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# The Pessimist's Guide to 2017

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Donald Trump and Brexit shocked most of the world in 2016.

But not readers of last year's Bloomberg Pessimist's Guide, which warned that the unthinkable could happen in both cases. Now the authors are turning their attention to 2017.

From social breakdown in the U.S. to a nuclear crisis in North Korea to the defeat of Angela Merkel in Germany, the potential for chaos is just as great.

These aren't predictions. But they show what your social-media news feed could look like if things go wrong.

## Trumplandia

Trump's popularity soars in his first weeks in office as an energized Republican Congress passes a huge fiscal stimulus.

However, new waves of protests rise after he's inaugurated and signs executive orders reversing Barack Obama's legacy.

A movement emerges combining college students, Black Lives Matter activists, former Occupy Wall Street protesters and anarchists. Trump attempts to impose emergency restrictions and curfews in major cities.

California emerges as the center of opposition to Trump, with some branding the movement "Calexit." The state defies Trump's rollback of environmental regulations. Billionaires Elon Musk and Sheryl Sandberg emerge to lead a progressive alliance against Trump in 2020.

All of this causes deep divides in Trump's ruling coalition. The GOP splits in Congress and Trump's team of White House mavericks are soon at each other's throats.

Shares in banks, steel and security firms surge in the first months of the Trump era. But then the Trump stock boom fizzles early and Treasuries soar. Shares in

Google, Facebook and Apple take a hit as the faceoff between Trump and Californian billionaires worsens.

**Joel L. Naroff, Naroff Economic Advisors**

Let's say everything gets passed. All that fiscal stimulus in an economy that's already at full employment causes massive labor shortages, wage pressures that build sharply, forcing the Fed to deal with rising inflation, crashing the housing market and sending banks and the financial system into another tailspin.

## Yalta 2.0

Trump's isolationism and Vladimir Putin's aggression force Germany's Merkel into a difficult choice: to lead a military buildup in Europe against Russia. Or heed Trump's advice and strike a grand bargain with Putin to agree on spheres of influence in Eastern Europe.

Putin calls off his hackers and rogue fighter jets and agrees to stop interfering in the affairs of the U.S. and the European Union.

In return, Merkel and Trump recognize Russia's sway over Ukraine, Belarus and Syria. For Putin, Russia's prestige is finally restored 26 years after the collapse of the Soviet Union and he starts to talk openly about his retirement after one final presidential term.

The ruble rises as Russia comes back into the global fold. Defense stocks lose some of their luster amid disappointment that the EU doesn't arm up

**David Bohuněk, Comsense Capital**

The growing influence of pro-Russian political parties can be a big threat for global political stability in 2017. This threat includes Bulgaria, Moldova or Estonia.

## China and America Go to Economic War

Slamming what he calls #CrookedChina, Trump tweets at 3:17 a.m. on the morning of his inauguration that he's planning to label the country a currency manipulator and slap "huge" tariffs on incoming imports.

By the time he's on his way to the Capitol, China has already started to retaliate by devaluing the yuan, canceling orders for Boeing jets and blocking iPhone sales.

As the year goes on, Chinese officials, distracted by political jockeying ahead of November's reshuffle of the Communist Party's Standing Committee, split over how to revive an already debt-laden economy.

China falls into its deepest recession of the modern era.

Domestically oriented Russell 2000 equities soar on anticipation of tariffs. In Asia, a 1997-style currency crisis and recession ensue.

**Alasdair Cavalla, Center for Economics and Business Research**

Protectionism will be the biggest point of contention in a Trump government. Most of the Republican Party, and its business backers, will be strongly against raising trade barriers, while for Trump it is a rare point of consistency. Without it, he also has little economically to offer a core group of supporters in post-industrial towns and cities.

## Kim Trumps Trump

Trump spends his first months in office calling into question U.S. commitments around the world. First, he suspends U.S membership in NATO, then in the United Nations. America's traditional foes thrive in the vacuum.

Islamic State, exploiting U.S. disengagement from the world, runs its drug operations out of Afghanistan and radicalizes Central Asia.

Worried about living outside the American nuclear umbrella, Saudi Arabia and Japan start developing their own capability.

Finally, the world is shocked when North Korea proves it can fit a miniaturized nuclear device on a missile capable of hitting the U.S. West Coast.

Trump's entire Asian strategy is thrown into disarray, forcing him to kowtow to China and beg for their help in reining in their rogue neighbor.

Shares in defense companies surge and east Asian stocks plunge amid a broader flight to safer assets such as Treasury bonds and gold.

**Alison Graham, Voltan Capital Management**

Russia and China have interpreted the Trump election as an opening to pursue their regional interests more aggressively... Trump's tendency to personalize and escalate conflicts, while failing to see the vast benefits to the United States of maintaining a world order reflecting U.S. values, will create a sense of ongoing global crisis.

## Heads Roll in Europe

Legitimized by Trump's victory, voters across Europe, starting with the Netherlands, usher in populist leaders who want to tighten borders, tear up free-trade agreements and even break away from the euro and the EU itself.

