

## Notes From The Road

I have spent the last two weeks meeting clients and contacts in Europe and the United States. We thought it would be interesting to share some of the questions we've received.

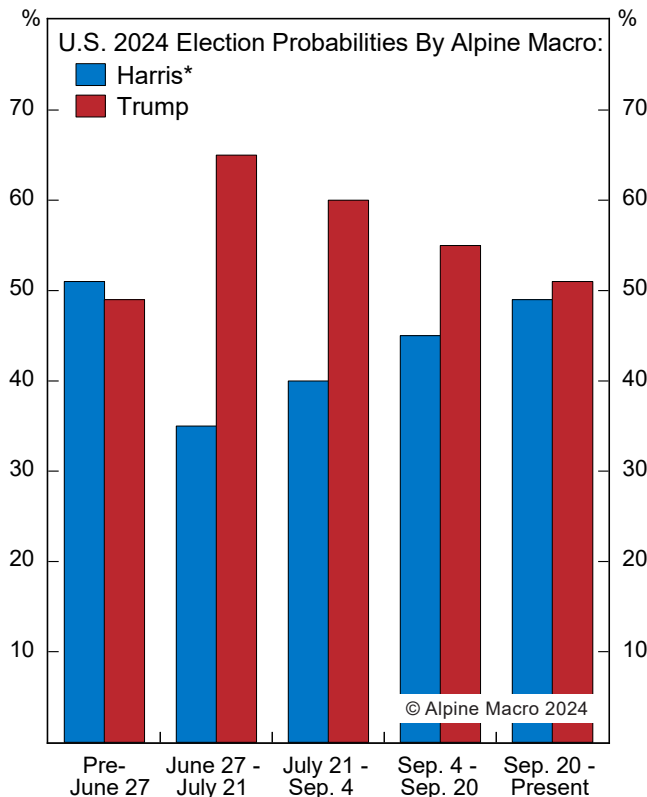
### U.S. Elections: How To Read Trump's And Harris' Political Platforms

We hold some out-of-consensus views on the election, assigning a higher probability to Trump than most forecasters, though this is declining, and we now see the race as tied (**Charts 1 & 2**).

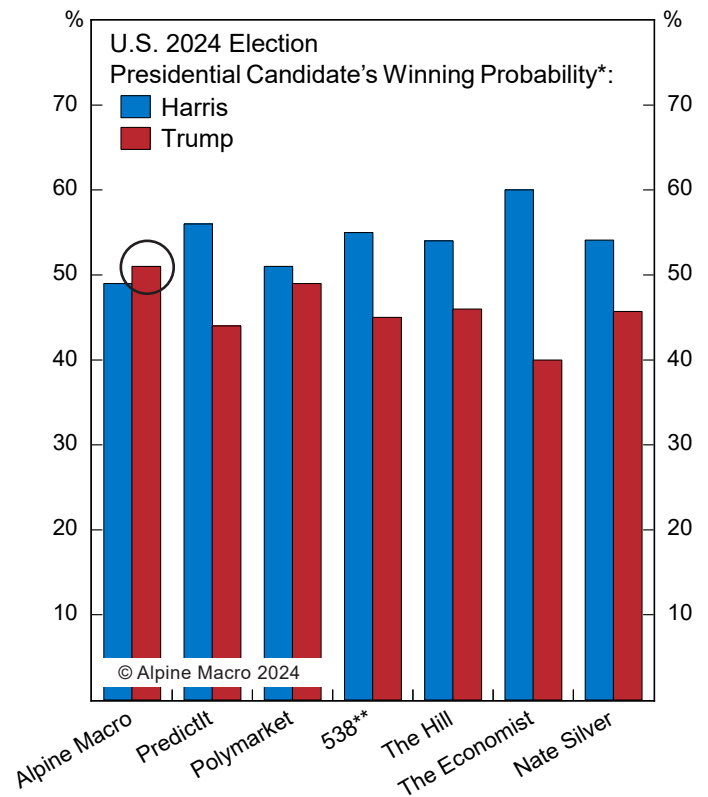
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**Chart 1** The U.S. Presidential Race Is Neck-And-Neck



**Chart 2** Alpine Macro Assigns Trump A Higher Chance Than Other Forecasters



Where we differ most from consensus is our lack of concern over the more extreme proposals from both the Trump and Harris campaigns. For one, **we think Trump would govern more moderately than many expect.**

There's a clear distinction between "campaign Trump" and "governing Trump". For example, if elected, he won't buy Greenland, become a dictator, raise tariffs on China to 60%, or slash the corporate tax rate to 15%. His past record shows that his bluster doesn't translate into extreme policies. His staff signals this to some extent. Trump will also be constrained by Congress, courts, and the federal bureaucracy. Lastly, Trump wants to avoid stoking inflation to keep voters happy and markets stable, aiming for Republican success in the 2026 midterms (so that he would not be a lame duck from 2026-28).

