

President Trump's Early Policy, Cabinet, and Market Dynamics

Ladies and gentlemen, welcome. I'm Cameron Lochhead from PGM's Institutional Relationship Group, hosting a conversation today about President Trump's early policy, cabinet picks, and financial markets impact. We have a trio of specialised experts to guide us on several urgent topics, as suggested by some of our favourite client friends at PGM.

First, the messy business of implementing tariff policy. Two, power players in the Trump cabinet and some of those behind the scenes who you may not know. Third, what's likely to happen with tax reform on everyone's mind this time of year. And then finally, the economic policy impact on the debt ceiling, inflation. And the question, especially for Tom will be, will we see GDP growth, or will we face recession? We have 3 experts. Let me introduce him. First off, Doctor Mike Piwowar. Mike Wave, say hello, who heads up the DC office of the Milken Institute. Beautiful new office building Mike on the corner of North NW 15th. He's also a former SEC Commissioner and a very prominent expert on the ways of the GOP. Secondly, we have Tom Porcelli, known to many as our Tariff Man. Recently, Tom's been hosting some series of webinars for PGM fixed income clients where he's the PGM Chief U.S. Economist. He's also just coming in hot from a lunch with Treasury Secretary Scott Bassett here in New York. Finally, James Sonne, PGM's head of government affairs based in Washington, DC. He's our man in Washington and it doesn't appear like he's had much sleep, not to mention no vacation since November 5th of last year. So let's get started with James.

James, Investors we've been speaking to continue to overweight assets into the U.S., but now we're seeing concern. There are concerns about higher sustained inflation. What are you hearing from your circle in Washington? What are they saying to you?

Well, the political dialogue around tariffs and the Trump administration has his folks publicly and behind the scenes very much in lockstep that tariffs need to happen. It's interesting because I think Trump could have won this election without even using the word tariffs. I think other policies like immigration and other economic issues were actually much more front and centre with his base. But regardless of that, the political in DC, whether it be publicly Howard Lutnick or Scott Bassett, are in private. When Bob Lighthizer comes to Washington and does his lunches with the Senate Republican caucus to extol the value of tariffs, it seems to me that politically everyone is behind making tariffs happen and why there were benefits to them. It's interesting because you hear Howard Lautner talking. He's made statements about why or how more jobs and steel industry were created under Trump the last time. Scott Besson has said that price prices may not actually increase too much because they didn't last time out of the Trump administration and they're all lockstep in that way.

What we hear members of Congress, though saying instead sometimes is they are all personal stories from folks in their districts who are seeing challenges from these tariffs. And they're also bringing up that the last time tariffs were implemented, there was a huge decrease in the corporate rate that also had a positive economic impact that we won't see this time with tax reform.

So with that, maybe we should turn to Tom, who can talk a little bit more about the economic impacts.

Yeah. So first, Cam, good to be with you and everyone else here. It's always a pleasure speaking about this. You know, look, I would say this, if everyone's trying to get to the sort of the inflationary hit from tariffs. I don't think that really does a good service to the conversation. Not so worried about the inflation effect. Because I do think that, you know, the sort of you'll get this one time shift higher in the, in the inflation rate, which make no mistake, is not a good outcome when people are already telling us that they're having a hard time with higher prices. So I, I don't think that that's a thing that the administration should be leaning on is a one-time shift higher. I mean, actually that's sort of sort of a pretty bad outcome when there's already been a massive one time shift higher in prices over the last couple of years. But where I do think the rubber really needs to road from a tower perspective is that it is a tax. And you're right, you know, we just heard Scott Besson talk about this at the Economic Club of New York. I think he recognises that it's a tax. I mean he effectively said as much. So if we recognise that it's a tax, then I think what we need to be mindful of is that there's going to be an output hit from that. You know, output is just a sort of a, you know, a fancier term for GDP. And that, that I think is what we need to really sort of be focused on. You know, it's hard to say with precision what the actual impact will be. You know what we know if we just went tariffs on Mexico, Canada, China, all of those the ones that are being talked about right now that are seemingly on again, off again on a pretty daily basis. You know that is you're probably talking about a half a percent to a full percentage point hit. Again, it'll show up initially from in, in on the inflation front, but ultimately, the tax part of it, it'll show up as a hit to growth. And, and I think that's what we need to be careful of.

Now, I'll say this one last thing and I'll stop because there's a lot to say on this. I think some people in DC are probably saying, yeah, but you know, we're going to, we're going to have tax cuts and, you know, we're going to extend, extend the Trump tax cuts. And I think, you know, the market is I think fully expecting that. But I think what we have to keep in mind is that, but that's

not new tax cuts. That's an extension of what is. So you don't get a ton of economic juice from just extending what people are already benefiting from. So again, a long way of saying, I think we really didn't need to be careful with the economic hit from this.

