

POLITICAL PULSE

The Coming Trump Energy Vacuum

Tuesday, January 19, 2021

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The Capitol incident didn't reverse the vote for Trump or build a bigger mandate for Biden.

Many clients have asked us to comment on the latest madness in Washington. Frankly, we feel we are in a no-win position here. We have clients of every ideological stripe. Even though we have faith that every one of them is first and foremost interested in investment performance, nevertheless, in today's political environment, it is hard to talk about the potential market impact of these events without at least seeming to make ideological judgments certain to offend somebody, or maybe everybody.

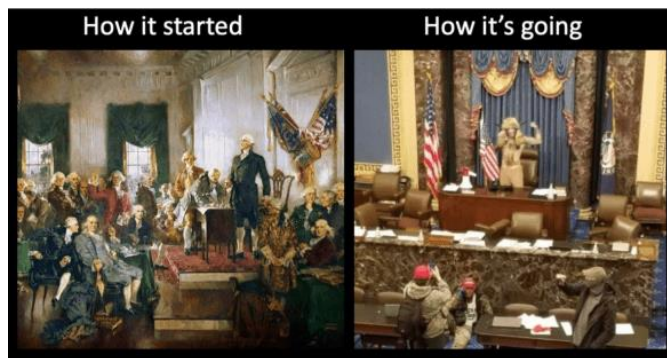
So we will say this.

First, we support peaceful protest whatever the issue. We condemn violence whatever the issue.

Second, we told you all along that this would be a "chaos election" and that there would be civil disturbances in the aftermath (see ["Coming: The Chaos Election"](#) September 1, 2020). To be sure, in our calendar of post-election milestones, we failed to mention that protestors would storm the US Capitol as electoral votes were being tallied on January 6 (see ["What to Watch on Election Night and Beyond"](#) October 27, 2020).

Third, we can't rule out more violence on inauguration day. It happened during anti-Trump protests [at the 2017 inauguration](#) with more than 200 arrests and six police officers injured. Even if the scale of violence is no greater this time, the media will play it for all it's worth.

Fourth, it's not obvious that any of this is market-moving. It's probably not (but we continue to think that risk-assets are overdue for a healthy correction anyway).



- Equities have shrugged off some bad things in the US Capitol building. We have no idea how they reacted when the British [burned it to the ground](#) in 1814. But stocks went up [on March 1, 1954](#) when, as an historically

Update to strategic view

US MACRO: We support protest. We condemn violence. We warned of a "chaos election" that would end in civil unrest, and we got it in an unexpected form. We don't rule out more violence on inauguration day. None of this appears to be market-moving, though risk assets are still overdue for a correction. We don't think the events of January 6 give Democrats a mandate they didn't have before. If anything, focusing on impeachment squanders Biden's honeymoon. Tax hikes are no more likely. "Stimulus" might be less likely. Trump is leaving the stage, very possibly tainted. This creates an energy vacuum, not the excitement necessary to power a legislative lurch. Conservative and moderate Democratic Senators in red and purple states will remain constrained by facing 2022 elections. Republicans will be able to realign, some embracing Trump's tropes and legacy if they feel it is smart to do so, others who had to bear costs to oppose him can now just ignore him. The old duopoly is now free to reassemble.

[\[Strategy dashboard\]](#)

astute client reminded us, five US representatives were shot on the House floor by four Puerto Rican nationalists in the gallery (President Jimmy Carter commuted the shooters' life sentences 25 years later).