Similarly, **some of Harris' proposals, like taxing unrealized capital gains, are just campaign rhetoric. Her team assures investors behind the scenes that it won't happen, even if Democrats control Congress.**

This doesn't mean investors should ignore campaign platforms. Rather than focusing on the most radical ideas, they should watch the overall policy direction. For example, Trump will raise tariffs, but in more nuanced ways. Harris would likely pursue a left-wing economic policy agenda, concerning investors, especially if Democrats control Congress.

Further, a moderating factor will likely be Congress, where the opposition party is likely to control at least one chamber, regardless of who wins the

presidency. This would moderate either candidate's policies.

As such, we are highly dismissive of analysts scoring campaign fiscal proposals, especially those coming up with near-apocalyptic budget projections. These are exercises in credulousness, as they take political campaign promises at face value — despite the fact that everyone knows that political campaigns distort the truth with ease and clockwork regularity. **It is too early to put any precision around how either Harris or Trump would govern.**

Overall, **we maintain that fiscal consolidation in the U.S. is impossible without a crisis.** Neither party or candidate will push for meaningful fiscal tightening. **Over the next decade or longer, a fiscal crisis is quite possible, stemming either from investor discontent (e.g., bond vigilantes, failed bond auctions) or congressional "fiscal cliff" brinkmanship (e.g., a debt ceiling breach).** The silver lining to such an inevitably painful event is that Congress would act quickly to fix the situation — its track record shows it can cut through gridlock when faced with a systemic crisis in weeks to months (e.g., the Social Security fixes of 1983<sup>1</sup>, TARP, Covid-19).

## Should We Worry About Fed Politicization?

The answer is simply "no". Since the start of the year, we've emphasized that the Powell Fed is apolitical and won't shape monetary policy to aid Biden's re-election or out of fear of a future Trump presidency, as some other analysts have predicted.

<sup>1</sup> Brookings, Louise Sheiner & Georgia Nabors, "Social Security: Today's Financing Challenge Is At Least Double What It Was In 1983" (September 18, 2023).

**Table 1** The Israel-Hamas War Is Likely To Escalate Further

Outcomes	Scenarios	Probabilities				Market Impact
		Current	Apr. 14, '24- Aug. 16, '24	Dec. 22, '23- Apr. 13, '24	Oct. 19, '23- Dec. 21, '23	
<b>Major Escalation (60%)</b>	1. Major Regional Escalation, But No Sustained Israel-Iran War	30%	30%	20%	10%	Markets Start To Price-In Geopolitical Risks
	2. A Sustained Israel-Iran Direct Conflict	30%	30%	20%	20%	Sustained Global Risk-Off, Oil Price Shock (i.e., back to the 1970s scenario)
<b>No Material Escalation (30%)</b>	3. Gaza Strip War, With No Major Regional Escalation	30%	40%	60%	70%	Market Neutral Outcomes + Occasional Headline Risk Volatility (i.e., status quo)
<b>Long-Term Truce (10%)</b>	4. Lasting truce	10%	-	-	-	Marginally Lower Energy Prices, Positive For Regional Assets

The Fed is focused on preserving its long-term independence, avoiding the mistakes of the 1960s-70s when it often bent to White House pressure. Should the Fed engage in political maneuvering, Congress would eventually act to curtail its autonomy, as it tried (and failed to do) during the early 2010s. Jay Powell wants to avoid this risk.

As for Trump potentially firing Powell if he wins, we find that also unlikely. Trump threatened to fire Powell in 2018-19, displeased with rate hikes, but Powell pointedly ignored him, and Trump realized this would be too disruptive to markets. There's no reason to think this would change now. And **Trump's talk of having a say in, or a seat on the FOMC, is just talk.**

Looking ahead to 2026, if Trump or Harris wins, the choice for a new Fed Chair remains unclear. There are the usual suspects, but it's too early for meaningful predictions.

