

MACROCOSM

## Bannon Overboard

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**A protectionist threat is gone. But economic nationalism has uses, and he's still a wild card.**

We're still theoretically on vacation, viewing the totality of today's solar eclipse from a secure and undisclosed location (we'll say only that, other than landfall in Oregon, the 70-mile shadow of totality [passes only over states that voted for Trump](#), and we'll be in one of them). Be that as it may, many clients emailed us on Friday asking our views on [the departure of White House chief strategist Stephen K. Bannon](#), and shared with us various sell-side quick-takes on it.

- *[The "Washington research" consensus seems to be that Bannon's departure is market-friendly. We think it's a mixed blessing. But let's first look at the bull case.](#)*
- Bannon has been [relentlessly portrayed in the media](#) as the devil on President Donald Trump's right shoulder. While he advocates in a general way dangerous protectionist notions such as ["economic nationalism," it is hard to find actual direct quotations in which he advocates any particular policy.](#) Several weeks ago, in the tax reform debate, [he reportedly called for](#) "the top income tax bracket to 'have a 4 in front of it.'" But these days, who really knows who said what, if anything?
- *[But on the face of it, it's a bullish thing to remove from the strategic mix even a general advocate for crackpot economic notions that, whatever their abstract virtues, would likely cause major shocks](#)* (see ["Which Trump Will Americans Get?"](#) November 10, 2016).
- *[And Bannon's departure may stabilize the White House.](#)* In a week of [clinical mass hysteria](#) (see ["The Charlottesville Hysteria"](#) August 18, 2017) in which it has become fashionable to distance one's self from Trump, Bannon's departure gives an excuse to stay for other members of the policy team who may have been wavering. Again, who knows? The media and its Trump Infamy Ecosystem (see ["Drop the BAT and Run"](#) July 31, 2017) certainly tried to [create the impression that the whole White House staff was about to resign en masse](#), and [it's baiting it to do so](#). This has prompted market pundits [to fret about a "crash"](#) if figures like National Economics Council director Gary Cohn or Treasury Secretary Steven Mnuchin were to leave.
- *Before* Bannon left, the White House announced specifically that Cohn is staying. *After* Bannon's departure, Mnuchin issued [a powerful and uncompromising statement of his loyalty](#), responding to [critics in his 1985 Yale class](#), even going so far as to specifically

### Update to strategic view

#### US STOCKS, US

**MACRO:** The departure of Bannon has been widely hailed as market-friendly, because it eliminates a potential source of economic shocks from protectionism or tax hikes. But his "economic nationalism" has also been the source of pro-growth policies such as withdrawal from the Paris Climate Accords. He has been gracious in his public statements so far, particularly in acknowledging Kelly's authority. But he was likely the source of many embarrassing leaks, and he may be leaving the White House with documents that could cause further embarrassment. With the political economy still gripped by clinical mass hysteria, we continue to think we are working our way through a buyable dip, the bottom of which hasn't been seen yet.

[\[Strategy dashboard\]](#)

align himself with some of Trump's controversial statements about the Charlottesville protests.

- [Yet there is a bear case, too.](#)
- Several clients shared with us their worry that Bannon was the one who put the "animal" in the "[animal spirits](#)" of Trump's [disruptive](#) agenda. For all its faults and risks, its central thrust is very pro-growth (see "[From Executive Orders to Spontaneous Order](#)" February 17, 2017).
- Bannon himself said the same in [an interview Friday evening](#) with the establishment conservative magazine *The Weekly Standard*:

*The Trump presidency that we fought for, and won, is over... We still have a huge movement, and we will make something of this Trump presidency. But that presidency is over. It'll be something else. And there'll be all kinds of fights, and there'll be good days and bad days, but that presidency is over.*