- [There is a great deal of ruin in a nation.](#)
- [There is some risk that the events of January 6 get spun up into a mandate for heedless passage of anti-growth legislation such as tax hikes, in the name of the necessity of erasing the legacy of Donald J. Trump.](#) It's not imagining anything extraordinary in political affairs to think that Democrats would like this to be a "[Reichstag Fire](#)" to catalyze such a rush to judgment. Indeed, if 2020 has taught us anything, it's that people will tolerate some very self-destructive things in the name of an emergency.
- [But it doesn't feel to us like this has "legs" – quite the opposite. This isn't going to give the Democrats the mandate for massive change that voters denied them in November when a "blue wave" failed to materialize](#) (see "[No Blue Wave, But Now What?](#)" November 6, 2020).
- [Focusing on it, especially a second impeachment trial in the Senate, just slows things down, squandering President Joseph R. Biden's honeymoon. If that's right, the good news is that immediate tax hike legislation is no more likely. The bad news is that immediate "stimulus" legislation is less likely.](#)
- [The governing dynamic now is that Trump is moving off the stage.](#)
- [Especially to the extent that the January 6 events taint Trump, he's](#)

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When you get impeached twice and can't even tweet about it



[taking a great deal of political energy off the stage with him.](#)

- [To update Richard M. Nixon in 1962](#), "just think how much you're going to be missing. You won't have Trump to kick around anymore."

- [At the same time, as vaccines are widely administered, the political energy of the Covid-19 crisis is exiting the stage, too.](#)

- [Great rushes of legislative change happen when energy is increased, not when it is reduced.](#)

- In the coming energy vacuum, the 535 representatives and senators who have spent the last four years positioning themselves against, for and

around Trump, and against, for and around masks and mandates will all have to find some new organizing principle. It will probably look something like the pre-Trump pre-Covid duopoly.

- If that's right, then [with the Senate literally tied and the House almost tied, it's hard for us to see any big legislative lurches.](#)
- [Let's face it – they all just want to get re-elected, and 2022 is right around the corner.](#)

- As we've already pointed out, Democratic Senators Joseph Manchin III (WV) and Jon Tester (MT) represent red states and have [very centrist voting records](#) (see ["On Georgia"](#) January 6, 2021). Maggie Hassan (NH), Catherine Cortez Masto (NV), Krysten Sinema (AZ) and Raphael Warnock (GA) are all up for reelection in purple states in 2022. Among them only Warnock is a far-left figure, but even he wouldn't be wise to present himself as too radical before then – *because getting rid of Trump is no longer either a reason nor an excuse to do so.*
- For Republicans, Trump being off the stage conveys valuable optionality at no cost. Those from states or districts where Trump remains revered can continue to adopt his tropes and support his legacy. But others who, during Trump's presidency, felt they had to distance themselves from him, or oppose him, had to bear his attacks and the consequences of party disloyalty. Now they can go about their business without even mentioning him.
- *Indeed, the main purpose of the Democrats' impeachment drive may be to force Republicans to take sides for or against Trump one last time.* With [a single bill of impeachment](#) coming from the House, charging Trump with "incitement of insurrection," which [an objective read of his January 6 speech](#) does not support, it feels to us like a "bid to lose," making it easy for the largest number of Senate Democrats to vote against conviction, and have to wear the shame of having done so in 2022 elections. If House Democrats really wanted to convict, there would have been a second bill of impeachment charging dereliction of duty for Trump's failure to swiftly condemn the violence, potentially nipping it in the bud – but fewer Republican Senators would vote against conviction on that charge.

As things evolve, we'll deal with the market-impacting consequences of legislative initiatives and executive actions as they arise. And we'll discuss the implications of policy initiatives that might affect the outlook for highly capitalized social media companies, in the wake of their controversial decisions to mute Trump and his supporters.

For now, let's leave it that we continue to expect a boom year for 2021 (see ["A Boom in 2021... But What Could Make It Bust?"](#) January 4, 2021). As the reins of US power are transferred tomorrow, we'll be thanking Donald J. Trump for the outstanding contributions [he and his team](#), including our friend Larry Kudlow, made to US economic growth, and at the same time, we'll be wishing Joseph R. Biden every success at [making his own contributions](#).

Bottom line

We support protest. We condemn violence. We warned of a "chaos election" that would end in civil unrest, and we got it in an unexpected form. We don't rule out more violence on inauguration day. None of this appears to be market-moving, though risk assets are still overdue for a correction. We don't think the events of January 6 give Democrats a mandate they didn't have before. If anything, focusing on impeachment

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