## Will The Middle East Conflict Escalate, And How Does That Interact With The U.S. Election?

Our biggest geopolitical concern over the next 6-9 months is the risk of significant escalation in the Middle East (60%). The worst-case scenario is a direct Israel-Iran conflict (30%), with another likely outcome being a regional war between Israel and Hezbollah or other Iranian proxies (30%). The deepening hostilities between Israel and Hezbollah, though still mostly an air war, could expand to include ground troops (e.g., Israeli forces moving into southern Lebanon).

These scenarios ([Table 1](#)) are not discrete but rather exist on a continuum. A sustained Israeli campaign against Hezbollah could easily spill into Syria, Iraq, and potentially Iran. In a broader conflict, these scenarios could be linked.

A direct and sustained Israel-Iran war could double oil prices by disrupting Persian Gulf energy exports.



Even an extended Israel-Hezbollah conflict could trigger a 10-20% oil premium as markets would then fear further regional escalation.

The U.S. election complicates and intensifies these risks in rather complex ways. The Biden administration is trying to prevent escalation, fearing both geopolitical and electoral fallout. So far, it has been relatively successful, but it is hamstrung as it is now a lame-duck administration.

If Trump wins, Iran may escalate or attempt to cross the nuclear threshold before the presidential inauguration, fearing a more hawkish Trump that would give Israel more freedom to act against it. Such risky strategies would aim to provide Tehran some insurance against a potential strike on its nuclear facilities. Conversely, if Harris appears likely to win, Israel might escalate before she takes office, fearing her administration would take a more dovish approach toward Tehran and push for a ceasefire with Hamas. In either scenario, we see high escalation risks around the election, particularly between November 8, 2024 and the January 20, 2025 inauguration.

## U.S.-China, What Could Go Right?

We think that the U.S.-China tensions are structural, long-term, and will continue for the foreseeable future. There is little opportunity for returning to the pre-2017 relationship.

On the positive side, a mainland China vs. Taiwan war is very unlikely as long as Taiwan does not take concrete steps toward independence. Neither is a sustained war in the South China Sea likely, given

that both Beijing and Washington recognize the escalatory risks around such scenarios (see our section below on nuclear deterrence).

Could there be a détente between Beijing and Washington? We think it's more likely under Trump than Harris. While Harris might appear more dovish toward China, she would be constrained by Congress and public opinion, making her likely to stay the course or overcompensate. A similar dynamic occurred when Trump was in office with Russia, where Congress overrode his perceived dovishness, keeping U.S. policy unchanged.

The chances of a U.S.-China détente, though low, are higher under Trump. His foreign policy is more transactional, and he would likely leverage sanctions and trade restrictions to strike a deal with Beijing, similar to the Phase I trade agreement. A Phase II deal is plausible, but whether it succeeds remains an open question.

## What Happens In Ukraine Next? And Would Trump Abandon Ukraine?

We don't think Trump would abandon Ukraine. He grudgingly agreed to additional Ukraine aid this year, reversing his stance, and stated that Ukraine's survival is in the U.S.' interest. However, growing Republican reluctance to fund Ukraine runs counter to this. The fact that the second assassination attempt on Trump was by a U.S. citizen supportive of Ukraine doesn't help either.

The more interesting angle is that either Harris or Trump, with NATO support, will likely push Ukraine to settle the conflict after the U.S. election. Ukraine



is struggling to reclaim lost territory, losing too much manpower, making it less viable as a future buffer against Russia. NATO's interest differs from Kyiv's; NATO prioritizes Ukraine's survival over reclaiming every inch of its territory, increasingly viewing the land lost to Russia as a sunk cost. Additionally, Ukraine's population is growing weary of the conflict.

While negotiations may take a year or more, we eventually expect a truce, similar to the North-South Korea situation. Afterwards, Ukraine would be rearmed by NATO to resist future Russian attacks. Russia would keep the occupied territories, and sanctions would remain. Don't expect a peace dividend in markets.