Well, Mike, I think it's time for you to weigh in. You know, one of the things that Mike, my clients tell me is they're concerned about inflation, they're concerned about overweight equities. They have too much risk assets on their books and maybe they should be diversifying it more real assets. Increasingly, Trump's administration has been very vocal about their support for crypto. I'm wondering you're so close to the regulatory community for such a long time. Mike, is this embrace of crypto sustainable and what role is Commissioner Purse and Congress going to play in all that?

Yeah, thanks, Cameron. First of all, thank you. Thank you and your team and everybody at PGM for your great partnership with the Milken Institute. It's been a fantastic partnership. I learn as much from these webinars that you do as I give back. So hopefully I'll get back some of this stuff. You know, we had a fintech symposium yesterday here in Washington, DC, and we had members of Congress, and we had Commissioner Hester Perch from the SEC and Caroline Pham from the CFTC. And the energy around actually providing a legal and regulatory framework for crypto in the United States has never been higher. You know, tomorrow at the White House, the president's going to convene a crypto summit from CEOs. Congress is moving and the regulators are moving. What we're likely to see staging in this area is where we're likely, the first thing we're likely to see is stable coin legislation. So these are crypto assets that are backed by U.S. dollars. Tether and Circle are the big names that everybody knows in this area. It looks like we're going to see some legislation move forward very quickly. There's a bill that's in that in the House called the Stable Act and there's a bill that's been introduced in the Senate called the Genius Act. The we had Congressman Ben Brian Style from Wisconsin yesterday at our symposium. He said the senators and the congressmen are working together to get those bills closer and closer together. They're about 80% in agreement, but they're working on the last 20% and we're likely to see something move forward very quickly with it. It's going to be weeks or months, not years in that. Then the second thing we're likely to see in Congress is kind of what I call the everything else bill. So all of the other crypto assets, whether you think of Bitcoin, Ethereum, and you can go down all the lists down to the meme coins, those jurisdictions are going to be split up between the SEC and CFTC. And the what the bills going to do is sort of clarify where that distinction is. And it's going to provide some additional authorities to those agencies. To the extent that intermediaries or decentralised transactions and stuff don't fit neatly within the current regulatory framework. What you're going to see from the regulators, like you mentioned, Hester Purse, you know her nickname is Crypto Mom because she has been, she has embraced the crypto community more than any other financial regulator we've ever seen. Upon inauguration, President Trump designated Markueta to be acting chairman of the SEC. The very next day, Markueta designated Hester Purse to lead something called the Crypto Task Force to actually work with Congress on the legislation. Sometimes people don't appreciate the fact that the regulatory agencies provide a lot of Technical Support to members of Congress to how to get the legislation right because there are ultimately going to be the implementers of this. Unfortunately, we've lost four years because when Gary Gensler was chairman, he was anti crypto and did not offer that Technical Support. So she's going to be doing that at the same time she's announced she's going to have public roundtables. This is something we have not seen for four years. Also, where the regulators are actually inviting the public in to learn about certain things. She's already put out a list of questions that they want to get answers to very in the weeds type thing. So we're going to see legislation and regulation move forward. And this one's going to be, it's going to take a little bit longer, but it's going to follow on to the stable coin bill.

That's quite a commitment, Mike. I'm wondering, you know, investors and analysts on Wall Street and beyond overseas are going to be once that news breaks into the world, people are going to wonder what impact that may have this embrace of crypto on gold and maybe on the USD. Do any of our panelists want to weigh in on that? Maybe you Tom, thinking about maybe X US impact. You know, so I think what we need to bear in mind is when you'll hear the Economic Community say, hey, well, you know, the impact of terrorists on XY or Z country is worth, you know, this. But I think what we need to be mindful of is there's going to be tariffs that get kicked back on to us, you know, and and I think when you have a when you have a sort of a globe that I think it's very fair to say like, you know, we exist in this sort of sluggish economic backdrop. I mean, I think the, you know, sort of the worst-case scenario is that this this evolves into a recession. I mean I think that this is something that we need to be thoughtful about and I get it, like over the last couple of days leading into this recording, there's more sort of, you know, commentary around that idea. I think that's right. The thing I would say as it relates to markets specifically is if I look at something like, you know, like, I don't know, Fed funds futures right now, I think, I think futures are looking at funds that are as low as around 3:50. Again, that that's as of, you know, right around this recording. I would tell you that if the market really believed that it was, you know, you were going to sort of drift into a potential recessionary backdrop, futures wouldn't be a, you know, funds futures, Fed funds futures wouldn't be a 350. You'd be meaningfully lower than that. So I do think that the market is still holding out hope, right? I think the market is still holding out hope that you do get some resolution on this. And I think, you know, again, just before we went to recording, I think it was interesting that the Trump administration punted again on or at least partially punted again on tariffs to Canada and Mexico. And they're going to sort of, you know, deal with it again in early in early April. But

