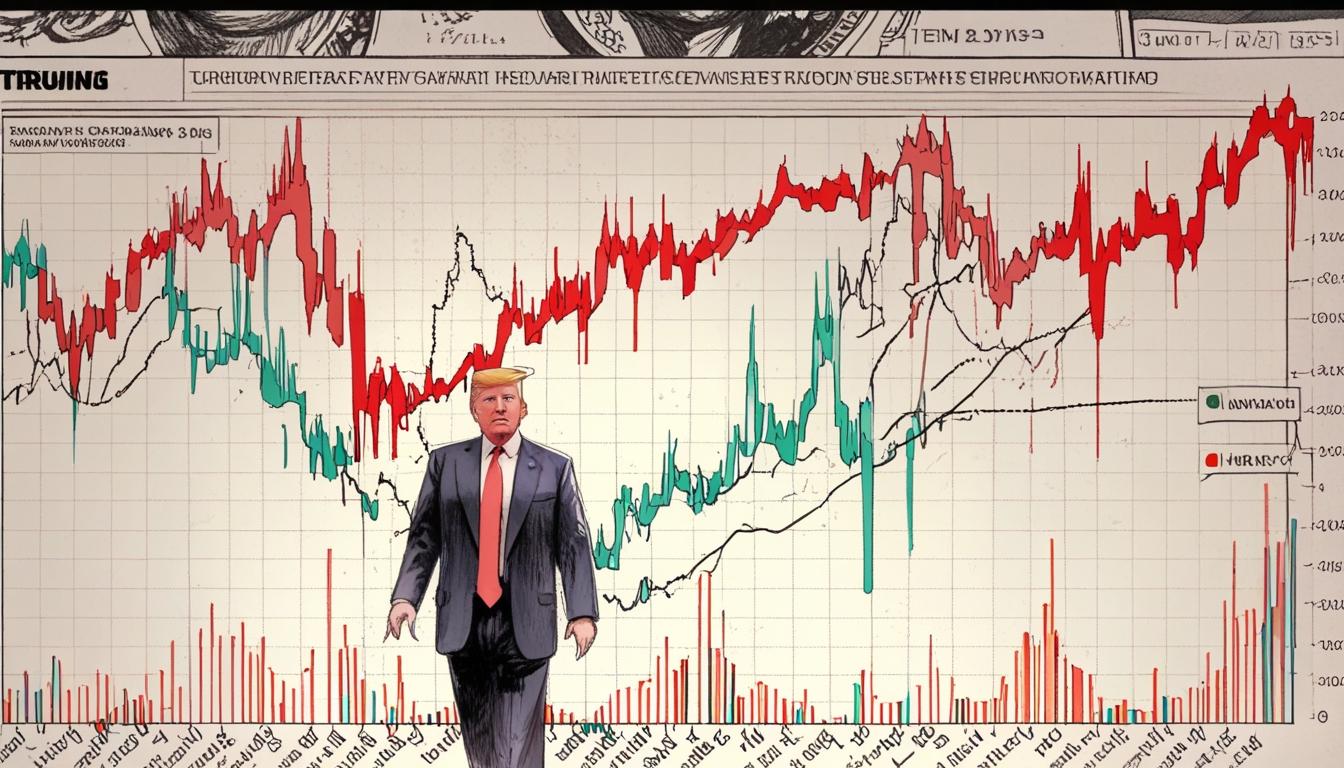
# Trump’s second term risks triggering a global financial upheaval surpassing Truss’s mini-budget crisis



The recent developments surrounding Donald Trump's anticipated second term in office have raised significant concerns in financial markets, drawing parallels to the turbulence caused by former UK Prime Minister Liz Truss’s controversial mini-budget just over two years ago. Analysts suggest that Trump’s aggressive tariffs and trade strategies could instigate a global trade war, similar to the economic disruptions witnessed during Truss's brief tenure, though the impact is expected to be more profound due to the sheer economic influence of the United States.

