trillion over the next decade.

However, divisions within the Republican Party on fiscal policy make this scale unlikely. Instead, House Republicans have passed a budget blueprint that would add $2.8 trillion to the deficit over a decade, slightly lower than our base case.

This would be sufficient to extend those parts of the TCJA expiring next year, with spending cuts needed to offset any further tax cuts. Senate Republicans, however, are pushing for the size of the bill to be increased to accommodate more of the president's agenda. While we think the bill can pass, it would not be a surprise if it is delayed into the second half of the year.

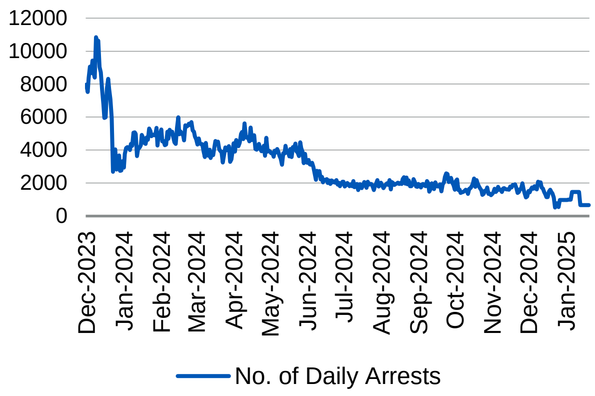
All told, we are sticking with our assumption for borrowing to rise by $3.3tn over the next decade, widening the deficit to 7.1% of GDP by the end of Trump's term.

Immigration policy mostly noise for now

Trump has signed several executive orders to increase deportations and curtail immigration. These have widened the scope and powers of Immigration and Customs Enforcement, and the declaration of an emergency at the southern border has boosted funding for deportations.

These efforts are likely to lead to lower arrivals at the southern border and a rise in emigration. Border arrests have been lower, potentially indicating this deterrence effect in action (see Figure 5).

Figure 5: Border arrests have been falling



Source: Aberdeen, US Border Patrol, March 2025

Without Congress allocating significant additional funding through the planned "all in one" reconciliation bill, the US government will lack the resources to deliver the historic increase in deportations Trump has suggested.

Again, all told, we are sticking with our previous assumption that net migration into the US will decline from 3mn per year to essentially flat within a couple of years.

DOGE's jobs and spending impact still more bark than bite

For now, we remain sceptical that the efforts of Elon Musk at the Department of Government Efficiency (DOGE) will cut annual government expenditure by its goal of $1 trillion.

Indeed, although Musk's early actions have been more significant than anticipated, the courts may reverse many of the changes.

Efforts to curtail the US government workforce, though high profile, have so far underwhelmed. Around 3.75% (c. 77,000) of non-defence federal government employees took up the offer of voluntary redundancy, below the 5%-10% targeted. Many of these may have been close to retirement.

All told, we expect an eventual 10% (c.200,000) reduction in the size of the non-defence federal workforce through a combination of freezing hiring, removing workers carrying out "non-essential" tasks, and resignations. This is just over 0.1% of total non-farm employees in the US.

In any case, cost savings through staffing reductions are unlikely to make a material difference to government expenditure.

The Congressional Budget Office estimates the annual outlay on federal civilian salaries at around $270 billion, meaning that a 10% reduction would generate less than $30 billion in annual savings.

Beyond the fiscal implications, there are tail risks stemming from DOGE employees' access to government payment systems. Attempts to edit government systems they are largely unfamiliar with could see DOGE employees inadvertently breaking payment plumbing, which could disrupt the timely distribution of Treasury bond payments.

DOGE's impact will be more significant on regulation

In the absence of significant congressional action pursuing deregulation, the administration is curtailing regulatory practices through executive orders and staff cuts at regulatory agencies. This strategy is likely to be effective in limiting the oversight activity of these agencies in advance of legislative changes.

Thus far, the administration has been focused on curtailing the work of the Consumer Financial Protection Bureau, the Securities and Exchange Commission as well as the National Labour Relations Board.

The Small Business Administration has also been the target of headcount reductions, with oversight of these agencies largely shifted to Trump appointees. We see this as being largely in line with our base case expectation that the Trump administration focuses on environmental and financial deregulation.

Small changes to our scenarios but risks are increasing

Overall, Trump's actions in his first six weeks in office have largely been in line with our base case. However, the extent of the announcements and measures on trade and regulation policy mean we have made some revisions to our US policy base case and increased the probability of our downside scenario.

Trump 2.0 (*50% probability)* remains our base case, in which Trump acts on his policy priorities but stops short of fully implementing campaign pledges. We now expect more in the way of tariffs, pushing the US average weighted tariff higher.

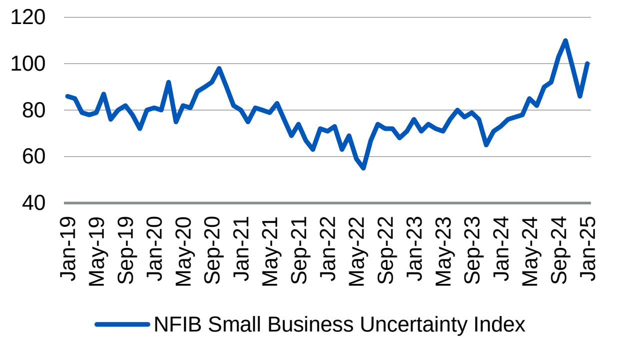
Trump unleashed (*35% probability)* sees the president and Congress deliver more aggressive policy changes. Non-tariff elements of the reciprocal tariff policy are emphasised making concessions harder to achieve.

Trump delivers for markets (*15% probability)* involves the president focussing on the market-friendly aspects of his agenda, with many of the more aggressive announcements on trade and foreign policy proving to be just negotiating postures.

Trump's actions are undermining business confidence

The initial focus of the Trump administration on tariff policy has caused a sharp increase in business uncertainty (see Figure 6) and sparked doubts about the US business cycle.

Figure 6: Business uncertainty has increased



Source: Aberden, National Federation of Independent Business, March 2025

Most of this weakness is confined to the survey data, which surged immediately post-election and haven't been a good guide to the economic cycle of late anyway. The signal from the recent weakness of consumption is muddied by residual seasonality and severe weather. Meanwhile, imports have surged, reflecting firms front-running tariffs, but without a commensurate rise in inventories, meaning Q1 GDP nowcasts are pointing to a deep contraction.

With the fundamentals of the economy still decent, such as robust balance sheets, a relatively healthy labour market, and positive real income growth, we don't think the expansion will end just yet.

Nevertheless, deteriorating confidence undermines aspects of the bullish case for the US economy and assets, which partly turned on Trump's policies unleashing the 'animal spirits' of corporate America.

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