- Predictably, the media couldn't resist deliberately [misquoting that](#). Typical headline: "Bannon: The Trump presidency is 'over.'"
- We doubt that. But Bannon – and our worried clients – may have a point. For example, Bannon may have been the man at the margin who pushed Trump to [pull out of the Paris Climate Accords](#), which we consider to be one of the administration's top economic accomplishments so far. But again, who really knows who did what?
- Bannon told the *Standard* that he told Trump on the way out, "look, I'll focus on going after the establishment... look, I'll always be here covering for you."
- [But we can't help worrying that it may prove to have been better to have Bannon in the White House pissing out, than outside of it pissing in.](#) Again, who knows, but we surmise that Bannon was the most likely source of many of the embarrassing leaks of intimate "you are there" White House drama that could only have come from a couple of individuals, including him. [Bannon may be taking out with him all manner of documents that the media will be only too happy to expose in the most embarrassing light, if he leaks them.](#)
- So far Bannon has been quite gracious – "covering" for Trump, as promised. He told the *Standard* he had planned to leave a week earlier, the one-year anniversary of his having joined Trump's campaign – but waited in order to keep it from seeming as though he had been ousted in appeasement to [Democrats who have blamed him](#) for the Charlottesville mess. He took care to acknowledge Trump's Chief of Staff John F. Kelly in the decision, as though to signal that Kelly will be [effective in bringing order](#) to the fractious White House. This confirms [the White House's own statement](#) that this had been Kelly's call.
- How else to explain Bannon's seemingly self-destructive call last Tuesday [to the editor of the progressive magazine New Prospect](#) – in the midst of the Charlottesville mess for which he was being blamed – full of fire and brimstone about "economic war with China," contradicting the President that "there is no military solution

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## Recommended Reading

[How To Know You're In a Mass Hysteria Bubble](#)  
Scott Adams  
*Scott Adams' Blog*  
August 17, 2017

[\[Reading home\]](#)

for North Korea,” and bragging about his political opponents “wetting themselves”? It wasn’t as damning as [the media has made it out to be](#), but if Bannon is the Machiavelli that he is made out to be, perhaps the interview’s true aim was to give Trump a reason to fire him, that is, a reason other than Charlottesville.

- But let’s not forget the baseline. We do know that Bannon’s *Breitbart News* – to which he is now returning as executive chairman – did indeed give voice and useful support to certain elements of the Trump agenda and the Trump brand. But even while Bannon has been in the White House, *Breitbart* has been very inconvenient, by insisting on that agenda to the letter. For instance, it has recently mounted a [vicious campaign](#) against Trump’s national security advisor H. R. McMaster.
- Whatever else, we can be sure that the media will start giving prominence and credibility to every critical word out of *Breitbart*. Already, Bannon, previously [the devil incarnate](#), is [being portrayed in the media](#) as “actually pretty pleasant in personal interactions. He’s solicitous and gracious...”

Our view that Bannon’s departure makes an unpredictable mix of bullish and bearish elements would seem to be borne out by the fact that markets didn’t really react one way or the other to the news of departure during the trading day on Friday. While US stocks still haven’t managed to even mount a 3% correction since all-time highs two weeks ago, we continue to believe that we are now in the process of working through a buyable dip, one that probably hasn’t seen its lows yet. The political economy is still enmeshed in a clinical mass hysteria since Charlottesville (again, see ["The Charlottesville Hysteria"](#)). This has yet to be fully processed.

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### Bottom line

The departure of Bannon has been widely hailed as market-friendly, because it eliminates a potential source of economic shocks from protectionism or tax hikes. But his “economic nationalism” has also been the source of pro-growth policies such as withdrawal from the Paris Climate Accords. He has been gracious in his public statements so far, particularly in acknowledging Kelly’s authority. But he was likely the source of many embarrassing leaks, and he may be leaving the White House with documents that could cause further embarrassment. With the political economy still gripped by clinical mass hysteria, we continue to think we are working our way through a buyable dip, the bottom of which hasn’t been seen yet. ▶