Initial reactions on Wall Street to Trump’s election victory in November were optimistic, as many believed his administration would stimulate economic growth through deregulation and tax cuts. However, these sentiments have shifted as the president has moved to implement a more protectionist agenda, raising alarms about the potential fragmentation of the global financial system. According to Lisa Quest, co-head of the government and public institutions practice at consulting firm Oliver Wyman, “The current US administration’s tariffs are part of a broader programme of economic nationalism and using such tools to pursue geopolitical objectives.”

A joint study by Oliver Wyman and the World Economic Forum projected that such fragmentation could inflict annual economic losses ranging from $600 billion to $5.7 trillion. At its upper limit, this would amount to erasing 5% of global GDP—an impact double that of the economic downturn caused by the COVID-19 pandemic.

The uncertain economic climate is also making investors uneasy. Recent declines in US share prices, coupled with a robust sell-off in Treasuries and a depreciating dollar, suggest that Trump's unpredictable policy decisions are undermining investor confidence and prompting capital flight. Jamie Dimon, the CEO of JPMorgan Chase, expressed concerns over the potential damage to the US's traditional status as a safe haven for investment, attributing this to the evolving dynamics of prosperity, legal frameworks, and military strength.

In addition, Trump's focus on targeting law firms that represent political adversaries and launching investigations into diversity policies has heightened apprehension among corporate leaders. Anna Pinedo, a partner at Mayer Brown, noted, “Clients are gripped by uncertainty and fear of reprisals. There is a hesitancy to make investment decisions.” This atmosphere of fear and caution could inhibit crucial investment opportunities across various sectors.

Despite the financial system's apparent resilience, having navigated the economic fallout from the pandemic and subsequent energy crises, experts warn that vulnerabilities remain. Events such as the disruption caused by Truss’s mini-budget in the UK and the collapse of several mid-sized US banks earlier this year highlight these risks. Pierre-Olivier Gourinchas, chief economist at the International Monetary Fund (IMF), indicated that while the banking sector remains well-capitalised overall, it could still face significant challenges in the event of a widespread market downturn.

Amid rising public debt levels, exacerbated by pandemic-related spending and the current energy crisis, concerns about debt sustainability are growing. Increasingly popular trading strategies among hedge funds, particularly the “basis trade,” which involves extensive borrowing to profit from small pricing discrepancies in the US Treasury market, have drawn scrutiny from financial analysts. S&P Global Ratings has flagged the potential risks associated with such strategies, noting that adverse movements in the Treasury market could trigger widespread repercussions across the financial system.

Moreover, the backdrop of escalating trade tensions and ongoing military conflicts, particularly in Ukraine and the Middle East, has raised concerns about heightened vulnerabilities to cyberattacks on financial institutions. The Bank of England has cautioned that these geopolitical tensions could create an environment conducive to such threats.

A significant point of apprehension is the possibility that Trump could restrict the Federal Reserve's ability to provide liquidity to global markets via its central bank swap lines, which have historically functioned as vital crisis-management tools. Andreas Dombret, a former executive director at Germany’s central bank, remarked that a failure to maintain these swap lines could lead to serious consequences for global financial stability.

While Trump has positioned himself to reshape the global economic order, experts caution that such efforts could inadvertently disrupt a system that the United States has played a pivotal role in establishing. The potential loosening of capital regulations agreed upon by global banking regulators, in reaction to the 2008 financial crisis, could further complicate international financial coordination. Sir Paul Tucker, a former deputy governor of the Bank of England, warned that this fragmentation could favour nations like China, given their state-backed banks’ capacity to thrive under lower capital requirements.

As the landscape of global finance continues to evolve, the ramifications of Trump’s proposed policies may not only influence American economic interests but could also redefine worldwide financial dynamics, with implications that could resonate for years to come.

Source: [Noah Wire Services](https://www.noahwire.com)

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