Shock as strategy: Making sense of Trump’s first 100 days

Unpacking the calculated chaos of the second-term agenda to radically rebalance the U.S. and global economic order.



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By David Teeters

Since President Trump took office for his second term, the world has been caught off guard

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by the bewildering pace of executive orders, apparently contradictory statements and policies against accepted orthodoxy. Why the sudden urgency of peace negotiations for Ukraine, the aggressive posturing toward America's long-standing international allies including Canada, Mexico and Europe, and the extreme brinkmanship with China? The ensuing cacophony of opinions has been deafening, amplified by the echo chambers of social media.

But so much noise can be a distraction that prevents us from hearing the quiet parts said out loud.

Start with the end in mind

The strategic vision for a "golden age of America," as stated in the President's inauguration speech for his second term, is nothing less than a radical reimagining of the U.S. business model. Because the U.S. is at the center of the international financial order, this requires the current terms of trade to be restructured while addressing the overlapping national goals of robust economic growth and reinforced defense: renewed industrial manufacturing base, productivity growth through recommitment to innovation, and energy domination and abundance.

While restructuring the economy to reshore manufacturing is a national defense exigency, what we're seeing here is "America First," not "America Alone": in response to existential threats, the U.S. must rebalance the conditions underpinning the existing international trading and financial system. The Bretton Woods III macrofinance model offers a powerful framework to understand the steps being taken toward this restructuring and rebalancing.

Why now? The twin catalysts

Two challenges make this global reset urgent and imperative.

The first is China's economic growth model and export-led industrial overcapacity. Given the country's enormous relative size and importance in the global economy, this has created dramatic domestic and global imbalances. The mercantilist national industrial policy of China to artificially depress domestic consumption in favor of subsidized production relies on deficit country demand. One of the accumulated realities has been the hollowing out of the industrial base of the United States. Unchecked, China's model could ultimately lead to the export of the country's debt deflation and balance sheet recession. This would have

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disastrous implications for highly leveraged sovereign balance sheets in the industrialized world.

The second (and intrinsically related) challenge is the U.S. fiscal trajectory. Debt sustainability concerns became increasingly pronounced in U.S. Treasury funding markets given the Biden Administration's record peacetime deficits. Faced with three alternatives to delever a sovereign balance sheet (and discarding the options of inflating away the debt or outright default), current Treasury Secretary Scott Bessent has clearly and repeatedly stated that this is the last opportunity for America to *grow* its way out of the problem. When someone tells you who they are and what they intend to do, it is wise to listen and believe them.

The unbalanced Chinese growth model of industrial overcapacity colliding with the prior fiscal path in the United States is a catastrophically toxic combination. The final straw is the imminent exogenous shock from AI and automated robotic manufacturing that will provoke the deepest societal changes since the 18th century. Absent productivity-led growth and against a backdrop of demographic decline, this is fundamentally incompatible with the current consumption-led capitalist economic model.

Internationally, temporary mercantilist imbalances, such as post-war Germany and Japan, were historically not just tolerated but explicit policy to rebuild America's former military enemies into economic allies. Breaking the entrenched interests this created required unilateral American leadership (as witnessed in the Plaza and Louvre currency accords) to graduate these economies into a more balanced global trading system. President Trump's policies are using the strength of the American consumer and access to deep capital and financial asset markets to force this rebalancing of not just the U.S. economic model but that of its major trading partners as well.

Domestically, one of the many ironies of the "Liberation Day" tariff regime is that we might be witnessing a Republican-led revolution aimed at wealth redistribution to the bottom 50% of America, as the alternative of continued accrual of wealth to the top 1% is even more chaotic. As Bessent has repeatedly said, it's Main Street's turn; Wall Street has had its time.

Five projects: How the puzzle pieces fit

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together

There are five main projects that together support the game plan to restructure global trade and rebalance the international monetary financial order into a more sustainable system.

Project 1: Tariffs

America's trade deficit is like a three-legged stool, the product of terms of trade, the budget deficit and the balancing level of the U.S. dollar. One of Bessent's repeated talking points is the three uses of tariffs:

1. as a tool to raise revenue;
2. as retaliation against unfair trade policies;
3. as a negotiating tool.

Stephen Miran, chair of the Council of Economic Advisers, argued for the need to reset both trading relationships and the global currency system. As an incremental source of revenue, the underlying moderate tariff rates will help rebalance the U.S. toward a sustainable fiscal path and the target of reducing the budget deficit. The postponed threat of higher tariffs is a negotiating tool to force the correction of imbalances between major trading partners: these include both explicit tariffs as well as non-tariff barriers (including currency manipulation and subsidies of labor or the means of production).

If initial expectations were for a more gradualist approach, the "Liberation Day" tariffs were just the beginning of the "everything everywhere all at once" alternative. Specifically, the focus on bilateral trade and agreements is aimed at pushing U.S. policy through America's trading partners to apply pressure on the only conversation that matters: China. The seemingly intractable nature of these problems means that the trade war isn't going away any time soon, though expect winners and losers in individual battles. With bilateral China/U.S. trade essentially at a full embargo, the next phase of this protracted game is about to go critical.

