SMITH CAPITAL INVESTORS

The Mar-A-Lago Accord: A Blueprint for Trump 2.0

The first two months of the new administration have proven to be an extremely dynamic and volatile environment to navigate, not only for financial markets but the entire world. The speed at which sweeping changes are being implemented in the U.S. Government is unprecedented and has created considerable uncertainty about the forward economic outlook. While the current environment has been extremely dynamic, these first few months of President Trump's second term have provided valuable insight into the potential underlying motives of the new administration. We dive deeper into the so-called "Mar-A-Lago Accord" to garner insight that can aid in making the current choppy waters more navigable.

What exactly is the Mar-A-Lago Accord? This term, a nod to the 1985 trade agreement known as the Plaza Accord, has materialized recently to encapsulate the economic philosophy championed by Trump's current Chair of the Council of Economic Advisors, Stephen Miran. The details of the proposed strategy were initially released as a research piece from Hudson Bay Capital, where Miran is a senior strategist, included here. Miran highlights some of the primary goals of the new administration, most notably the implementation of tariffs, and presents arguments for how these policies can succeed, along with actions to mitigate their negative impacts. Miran also exposes numerous risks associated with a dramatic restructuring of global trade dynamics. The Mar-A-Lago Accord reflects a worldview in which the United States leverages its economic, financial, and military dominance to secure more favorable trade and fiscal arrangements. It argues that Trump sees the global order as structurally imbalanced, with the U.S. subsidizing international security and economic stability while running persistent trade and budget deficits. His administration aims to correct these imbalances through protectionist policies, aggressive trade negotiations, and a recalibrated dollar strategy. A key feature of this approach is the belief that a strong domestic industrial base is fundamental to national security. Trump has praised the U.S. dollar's reserve currency status while simultaneously criticizing its overvaluation for harming American manufacturing. His administration does not seek to end the dollar's role as the global reserve currency but instead intends to extract greater benefits from providing reserve assets by increasing burden-sharing among trade and security partners. This linkage between trade, security, and monetary policy represents the broader shift toward an "America-first" economic framework. We believe understanding these components is critical to navigating the current environment.

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Miran's framework for achieving these goals centers on a mix of currency realignment, trade enforcement, and debt restructuring. He argues that tariffs can be implemented in a way that minimizes inflationary consequences if they are paired with a weaker dollar—either through gradualism, coordination with allies, or Federal Reserve policy. The administration believes the experience of the 2018-2019 trade war supports this view, as currency depreciation offset most of the tariff impact on import prices, keeping inflation contained. However, given today's structurally higher inflation dynamics, we believe risks of a goods-wage spiral are more pronounced. Miran also contends that since foreign nations benefit disproportionately from U.S. military protection, they should help finance the American fiscal agenda, whether through purchasing U.S. debt or increasing defense spending. The administration's push for NATO members to raise military outlays to 2% of GDP, combined with its willingness to link trade concessions to security guarantees, underscores this philosophy.

Additionally, the administration is pursuing structural policies—deregulation, tax reform, and energy expansion—as disinflationary counterforces to tariff-driven price pressures. These measures are aimed at enhancing U.S. growth while reducing inflation, reinforcing Trump's belief that tariffs can be a tool of economic rebalancing rather than a pure tax on consumers.

The administration's recent actions exemplify Miran's strategic vision. The imposition of steel and aluminum tariffs on all trading partners aligns with Trump's assertion that "if you don't have steel, you don't have a country." National security considerations are also expanding to include tariffs on semiconductors and pharmaceuticals, reflecting a broader economic nationalism. The administration's approach to tariff enforcement is increasingly focused on Canada and Mexico, as Chinese companies have circumvented U.S. tariffs by rerouting exports through third countries since the trade war with China began in 2017. The broader trade policy is closely tied to security commitments—tariffs on NATO allies could be used as leverage to compel higher European defense spending, potentially allowing the U.S. to shift its focus toward countering China. The European Union has already responded with such measures, as Germany looks to pass legislation to increase defense spending materially, setting a precedent for other European nations to follow suit.

Meanwhile, Treasury Secretary Scott Bessent's "3x3x3" model, which targets deficit reduction, economic growth, and energy expansion, provides a fiscal and macroeconomic framework supporting the Mar-A-Lago Accord's objectives. The administration sees rising U.S. energy production as both an economic growth driver and a geopolitical tool, reinforcing financial independence while enhancing leverage in trade negotiations.

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For financial markets, Miran argues the Mar-A-Lago Accord presents both opportunities and risks. A successful currency realignment, coupled with structural reforms, could boost U.S. manufacturing, support growth, and contain inflationary pressures, creating a bullish backdrop for equities. However, if tariff-driven inflation proves more persistent than expected, particularly in an environment where inflation is still above the Fed's target, bond markets may react negatively, pressuring the Federal Reserve to maintain a more restrictive policy stance while simultaneously pressuring growth. The administration's success hinges on precise execution—a narrow path exists to restructure trade and financial systems in America's favor without material adverse consequences. In our opinion, missteps could exacerbate inflationary pressures, provoke financial instability, and weaken investor confidence.

The early weeks of Trump's administration signal a shift away from using market stability as a success metric, with the President openly tolerating short-term economic pain to advance his broader agenda. By inducing uncertainty, the administration could be aiming to push Treasury yields lower and potentially force the Fed to ease policy without direct intervention. This could, after all, aid in currency devaluation and address unbridled U.S. deficit dynamics. The Mar-A-Lago Accord provides an insightful blueprint for understanding these policies, even if they aren't implemented exactly as outlined. Given the fact that early actions are aligning with campaign rhetoric, we believe investors and policymakers should take Trump seriously—even if not always literally.

The policy actions enacted by Trump, specifically on the trade front, have already begun to influence the outlook of the Fed. At the most recent FOMC meeting, the Summary of Economic Projections (SEP) highlighted that the median committee member expected 2025 GDP growth to be 0.4% lower than at the December 2024 meeting, while simultaneously expecting core PCE to be 0.3% higher. During the press conference, Powell highlighted that one of the primary drivers of this shift in outlook was due to tariff implementation. It is our view that the committee holistically has an easing bias but will be forced to maintain policy rates at current levels to prevent inflation expectations from becoming unanchored amidst tariff uncertainty. We remain highly attentive to the policies coming out of Washington that can have material impacts on economic activity, and broadly view the legislative changes being contemplated as posing downside risks to growth. We are keenly focused on monitoring trade policy, labor market health, and fiscal policy shifts as we navigate through these unprecedented global shifts. We find it prudent to maintain a defensive stance within portfolios, with an emphasis on liquidity to take advantage of volatility through these uncertain times.

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