

MACROCOSM

From Executive Orders to Spontaneous Order

Friday, February 17, 2017

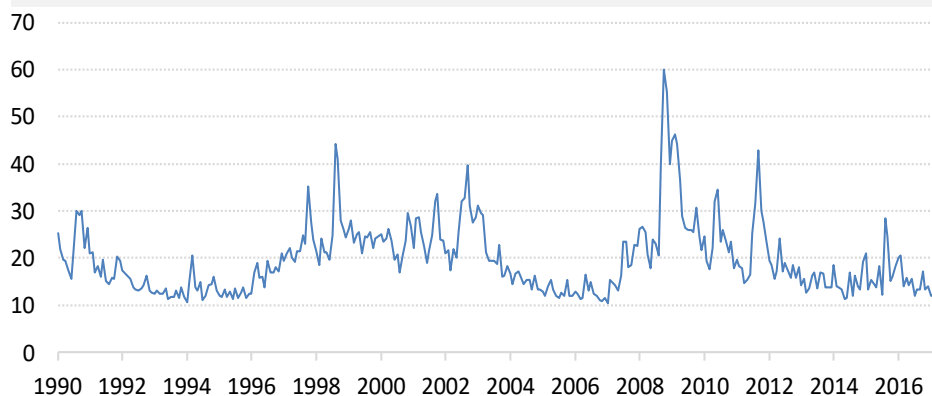
Donald Luskin

If the Trump administration is so chaotic, why are markets so resilient and risk-embracing?

As we visit with and talk to clients around the world every day, we see a strong consensus that despite the pro-growth potential of the Trump presidency, little will actually come from it because of the apparent chaos in his new administration. The latest chaos is [the resignation](#) of National Security Advisor Michael Flynn, and [reports of leaks](#) alleging dealings with Russia by the Trump campaign, with Trump's opponents [comparing it to Watergate](#) and [talking about impeachment](#). Trump [tweets](#) that the leaks are "illegal," and typical of Washington and the "failing" *New York Times*.

- We are much more optimistic. To be sure, there is the outward appearance of chaos (we wouldn't dare to play [the drinking game proposed by Scott Adams](#), that you turn on CNN tonight and take a shot every time someone uses the word "chaos").
- Remember, for the media, it is absolutely essential as a matter of dollars and cents to exploit the greatest [Cinderella story](#) ever told.
- Both Trump's opponents and Trump himself feed it. His opponents think it will wear away at confidence in him. For Trump it's an entrepreneurial management style that breaks Washington norms, and it cements his position as the [Tribune of the People](#).
- But the key is that markets are acting as though the chaos doesn't really exist. It's "fake news." US stocks are at all-time highs. The VIX measure of S&P 500 volatility is near the lowest in history (please see the chart below). You barely get dips to buy anymore.

— VIX S&P 500 option-implied volatility index



Source: Bloomberg, TrendMacro calculations

Update to strategic view

US STOCKS, US

MACRO: Clients are telling us they are skeptical that Trump's growth agenda can survive the apparent chaos that seems to have engulfed his administration. But stocks are at all-time highs, volatility is near all-time lows, risk premia and credit spreads have narrowed, and there aren't even any dips to buy. The chaos is mostly a manufactured illusion, promoted by the media exploiting the greatest Cinderella story ever told, by Trump's opponents trying to portray him as "unpresidential," and by Trump himself who believes his improvisations are required as the Tribune of the People. We are turning from the era of "secular stagnation" to a new epoch of revived "animal spirits" which has produced unconventional leaders globally. There is always headline-risk – remember that Reagan was shot just 69 days into his first term. And there are always corrections. But this seeming chaos is a feature, not a bug.

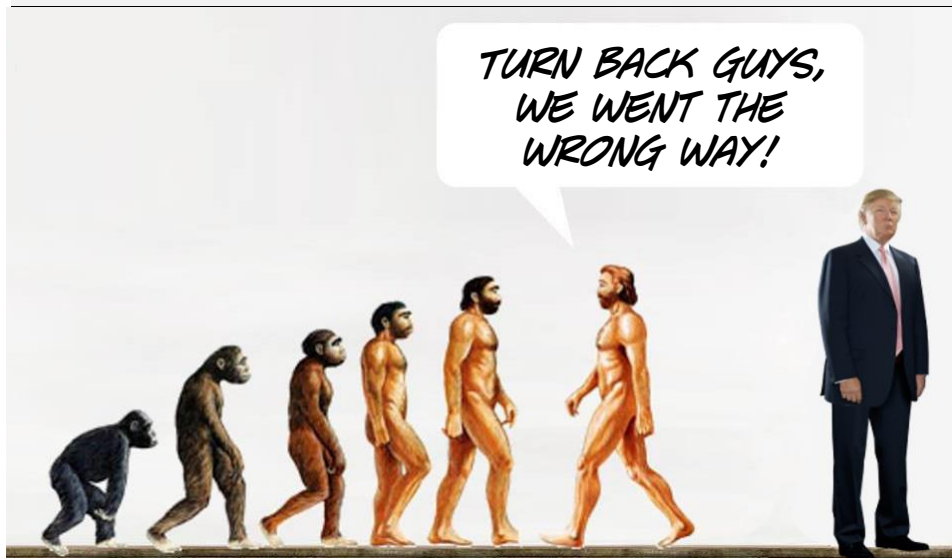
[\[Strategy dashboard\]](#)

Yields on safe-haven assets have risen as demand for them evaporates. Equity risk premia worldwide have narrowed, as have credit spreads.