Anti-immigration candidate Marine Le Pen becomes president of France, then holds a referendum on leaving the EU.

In Italy, comedian Beppe Grillo's Five Star Movement comes to power in snap elections and immediately calls a referendum to reinstate the lira.

Germany's Merkel loses the election. In the U.K., Theresa May is ousted by a hard-liner after Brexit talks go awry.

In Eastern Europe, a newly right-wing Czech Republic cozies up to Russia and calls a plebiscite on NATO membership. Under the shadow of Brexit, the passport-free Schengen Area is dissolved.

Greece blows up again and this time there is no bailout.

The euro goes into a tailspin as the political support that saw the currency through the 2009-2012 debt crisis starts to unravel.

**Alan McQuaid, Merrion Capital**

Europe remains the biggest threat next year. If Marine Le Pen does what Hillary Clinton failed to do and becomes her country's first female president, then all bets are off.

## The Internet of (Bad) Things

Amazon, Apple and Google reveal widespread government wiretaps of the passive listening software on smartphones and Echo-like connected home devices, while Wikileaks turns on Trump with a series of embarrassing leaks.

State-sponsored hackers disseminate panic when they shut down critical infrastructure like power plants or target Internet-connected medical pumps and self-driving cars.

While no foreign powers will claim responsibility, evidence points to possible Russian or Chinese involvement, precipitating open cyber warfare among the superpowers.

**Birgir Haraldsson, Nighthberg**

To be taken seriously. Cyber insurance would get a boost as a new dimension in cyber-war gets escalated via more active state-sponsored hacking activities

## Cuba—Back in the U.S.S.R.

Trump backtracks on the Obama-sponsored rapprochement between Cuba and the U.S., nipping in the bud a chance for the Socialist island to throw its economy a lifeline.

As money dwindles—at a time when regional allies Brazil and Venezuela are reducing financial assistance—Cubans turn their attention to the two other major players still interested in the region: China and Russia.

Given their historical ties, President Raul Castro lets the Russians reopen an intelligence base in Havana.

A Russian spy agency just 90 miles away from Miami turns out to be a bit too close even for Trump, straining his budding relationship with Putin and bringing back memories of the 1962 Cuban Missile Crisis.

Tourism and shipping, especially cruiseliners, take a hit

**Lynn Reaser, Point Loma Nazarene University**

Will there be a slowdown or retreat in thawing of U.S.-Cuban relations? Will more market-oriented policies continue in Argentina and spread to other countries, such as Brazil? Will the current regime in Venezuela survive?

## Mexico Meltdown

Trump pulls out of NAFTA, boosts tariffs on Mexican exports and heavily taxes remittances from workers in the U.S. to pay for the infamous border wall.

Mexico plunges into a deep recession and loses its cherished investment-grade rating.

Mass deportations from the U.S. force the desperately unemployed arrivals into drug trafficking.

As hostility toward gringos reaches fever pitch, a populist from the left—Andres Manuel López Obrador—emerges as front-runner for the presidency in 2018 on a platform that includes the revision of oil exploration contracts previously awarded to private companies. Nationalization beckons.

The peso continues on its downward spiral, fueling inflation and pushing borrowing costs higher. Led by a plunge in Pemex paper, Mexican corporate bonds are sold off, bringing back fears of a wave of debt restructurings.

**Arthur Jurus, Mirabaud Asset Management**

We think Donald Trump will focus on internal policies, firstly with a potential cut in U.S. tax rates, then with regularization for less than 2 million illegal immigrants. Withdrawing from NAFTA could be an issue end-2017

## Saudi Arabia's Golden Boy is Sidelined

Deputy Crown Prince Mohammed bin Salman's effort to diversify the world's largest oil producer away from fossil fuels goes nowhere in its second year.

As Yemen turns into the kingdom's own costly Vietnam, new taxes replace generous subsidies and lead to growing discontent over declining living standards.

At the same time, the delicate balance of power in the region tilts toward arch-enemy Iran, as Shiite sympathizers make gains in Iraq and Syria.

A Saudi palace coup brings to power a new royal family member, who pushes the deputy crown prince aside and shelves reforms.

With Trump deciding the Middle East is just not America's problem anymore, tensions between Saudi Arabia and Iran lead to direct armed confrontation.

Massive disruption hits oil and gas exports through the Strait of Hormuz.

Oil spikes, investors flee and plans to privatize national oil company Saudi Aramco are derailed. After burning through its reserves, Saudi Arabia devalues its currency, forcing the rest of the region to follow suit.

**Bernard Baumohl, Economic Outlook Group**

One scenario that really concerns us greatly is the destabilization of Saudi Arabia and there are various factors at play (Yemen, Iran financing terrorist attacks on Saudi oil fields, Al Qaeda inciting protests). These could mark a turning point for the House of Saud and create the circumstances that lead to triple-digit oil prices.

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