that degree of uncertainty from my perspective, and I think just from an economic perspective, I think it's exactly what we don't need. We've seen this play out before. I mean, just look back at, you know, sort of 2018-2019 when the market was dealing with the uncertainty of tariffs, it showed up from a capital expenditures perspective. And, and oh, and by the way, over that window, just keep in mind, we also have the Trump tax cuts that were already in play. And yet, you know, we still saw this sort of drifting down in, in, in capital expenditures at, at the corporate level. So again, there are things that they can certainly do to offset it. They can throw a big corporate tax plan at it. And obviously they are teasing that up. They've been pretty clear about that. But you know, one thing we've been saying is that the problem is that they had the sequencing off base here.

You were talking about a lot of things that are going to hit growth and then after talking about the things that are going to help it along. So I think for now, Cam, the short answer is I think people are going to be sort of very sensitive to what we would call the left tail risk, which is the downside, right? Well, we know that Scott Besson Treasury Besson's in early days in his in the in his in his new job.

I'm wondering, you know, he needs to build some credibility with Congress and James and I were speaking earlier about the debt ceiling that's looming Friday next week.

James Yep. How what role is Besson and the other power players going to play in getting Congress to the table and to get that deal done?

Well, a few things about the debt ceiling. Number one, what the debate around the debt ceiling doing now is doing now is it's completely stalling any progress on tax reconciliation and there is a deadline to get that done. The budget both the House and the Senate have are starting to talk about regarding tax reform. It expires September 30th. So the clock is ticking to get tax reform done, but the debt ceiling obviously has to take presidents right now with the with the with the March 14th deadline. And what always seems to happen with the debt ceiling negotiations is that both sides don't really benefit Democrats or Republicans from a government shutdown. The incumbents generally lose in the polls if the government gets shut down. I think now with a lot of the uncertainty with the federal government, that's already happened in the past six weeks as a result of doge and executive orders that that folks have a lot more to lose back home if the government shuts down. But the real problem with that analysis is on the other side of the coin, no one, no side really wins this negotiation if it looks like they gave in too soon. So we're going to see Speaker Johnson at the centre of this hitting some very tough sledding within his own caucus to try to get Republicans to actually support an extension when he has a lot of spending Hawks where they know that just a couple votes could totally take the entire process down. And we're also going to see Democrats who are particularly upset about a lot of the changes that have happened in the last six weeks.

And this is kind of their one shot at leverage to put a stake in the ground because they may need Democrat votes to get it happened to make this happen when the Republicans will all unify. So I think we're going to see a lot of challenges and I think this is going to be a Speaker Johnson Trump Democratic caucus dogfight to deal with.

Mike, you're sitting right in the centre of this in Washington. When you think about the debt ceiling and you think about all the efforts from Elon Musk and Doge to reduce expenditures on the federal government level, What are the trade-offs that you see being made, even last minute trade-offs between the Dems and the Republicans?

Yeah. I mean, I, you know, James nailed it. I mean it always comes to the brink and then they always somehow find a way out of this. And nobody, I mean, I couldn't have said it better. Nobody wins this one. It's just you can't look like you're actually losing this thing, right? You know it's interesting here in Washington, DC, we have a lot of federal government workers around here and stuff. And, you know, you would think the reaction would be, Oh my, like everybody would say, Oh my gosh. But it's mixed, right? So there are some folks that are like, I can't believe I'm cut. And then maybe some of them come back, but there's some folks in the federal government who say, you know what, the person that sits, you know, 3 deaths through their they're never in their office. Anyway, I'm glad this is this actually needed to get done Now there's still some questions over whether you use a chainsaw or a scalpel or maybe a hatchet in the middle or something like that. There are questions of how they do it, but it's actually more popular in Washington, DC than you would think.

Now, you know, I just happened to be, you know, travelling a lot and getting out. Once you get outside in DC, it's actually very popular, right? I mean, it's extremely popular on these things. So it'll be interesting to see how this plays out.

Well, there's certainly going to be a lot of material for you and your colleagues at the Milken Institute that first week of May in Beverly Hills, Mike, we're looking forward to being there with you and, and, and hopefully we'll see some more policymakers on stage.

Yeah, yeah, I know. I mean, last year we had, you know, Elon Musk was there last year, but in a very different role. So I'm hoping we get him back again this year so we can get, you know, see what happens. That was standing room only and then some.

Fantastic. So Tom, you know, back to tariffs. You have a podcast coming up, or should I say webcast similar to this version two. And then three. What are you going to talk about?

