

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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The Greatest Economic Risk Ahead May Be Trump's Quest For A legacy

While there's intense debate over the outcome of the midterm elections, we should be more concerned what happens afterwards.

I'll get right to the point. The biggest risk to the economy over the next two years comes down to two related questions: How will President Trump choose to burnish his legacy during his remaining time in office? That is, how far will he go to codify his place in history?

Let me be clear: This is not meant to be a partisan issue. *The harsh reality is that one cannot disentangle the economics from the politics these days!*

One might argue that if Democrats succeed in retaking at least the House, the congressional gridlock would hamstring Trump's ability to single-handedly launch any new major domestic and foreign policy initiatives.

But that viewpoint may be naïve. That's because he has repeatedly demonstrated his willingness to bypass Congress with a barrage of executive orders and an expansive interpretation of presidential authority.

So out of an abundance of caution, we ask. Given Trump's fierce drive to make an indelible mark on history, what actions could he announce as a lame duck President --- and what impact they will have on the economy, inflation and interest rates?

Consider some hypothetical but plausible scenarios:



1. The US Exits NATO

Trump could authorize America's withdrawal from NATO. On March 2026, he claimed he has the authority to do so without Congressional approval. Setting aside whether he has that power or not, any such attempt would unleash a torrent of new geopolitical uncertainty, fracture the Atlantic Alliance and rattle global capital markets.

The economic fallout can already be seen. Doubts of America's commitment to European security has triggered a surge in military spending on the Continent, financed increasingly by nations issuing more sovereign debt. As governments borrow more to rearm, they risk crowding out private investments, driving global interest rates higher and slowing economic growth.

2. End Iran's Islamic Regime Once and For All

Could personal threats against Trump and his family by Iran's Islamic leaders finally push him after the midterms to finish the job and totally overthrow this regime?

It does appear the Administration has deployed more military resources lately to the Persian Gulf and Arabian Sea, including another aircraft carrier, about 10,000 additional sailors and marines, and a fresh set of Patriot missile defense batteries. There are reports the US is also preparing to use the GRU-43 Massive Air Ordinance Blast bombs, often referred to by its jarring euphemism as the "Mother of All Bombs."

If the Pentagon is gearing up for some serious escalation, the economic consequences can be staggering. Another major kinetic war against Teheran would again catapult the price of gasoline, diesel and other vital fuels to new highs, reignite inflation --- and effectively sabotage any effort by the Federal Reserve to bring inflation closer to its 2% target.

3. Invade Cuba: A Military Gamble That Could Affect Taiwan.

Then there's Trump's other favorite target: Cuba! The President has sharply escalated his threats against the island's Communist government. He may decide to greenlight a military takeover of Cuba, knowing toppling such a regime would enjoy domestic support from both Congress and Cuban-Americans. Trump can then say he, and only he, managed to finally rid this island of its brutal leaders, and end what had been a longtime irritant in US foreign policy.

On its own, such a military campaign against Cuba would have only limited economic effects on the US. Their bilateral trade is miniscule, and the cost of such an operation would be little more than a rounding error in US GDP.

But that misses a more ominous danger! A US invasion of Cuba could well provide China with the pretext to finally seize its own nearby thorn, Taiwan. That would indeed have far graver global political and economic repercussions. For one, it would greatly weaken America's diplomatic position in the Pacific region. US allies, like Japan, South Korea, and the Philippines would lose confidence in Washington's security guarantees.

It will also threaten regional supply chains, especially critical semiconductor shipments. Taiwan produces more than 90% of the world's most advanced logic chips, leaving US technology giants and AI hyperscalers extraordinarily dependent on the island.

4. And there's always tariffs, Trump's favorite all-purpose tool.

Less militaristic but potentially devastating to world economies would be another major round of Trump's favorite economic weapon --- tariffs!

His faith in import duties borders on theological. Trump thoroughly rejects the view that tariffs ultimately harm US factories, retailers and consumers.

Regardless of whether the midterms result in a hostile, or gridlocked, Congress, Trump knows he has certain statutory authority to impose more import duties against the EU, Canada, China, and others.

His rationale? Tariffs raise much-needed federal revenue. True enough!

Tariffs would supposedly also force offshore factories back to the US. Well, that is far from certain. We haven't yet seen such relocations in any meaningful numbers. It is not only costly to do so, but takes years to complete --- and, who knows, the next occupant in the Oval Office may decide to reverse these tariffs.

Nevertheless, if Trump doubles down on protectionism the next two years, it will trigger foreign retaliation in the form of reciprocal tariffs.

The economic fallout? More financial hardship for the majority of American households, who are already struggling with the rising cost of living. Wages in the private sector are currently growing at the slowest pace in five years. Any further rise in inflation pressures would lead to higher interest rates by the Federal Reserve, squeeze corporate profit margins and perhaps trigger job losses.

