

# Circe Invest's Fiona Frick: Markets' 'trinity tango' intensifies as Trump returns

## Geopolitical risks 'underpriced'

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**Global markets are navigating a complex 'trinity tango' of uneven growth, shifting central bank policies, and escalating geopolitical risks, amplified by Donald Trump's return to power.**



Image:

Fiona Frick (pictured), founding partner at Circe Invest

Slowing growth in Europe and China, rising debt, and fiscal deficits could reignite inflation as tensions rise.

While central banks adopt more accommodative policies, concerns over moral hazard grow.

Investors must balance short-term optimism from central bank support and Trump's pro-growth agenda with mounting fears of geopolitical instability and fiscal strain.

Geopolitical risks and economic stability

Geopolitical risks are significantly underpriced as conflicts in Ukraine and the Middle East escalate, along with rising US-China tensions.

[What is next for the US after Donald Trump's re-election?](#)

These risks strain supply chains, inflate prices, and threaten global stability.

Trump's re-election amplifies these tensions, as his administration is likely to adopt a more aggressive stance in pushing for quick resolutions.

In the Middle East, Trump might escalate US efforts, aiming for an Israeli settlement and reinstating maximum pressure on Iran.

His pledge to end the Russia-Ukraine war by possibly conceding to Russian demands or cutting US aid risks emboldening aggressors and shifting the burden to Europe.

Europe confronts escalating defence challenges, with NATO allies under renewed pressure to boost their defence spending beyond the 2% GDP target in Trump's second term.

While 23 of NATO's 32 members currently meet or exceed this threshold, countries like Italy and Spain still fall short, lingering below 1.5%.

Adding to Europe's woes, the rise of right-wing populist governments is fuelling economic and political uncertainty.

These political forces are challenging the European Union's consensus-driven approach to key issues like immigration and climate policy.

[Investors raise alarm over impact of rising populism on European stocks](#)

The growing polarisation within European politics is making it increasingly difficult to implement critical economic reforms, such as deficit reduction or growth-boosting initiatives.

As governments struggle to build coalitions, Europe's economic and political uncertainty continues to deepen.

Trump's trade strategy includes ramping up protectionism by imposing tariffs of 20% on all imports and up to 60% on Chinese goods.

In regards to China policy, Trump and Biden share common ground, both imposing tariffs to protect US industries, but Trump favours a more aggressive approach, pressuring Europe to join in raising tariffs.

In this environment, bilateral ties may take precedence over multilateral alliances.

### [Friday Briefing: When Trump 2.0, rates and fiscal policy collide](#)

Meanwhile, Trump has called on Taiwan to increase its defence spending, highlighting the island's growing security concerns.

Investors caught between cheer and gloom

Investors are walking a tightrope between optimism and caution.

Central banks' liquidity injections and Trump's pro-growth policies have fuelled short-term market gains.

However, underlying concerns about economic slowdowns, rising fiscal deficits, and inflation remain.

Furthermore, geopolitical risk remains underpriced.

The US election result supports financial markets but will not eliminate volatility.

Trump's proposed tariffs and fiscal policies could stoke inflation, limiting the US Federal Reserve's ability to cut rates.

### [abrdn's Lizzy Galbraith: What a Trump win could mean for the economic outlook](#)

Markets are currently pricing in less than one percentage point of rate cuts by the end of 2025, reflecting the expectation that inflation will constrain monetary policy flexibility.

Neither Trump nor the markets should underestimate the bond vigilantes.

Historically, surges in bond yields have signalled economic crises, such as the 2007-08 housing crash and the 2022 downfall of UK prime minister Liz Truss, whose fiscal policies triggered a sharp market response.

If Trump's administration pursues aggressive spending and tax cuts, bond vigilantes could once again push yields higher, increasing borrowing costs for both the government and consumers.

The steepening US yield curve underscores these concerns.

Rising yields, particularly on long-term Treasuries, not only increase the cost of government borrowing but also impact consumer loans, such as mortgages, which recently hit their highest levels in years.

### [Investors split over Trump presidency win amid potential increase in inflationary risks](#)

With the US deficit projected to grow by \$7.5trn over the next decade, fiscal stability is a growing concern.

## Global dynamics across asset classes and currencies

In equities, Trump's pro-growth agenda should benefit sectors like technology, financials, and defence, which are poised to gain from lighter regulation and increased military spending.

In fixed income, higher inflation expectations and reduced Fed easing are likely to drive US Treasury yields higher, particularly on long-dated bonds.

The euro has weakened amid expectations of more aggressive rate cuts by the European Central Bank compared to the Fed. While strong US economic data has reduced the likelihood of near-term Fed cuts, weaker eurozone data supports further easing by the ECB.

The dollar remains strong in the short term, supported by higher US interest rates.

[21st Federal Reserve vice-chair Richard Clarida on Trump, the US election and the 2% inflation target](#)

However, long-term fiscal risks and Trump's trade policies could eventually shift investor preference toward safe-haven currencies like the Swiss franc and Japanese yen.

This dynamic would further pressure cyclical currencies such as the euro and sterling, especially as Europe faces internal political

challenges.

### Strategic positioning for investor

As the trinity tango of geopolitical risks, macroeconomic shifts, and central bank policies intensifies, investors must stay cautious yet proactive.

Diversification and strategic positioning are key to navigating these conflicting forces.

There is no room for complacency — a balanced portfolio, combining pro-growth assets like equities with defensive exposure to gold, will be vital to weather volatility and seize opportunities amid rising uncertainties under Trump's renewed leadership.

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