

TRENDMACRO LIVE!

On Trump Tests Positive

Friday, October 2, 2020

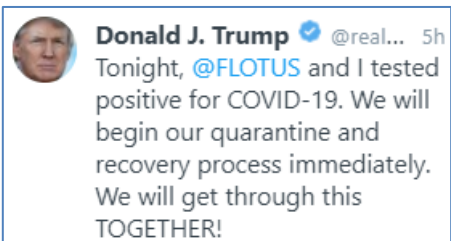
Donald Luskin

From the bully of the debates to a vulnerable human being, in mere hours. A new wild card.

Trigger warning: sorry, but we are going to have to talk about politics again. Please join us in setting personal preferences aside and using best efforts to objectively assess the outcome of the 2020 elections, and its impact on markets and the economy.

Update to strategic view

US ELECTION MODEL, US MACRO: We offer our hopes and prayers for President Trump and the First Lady, who have tested positive for Covid-19. The immediate negative market reaction reflects the sheer uncertainties involved: this is a potentially decisive event in an election already fraught with the risk of chaos and Constitutional crisis. Short-term, this will exert a chilling effect on economic activity because it shows that anyone is vulnerable, but it could also unlock stalled stimulus talks. It commands the news cycle and makes Trump even more the object of fascination and attention. It gives him an opportunity to rebrand himself as a sympathetic character. But if he weathers this, like Reagan survived his assassination attempt in 1980, he will emerge both sympathetic and still a tough guy. Biden and surrogates will probably not be able to resist nasty recriminations, having already made Trump's alleged mishandling of the virus crisis, and his seeming carelessness about masks, a campaign issue. That won't be a good look, just when swing voters are discovering some sympathy for Trump.



We offer our hopes and prayers for President Donald J. Trump and First Lady Melania Trump, who have tested positive for Covid-19.

Here are our immediate reactions to this potentially momentous news, coming late in an election already fraught with the

potential for chaos (see, among many, [“Coming: The Chaos Election”](#) September 1, 2020).

- First, and no disrespect intended, if you didn't believe it before you have to believe it now: *no one knows how to command a news-cycle like President Donald J. Trump.*
- *We had speculated that it would be Joseph R. Biden who would test positive, as a finesse to avoid debating* (see [“RGB RIP, the Election, and the Markets”](#) September 21, 2020). *What a surprise this is, what a wild card.*
- This could be a decisive event in the election and the economy, but there are many paths branching from it in all directions. As of this writing pre-opening, *equity futures have been steadily declining since the news yesterday evening that Trump's close colleague Hope Hicks had tested positive. Rather than infer from that any point-forecast, we think it reflects the sheer increase in uncertainty.*
- *A key uncertainty is that for Trump, as for all who test positive, merely having evidence of the presence of the SARS-CoV-2 virus is not the same that as having Covid-19 disease, and if such disease does manifest, patients experience it with an extremely wide range of symptoms and outcomes. These uncertainties will determine the scope of what Trump can do as president and as a candidate for re-election, including whether Vice President Michael Pence might have to assume Trump's duties – in one or both capacities.*
- *If Trump has to be replaced on the GOP ticket, that would*

implicate procedural issues in the conduct of the election, because ballots will reflect the name of a candidate who isn't actually running. This will only intensify the risk of delays, litigation and Constitutional crisis in this election (see "[Video: Zoom meeting with Constitutional scholar John Yoo](#)" September 25, 2020).

- We think this will put a chilling effect on economic activity in the short term. Even those who loathe Trump unconsciously take cues from him, as they do from anyone with celebrity and authority. This news, at the margin, makes everyone aware that no one is immune from the virus, and will make everyone act a little more carefully – which means various forms, large and small, of self-quarantining which, in turn, means diminution of economic activity.
- On the other hand, the emotional dynamics of the situation might drive a compromise in the otherwise seemingly intractable stand-off between Republicans and Democrats on a new round of economic stimulus.
- With or without stimulus, the chilling effect could be quite short-term, and it could reverse. If Trump has few or no symptoms and completely and rapidly recovers – especially considering his age – it will demonstrate that Covid-19 isn't so fearsome, and act as an injection of confidence into the economy.
- In terms of the election, the now-unknown extent of Trump's symptoms will determine how and how much he can campaign. This development puts so much intense focus and interest on him, that every televised appearance from quarantine in the White House will be a major media event, and a major opportunity.
- It will also be an opportunity for Trump to rebrand himself, to some extent, as a sympathetic character. His natural métier is to present himself as a tough-guy, which is off-putting to many (see "[On the First Trump-Biden Debate](#)" September 30, 2020). Here's a chance for him to show his more vulnerable side, and for many people that can be quite appealing.
- If he emerges healthy and robust, it will be like Ronald Reagan surviving attempted assassination in 1981. He will have it all – he will be both sympathetic and an indestructible tough guy.
- And wouldn't it be something if he attributes his successful recovery to treatment with hydroxychloroquine!
- At the same time, a key election dynamic will be the way Biden and other Democrats behave themselves. The immediate reaction will be the *de rigueur* "hopes and prayers" etiquette that we ourselves employed in this report – that said, as of this writing, even though we've managed to get this report into your hands, Biden hasn't so much as tweeted a message of sympathy. We have little doubt that, in a matter of days or even hours, a great deal of nastiness will emerge. Biden has put allegations of Trump's poor handling of the virus crisis, and his carelessness about masks, front-and-center in his presidential campaign. We just don't see how Biden and his surrogates will be able to resist some "I told you so" moments. It won't be a good look, especially when swing voters are discovering for the first time that they have some sympathy for Trump.

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Bottom line

We offer our hopes and prayers for President Trump and the First Lady, who have tested positive for Covid-19. The immediate negative market reaction reflects the sheer uncertainties involved: this is a potentially decisive event in an election already fraught with the risk of chaos and Constitutional crisis. Short-term, this will exert a chilling effect on economic activity because it shows that anyone is vulnerable, but it could also unlock stalled stimulus talks. It commands the news cycle and makes Trump even more the object of fascination and attention. It gives him an opportunity to rebrand himself as a sympathetic character. But if he weathers this, like Reagan survived his assassination attempt in 1980, he will emerge both sympathetic and still a tough guy. Biden and surrogates will probably not be able to resist nasty recriminations, having already made Trump's alleged mishandling of the virus crisis, and his seeming carelessness about masks, a campaign issue. That won't be a good look, just when swing voters are discovering some sympathy for Trump. ▶