The Bottom Line

For all these reasons, any forecast of the economy now has a short shelf life. After the November elections, Trump will likely be laser focused on cementing his historical legacy.

And therein lies the economic and geopolitical risks. He faces no other election. With fewer political constraints, we must brace for the possibility that his decisions could unleash new headwinds on the economy the next two years.

United States																
	I 2025	II 2025	III 2025	IV 2025	I 2026	II 2026	III 2026	IV 2026	I 2027	II 2027	III 2027	IV 2027	I 2028	II 2028	III 2028	IV 2028
Real Gross Domestic Product (GDP):																
%	0.1	4.0	3.9	0.2	2.5	2.2	3.4	2.6	1.8	2.0	2.2	2.3	1.8	1.9	2.3	2.5
Personal Consumption Expenditures:																
PCE %	0.6	2.1	3.7	1.9	0.7	3.8	4.1	2.3	0.9	1.4	2.0	2.1	1.3	1.9	2.0	2.2
Inflation, end of period, year-over-year:																
CPI %	2.4	2.7	3.0	2.7	3.3	3.5	3.7	3.6	3.7	3.8	3.6	3.4	3.2	2.9	2.7	2.6
Unemployment Rate (end of period):																
%	4.2	4.1	4.4	4.4	4.3	4.2	4.2	4.4	4.4	4.5	4.5	4.6	4.6	4.8	5.0	5.0
Non-farm Payrolls, monthly avg. thousand:																
	20	36	23	-35	73	81	51	60	55	65	80	85	85	80	65	60
Treasury 10-yr Note Yield % (end of period):																
	4.25	4.23	4.15	4.17	4.31	4.42	5.29	5.30	5.35	5.40	5.45	5.45	5.40	5.25	5.25	5.20
Federal funds rate % (mid-point, end of period):																
	4.38	4.38	4.13	3.63	3.63	3.63	3.88	4.13	4.63	4.88	4.88	4.88	4.38	4.13	4.13	4.13

Real GDP Growth - Global Economy - Year over Year

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
US	2.7	1.6	2.3	2.1	2.5	2.9	1.8	2.5	3.0	2.6	-2.1	6.3	2.4	2.9	3.0	2.3	2.6	2.1	2.0
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.8	1.6	-6.2	5.7	3.5	0.5	0.9	1.5	1.0	1.2	1.3
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.7	1.6	-10.4	8.7	4.3	0.1	1.1	1.3	1.2	1.2	1.4
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	1.7	0.6	-0.4	-4.3	2.3	1.0	1.5	0.1	1.1	0.8	0.8	0.9
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.8	1.9	-5.1	5.0	3.4	1.1	1.5	1.7	0.9	1.3	1.8
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.4	4.0	-5.9	9.2	7.2	7.7	6.4	7.4	7.2	6.5	6.8
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.7	6.0	2.2	8.5	3.0	5.2	5.0	5.0	4.5	4.3	4.3
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.4	-3.6	5.3	3.0	2.9	3.4	2.5	2.1	2.1	2.3
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.2	-0.3	-8.8	6.1	3.9	3.2	1.5	0.6	1.5	1.9	2.1
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.8	1.9	-2.0	5.4	4.1	2.1	1.0	2.6	2.0	2.2	2.3
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.8	2.2	-2.7	5.6	-1.2	3.6	4.3	1.0	0.5	0.9	1.1
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.7	-3.0	6.2	3.0	2.7	3.3	2.7	2.9	3.0	3.1

Key Currency Values

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017	End 2018	End 2019	End 2020	End 2021	End 2022	End 2023	End 2024	End 2025	End 2026	End 2027	End 2028
USD/Yen	91	93	81	77	87	105	119	120	117	113	110	109	104	115	131	141	157	157	160	164	158
Euro/USD	1.40	1.43	1.34	1.29	1.32	1.37	1.21	1.09	1.05	1.20	1.14	1.12	1.23	1.17	1.07	1.10	1.03	1.17	1.16	1.20	1.15

Oil (Brent spot) & Gasoline (U.S. average retail unleaded, \$)

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017	End 2018	End 2019	End 2020	End 2021	End 2022	End 2023	End 2024	End 2025	End 2026	End 2027	End 2028
Crude oil per barrel	46	78	95	107	111	111	58	38	49	67	54	67	52	78	85	77	71	61	105	95	85
Gasoline	1.61	2.57	3.00	3.27	3.30	3.32	2.26	2.00	2.31	2.47	2.26	2.58	2.30	3.38	3.20	3.12	3.04	2.83	4.25	4.05	3.95