Yeah. So thank you for allowing the shameless plug. I think, you know, the first one was fantastic. It's out. We did it with, you know, I hosted a couple of our experts within PGIM. So, you know, one of the things that came out of the first episode was, you know, we're talking about autos and how autos would be impacted. And you know, the real sort of notable price impact that it will have on cars. I mean, you think about cars, car prices, just to set it up and just to give a little teaser. So people will actually want to go out and, and take a look. If you look at car prices pre pandemic, the average car price pre pandemic was \$35,000. If you look at what it was or what it is now, the average car price is \$50,000. And just to be clear, that's not consistent with what we saw, you know, from a sort of a pre COVID baseline perspective. I mean, prices are up very significantly. If you get these tariffs on Canada and Mexico, you're looking at least another \$5000 added to the price of a car. You know, you're going to go to \$55,000 for the app, but just be clear, the average price of a car, you know, becomes it becomes quite punitive, I think. So that's something we talked about and again, we talked about it from, you know, we get our portfolio managers involved. And then the next two coming up, the first one was very focused on the United States. The second one will be focused on Europe and then the third one will be focused on emerging markets and all those are due to come out over the coming weeks.

Very good. We will definitely stay tuned. If you need more information on that, please contact your PGM Fixed Income Rep.

I want to wrap up by asking our guests about one personality on the scene in Washington, whether they be known or relatively unknown, that you look at as someone who provides perhaps a catalyst for change, for good or for bad. Maybe someone whose name our investor audience don't know. Mike, I'll go to you first. Who's a player in Washington that our investor friend should keep a close eye on over the next couple years.

Yeah, so James already mentioned, you know, Treasury Secretary Besant and Commerce Secretary Howard Leutnick. I think one that doesn't always rise to the headlines but really has the ear of the president is Kevin Hassett. I had the great fortune of working with Kevin Hassett here at the Milken Institute for the past couple years. He is the director of the National Economic Council in the White House. And a lot of folks don't know what that means, but basically any policy issue that goes to the president has to go through one of three councils. If it's an economic issue, National Economic Council, if it's a security issue, National Security Council. And then everything else goes through the Domestic Policy Council. So these, the directors of those are the ones that any policy issue that goes to the president, they're the ones that figure out who else has to be in the room. So for example, on tariffs, Kevin's the one who makes sure that Howard Lutnick's in the room, Scott Besson's in the room. And then, you know, other folks, you know, the U.S. Trade Representative is in the room, you know, and, and, and, and all those and any senior advisors and stuff. Kevin served in Trump, the first Trump administration as the chair of the Council of Economic Advisers, which is more of an academic role. He served there for three years, which is a long time in the White House, you know, especially, you know, one that's as active as the Trump White House. He left and then President Trump brought him back as a special advisor during COVID to help reopen the economy. He has a very close relationship to the president. He's a quiet advisor to him. He's not always on the headlines. He's not always on television, although he does go on television quite a bit. But he's the one who's someone that has the president's ear. He's a very distinguished economist and he's somewhat, I would, you know, if it when he's, when he says something, you can be sure that he may not always win the day when, you know, when he's in the room with some of these other folks that are there, including, you know, Peter Navarro and some of these other ones. But at least the president, you know, values his opinion. We'll keep an eye on Kevin.

Good one. Tom, how about you? Who's a who's a player to watch? Yeah, I agree with Mike. I'm always paying attention to what Kevin has to say. I think Jason Trenert and Mike and James can correct me if I'm wrong. I think he's been announced as someone who might be going if, if he's not already there. They know that those logistics better than me. I've always been a fan of his too. And on my end, less a lot means least. I think one way that sounds very basic, but it's really important when thinking about who's going to have the most influence in Trump administration is to look at who he is physically surrounding himself with.

He listens to people who are by him and available to hear him out and talk to him. And one person who I think is not in the headlines as much, he certainly made a few when he was handing Trump executive order after executive order in the stadium shortly after inauguration. This guy named Will Scharf. I will say I've known him since high school, so I'm a little bit biased. He's a Harvard educated lawyer. He stood behind the president during all of his trials, just like JD Vance did in New York. And the folks who stood behind him then seem to be rising in level of influence and also in proximity to President Trump. And I think those two often go hand in hand. So when he is looking for advice on Will's current role as a staff secretary, they control all the information that comes to the president officially. I think someone like that who may not have as much political experience as some folks who are just older than him, has a lot of opportunity influence based on the proximity intelligence factors that they bring to the table.

Fantastic, fantastic gentlemen. Thank you very much for your insights this afternoon. We very much appreciate this. We're very happy that all of you took the time to hear us. Hear us out if you have feedback on this. If you'd like to see more, please contact your friends at PGM. On behalf of my distinguished three panelists, Mike Piwowar, James Sonne, Tom Porcelli, thank you all and have a great afternoon.

Thanks for having me.

Thanks guys.

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