- You can say this is evidence of complacency. You can say the market is fragile and overdue for a correction.
- Talking to clients, we sure don't see complacency. That said, we don't see any serious fear, either. What we see is a great deal of skepticism and mystification.
- How do we square the quiescent behavior of markets with all that skepticism and mystification? Perhaps it's too glib, but we might argue that while there is a great deal of uncertainty about what's ahead, the distribution of possible outcomes is strongly skewed to the positive.
- Obviously, whether real chaos or fake chaos rules this day, there is always potential headline-risk. Remember what happened to Ronald Reagan just 69 days into his first term: he got shot.
- It was a stunningly unexpected turn of events, and it goes to show you how fate can intervene in human affairs and the market. The would-be assassin John Hinckley fired six shots, the first five of which struck three people other than Reagan. The president was in the back seat of his limousine, and a sixth wild shot ricocheted off the open armored door, changed direction 90 degrees, went inside the car, and struck Reagan within a quarter-inch of his heart.
- As it turned out, that particular chaos was instrumental in establishing Ronald Reagan's popularity and power.

We are emphasizing to clients that, in the Trump presidency, we are seeing epoch-making changes in the conduct of politics and policy worldwide. It is a revolution of devolution, the transfer of power from centralized authorities to the people who are the only true source of their power. The colorful and eccentric leaders who have emerged from that devolution revolution – from Mariano Rajoy in Spain to Narendra Modi in India, from the advocates of Brexit in the United Kingdom all the way to Donald J.

This is *not* what we mean by “devolution”



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Wall Street Journal
February 16, 2017

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Moneyness
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[Investing in the Pain of Student Debt Is a Tough but Tempting Play](#)

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New York Times
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E21
February 3, 2017

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Trump and beyond – are the effects, not the causes, of a renaissance of “animal spirits” of the global economy (see [“2017: It’s Bigger than The Donald”](#) December 30, 2016).

- When you hear some digressive, improvised, hostile statement by Trump at a news conference, or read one of his bullying tweets, frame them within the idea of what John Maynard Keynes meant when he wrote of “animal spirits” in his 1936 masterwork, [The General Theory of Employment, Interest and Money](#).
- Coming from the father of modern economics, the term “animal spirits” is especially subversive. It is a confession that for all the fancy formulas of economists, economics is in fact the result of the unpredictable attitudes and actions of people – no, not even that, of people as “animals” – and not their rational minds, but their “spirits.”
- *It is a stark confession that economic activity is an expression of culture*, in fact the kind of self-organizing social system emergent from chaos – yes, “spontaneous order” from *chaos!* – that Keynes’s archrival [Friedrich von Hayek](#) described.
- This framework implies that even if, somehow, Trump is felled by some headline-risk event, the movement toward faster global growth – finally perhaps exiting the era of [“secular stagnation”](#) – will go on without him. Indeed, Trump himself frequently [calls it](#) “the Movement.” Perhaps on some level he gets that it’s never been about him, or any other individual. It’s always been about Hayek’s emergent-from-chaos self-organizing non-system that is human culture, which produces, among other things, an economy.
- So don’t expect Trump to become “more presidential” or to stop improvising or stop tweeting. This is the style demanded by today’s animal spirits (see [“Make My Inauguration Day”](#) January 23, 2017).
- We urge clients to recalibrate their expectations and their norms for political discourse and political processes. In the decade-plus of secular stagnation, we’ve become used to a stagnant – and infantilizing – style of communications from government. We’re entering a new epoch of animal spirits, in which that style is going to be a lot more animalistic. That’s a feature, not a bug.

Bottom line

Clients are telling us they are skeptical that Trump’s growth agenda can survive the apparent chaos that seems to have engulfed his administration. But stocks are at all-time highs, volatility is near all-time lows, equity risk premia and credit spreads have narrowed, and there aren’t even any dips to buy. The chaos is mostly a manufactured illusion, promoted by the media exploiting the greatest Cinderella story ever told, by Trump’s opponents trying to portray him as “unpresidential,” and by Trump himself who believes his improvisations are required as the Tribune of the People. We are turning from the era of “secular stagnation” to a new epoch of revived “animal spirits” which has produced unconventional leaders globally. There is always headline-risk – remember that Reagan was shot just 69 days into his first term. And there are always corrections. But this seeming chaos is a feature, not a bug. ▶