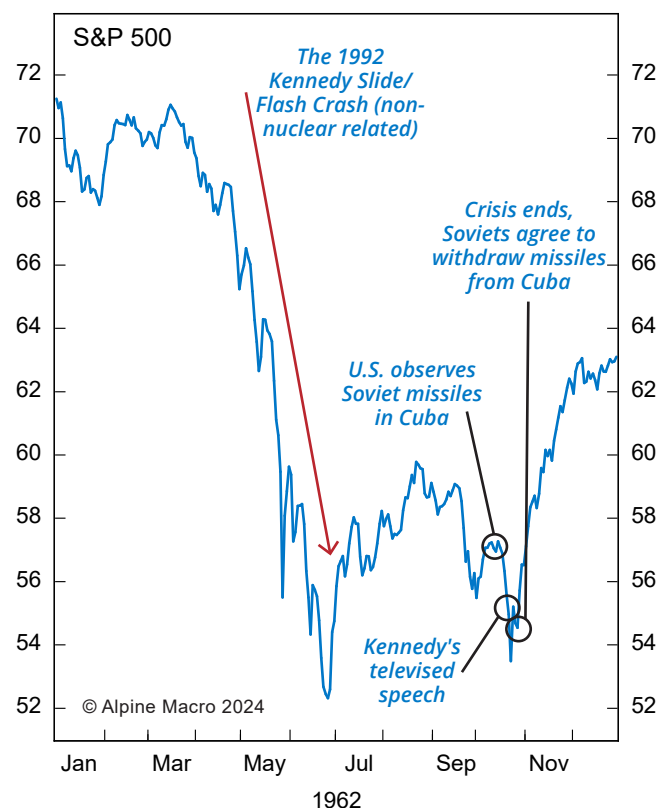
## The Nuclear Deterrence Question

Clients often express concerns about conflicts like a mainland China-Taiwan war, a South China Sea clash, or a direct NATO-Russia confrontation. We view these as extreme tail risks, largely prevented by nuclear deterrence and the doctrine of mutually assured destruction (MAD).

Our view is rooted in the Cold War logic (which still holds): nuclear-armed powers avoid direct conflict or any situation that risks escalation (e.g., Taiwan). While there have been exceptions (e.g., 1969 Soviet-China border clashes) and close calls (India-Pakistan in 1999, Cuban Missile Crisis in 1962), these cases reinforce the rule, as all sides ultimately exercised restraint to prevent escalation into full-scale war.

We believe nuclear powers are rational (i.e. self-preservation seeking), including regimes that may appear irrational like North Korea. Thus, all

**Chart 3** The Cuban Missile Crisis Impact On U.S. Stocks Was Minor



respect nuclear deterrence. One implication, in Russia's case, is that the fear that Moscow could move to attack NATO states next (e.g., the Baltics, Poland) is just headline risk. Despite its aggressive tendencies, the Kremlin respects nuclear deterrence. Should Russia achieve a decisive victory in Ukraine (unlikely) it is far more likely to try to extend its sphere of influence in Central Asia, Caucasus and the Middle East, where it does not face the NATO nuclear umbrella. Russia's track record shows this, having attacked Georgia (2008) and Ukraine (2014, 2022), countries that are not protected by a nuclear deterrent.

That said, while the stability of nuclear deterrence has held for a long time, it always has an element of tenuousness, and is contingent on no accidents and



no miscalculations. During the Cold War, there were a few close calls. As an aside, markets generally do not respond to such events, and do not really seem to know how to price them in, as with the Cuban Missile Crisis ([Chart 3](#)).

In the current Ukraine situation, especially with NATO considering providing Ukraine with long-range missiles capable of hitting deep into Russia, does this risk crossing Russian 'red lines'? Where exactly are those lines, and at what point would Russia consider engaging NATO, raising the risk of nuclear exchanges? It's hard to say. Clearly, NATO troops in Ukraine, as sometimes advocated by French President Macron, would likely cross that line. The Biden administration and NATO have been careful to avoid this, ignoring such calls.

The deeper issue may be a changing generational understanding of nuclear deterrence. Leaders that lived through the Cold War as government officials or policymakers, like Joe Biden and Vladimir Putin, understand and respect nuclear deterrence. But do younger Western leaders, like Emmanuel Macron, have the same understanding? It's less certain. This generational risk arises because policymakers who grew up at the end or after the Cold War may be more dismissive of the 'red lines' of other nuclear powers, as the fear of great power nuclear war has not really been a pervasive concern for the last 35 years or so. That said, **we still believe rationality — self-preservation — makes the risk of a nuclear conflict highly improbable, and for now, MAD continues to prevent great power wars.**

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