Project 2: Taxes

Next on the agenda is the renewal of the existing 2017 Tax Cuts and Jobs Act from Trump's first term to make these tax cuts permanent. Together with other new targeted tax incentives (e.g., on capital expenditure, Small Business Administration loans, and more) the objective is to reinvigorate American economic growth. Watch for even more aggressive

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income tax cuts, with calls for 0% on the first $200,000 for working households. The administration will fund these cuts from revenue generated by the tariffs: America has a spending problem, not a revenue problem. Government cost cutting and efforts to reprivatize the economy have received much attention these first months. Going forward, expect efficiency drives, with the “techno-optimist” influence on the current administration evident in applying technological solutions to streamline U.S. government operations.

Project 3: Deregulation

Expect the endgame of financial sector regulatory reform after years of Basel III regulations limited the banking sector’s ability to service the needs of local business communities (and pushed risks into other corners of markets). A clear place to start is with Supplementary Leverage Ratio (SLR) relief, which will additionally free up incremental balance sheet to support U.S. Treasury markets. As the Treasury fundamentally addresses the sustainability of the fiscal path, there is a need to rotate (i.e., mitigate the looming refinancing risk and the approximate $5 trillion in overseas U.S. Treasuries that could be dumped, by rotation to more high-quality domestic and foreign balance sheets and issuance of duration) and then reduce.

Risk management is critical to maintain market functioning and stability through what is necessarily a volatile transition. Expect regulatory clarity for: cryptoassets (stablecoins as well as settlement rails), private credit (and other sources of recently created balance sheet in the shadow banking system) and measures to reduce the Treasury funding market’s overreliance on hedge fund intermediated balance sheet. Buyer beware: reinstalling moral hazard into financial markets is a necessary but not costless part of re-enabling markets to function at what they do best — pricing risk.

Project 4: National industrial policy

Details are forthcoming of the creation of the American Sovereign Wealth Fund, an entirely new incremental balance sheet that can monetize what some estimate as up to $500 trillion in sovereign assets. Both the asset and liability side offer some of the biggest opportunities for the administration to enact lasting changes to the U.S. business model. These include the leading sovereign-owned share of bitcoin, possible equity shares in FNMA and FHLMC, potentially repriced gold certificates, and more. Revaluing sovereign assets focused on building national equity is a bold initiative to put the consolidated fiscal status of the United States government on solid footing.

Energy abundance leads to economic abundance, so expect more focus there. Critical

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infrastructure build will be supported. No, Nike shoes will not be “Made in America.” Instead, watch progress on targeted initiatives like Anduril’s Arsenal-1 facility in Ohio.

Project 5: Reimagined institutional frameworks

Institutions matter, especially when looking to restructure the global international trading and financial system. In his address to the IMF and World Bank at their annual spring meetings, Bessent’s view was clear: get back to core principles and redress mission creep. Trade negotiations will result in a new global currency agreement. While exact details remain to be seen, Michael Pettis, the leading voice on the need to rebalance, recently proposed a customs union of the largest deficit countries.

The U.S. dollar will remain the global reserve currency, as there simply is no alternative. Aligned price-insensitive foreign sovereign buyers of U.S. treasuries can “pay to play” by terming out their holdings from bills to century bonds. Reinforced guardrails on the U.S. dollar (“eurodollar”) system can internalize the regulatory cost externalities through zero coupon perpetuities as prime collateral (instead of Fed swap lines for emergency liquidity provision). Well-executed and regulated access to credit creation via a robust global U.S. dollar system is a carrot to counterbalance Chinese influence in strategic global regions like Africa and Latin America.

Sound, independent monetary policy from the Federal Reserve is essential. Yet the biggest threats come from within: the revolving door of regulatory capture, the risks of politicization and mission creep under the overuse of section 13.3 emergency powers leading to conflation of monetary and fiscal policy. There is a reason we’re hearing more from Bessent than from the Federal Reserve chair, Jerome Powell. Expect fiscal policy to be properly rebalanced to Treasury, e.g., with enhanced regulatory coordination and legislated empowerment of the Exchange Stabilization Fund.

What next?

To make sense of the times, we must understand that volatility is a feature, not a bug, of a currency reset that aims for the controlled disinflation of an over-financialized system. Yet, in the short term, we should prepare for the arrival of what high-frequency data indicates is nothing short of a full-on trade-induced stagflationary cardiac arrest, as what amounts to a U.S./China embargo sees bilateral trade grind to a halt. This is high-stakes brinkmanship in a game of who can take the most pain, with the U.S. battling to drag China to the negotiating

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table. Both China and the U.S. need a deal, as Trump faces fickle American consumers and bare shelves, and Xi focuses on de-escalating China's balance sheet recession.

Given April 2025's market volatility, real damage has already been done to market structures under the surface that will reverberate through financial channels. For now, price action feels like there's coordinated support for 10-year U.S. Treasury yields, but bond vigilantes are not dead: 4.50% is the level to watch. Gold is likely to continue to reprice as an alternative neutral reserve asset. There's a strong possibility of a short-term détente with China to buy time for ongoing trade negotiations. The U.S. dollar is likely to continue to remain soft, to support global liquidity. Bailouts are being readied for U.S. farmers (and potentially other sectors). Rumors of emergency actions from the Fed have become common in market chatter. This is the great existential moment for all investors.

Even so, let's be open to the possibility that this is the system working as it should: the noisy and raucous reality of democracy and the implications of a clear second mandate for Trump from the American voter. The President's legacy depends on his ability to deliver change, in turn contingent on the world accepting the restructuring and rebalancing of an international trading and currency system no longer fit for purpose.

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