

Trump's Second Act Starts With a Bang

Significant disruptions, legislative battles, and strategic shifts in Washington highlight bold moves and far-reaching impacts.

We're not even halfway through President Donald Trump's first 100 days of shock and awe, and power dynamics have already shifted from Washington to Wall Street and beyond. Trump and his allies are just getting started disrupting and dismantling the status quo in their quest to usher in massive change.

Trump 2.0 reentered Washington better prepared and positioned to impact the scale and scope of the US government. Trump is promising to completely reshape the federal government and is backed by both veterans returning from his first term and private-sector loyalists.

With some of these veterans in critical positions, such as running the Office of Management and Budget (OMB), coupled with a compliant Republican Congress, the Trump administration is off to a head-spinning start. Once Trump's cabinet is fully installed, we expect the same downstream upheaval at the respective agencies, buttressing the work being undertaken by the Department of Government Efficiency (DOGE).

DOGE Shake-Up

A handful of Republican lawmakers and almost all Democrats are beginning to push back against the extensive cuts to the federal government initiated by DOGE, led by Elon Musk, as these reductions start to affect their own constituents. A growing segment of Republicans in the House and Senate are looking to intervene with the Trump administration, possibly considering legislation to bypass these changes. However, with the DOGE and OMB moving quickly and seemingly disregarding federal law to streamline the government, these lawmakers face significant hurdles in persuading the White House to protect their constituents.

Potential conflicts are on the rise as DOGE and OMB consider cuts in industries important to both Republican and Democratic lawmakers alike. This will be a crucial test of Capitol Hill's influence in this new era of Trump and presents a new challenge for legislators who control federal spending. The White House continues to force cuts and urges Congress to formalize them, raising questions about how effectively Republicans on the Hill can mitigate the impact.

A not-yet-vocal sampling of Senate Republicans believe Musk's funding cuts should require Congressional approval. Some have even suggested that the administration should include the reductions for DOGE in a "rescissions" package requiring only a simple majority in both chambers. Even stalwart supporters of the Trump agenda such as Sen. Rand Paul (R-KY) commented recently that "all the stuff they're doing with DOGE is good ... but it's not real until we vote on it."

Trade Turbulence

For the next four years, volatility and dealmaking in trade policy will be making a comeback. Corporations, governments, and investors will once again have to navigate through a landscape marked by heightened uncertainty, as well as increased political, geopolitical, and supply-chain risks. Trump is re-entering the



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Key Points

- President Donald Trump is rapidly issuing executive orders designed to overhaul significant portions of the federal government.
- The Department of Government Efficiency and newly appointed federal agency heads will continue to reshape the size and scope of the government.
- In March, Congress will focus on completing fiscal year 2025 appropriations, avoiding a shutdown, and advancing key parts of Trump's agenda.

global stage with his “America First” trade agenda, focusing on substantial tariffs aimed at promoting reshoring and revitalizing American industries, reducing trade deficits, and offsetting the price tag of tax cuts.

Nations and industries worldwide are paying attention to Trump’s “trade war toolbox,” recognizing that this strategy encompasses more than just tariffs and currency-exchange rates and are turning to a broader range of industrial policies to pursue their national interests. As trade-imbalance challenges escalate, we can expect this trend to continue for the remainder of the decade.

With Trump’s initial broadside to Mexico and Canada on hold, and China responding to the imposition of 10% tariffs, our sense is that a more comprehensive wave of tariffs will hit at some point in April, once the reports from the January 20th trade executive order germinate. That’s not to say there won’t be more tariff tirades in March and throughout Trump’s term. Everything is fair game as our allies across the globe may think Trump is making trade policy on the fly, but it’s likely to reflect what he and his protectionist advisors have been planning.

Diverging Paths in Congress

While Trump and the House prefer a “one big, beautiful bill” approach to the reconciliation bills, the Senate prefers pursuing a dual budget-reconciliation bill strategy with the tax portion to come later in the year.

Sen. Majority Leader John Thune (R-SD) and Senate Republicans passed the first of their two budget-reconciliation bills in February. The \$345 billion Senate package provides funding for defense, border security, and energy policy while offsetting cuts from mandatory spending.

Across the dome in the House, after weeks of contentious negotiations, Speaker of the House Mike Johnson (R-LA) and House Republicans passed a single, comprehensive budget resolution. The measure includes \$4.5 trillion in tax cuts and \$2 trillion in spending cuts over the next 10 years, while raising the debt ceiling by \$4 trillion. The bill also looks to renew the 2017 Tax Cuts and Jobs Act and includes additional funds for border security and defense spending.

The resolution from the House now heads to the Senate, where Republicans plan to use reconciliation, a strategy that only requires a simple majority to pass, but both chambers must adopt the exact same resolution.

Shutdown Showdown

We don’t tend to be alarmist when it comes to government shutdowns, but there’s a growing chance that both parties may not come to terms with topline spending allocations for the fiscal year 2025 funding bills before the March 14 deadline.

Johnson and Thune will need Democrat votes to pass this funding measure, and our sense is that Democrats may want some restoration of the legislative branch’s “power of the purse,” meaning that once federal dollars have been appropriated by law, they can’t be impounded by the executive branch.

In that vein, we’ll likely be hearing a lot more about the Impoundment Act. Given what’s transpired over the past five weeks, we’re not certain Trump and his Republican allies will blink over a shutdown, as this may present them with another opportunity to shrink the federal workforce even further.

Energy Boom or Bust?

A series of sweeping executive orders aimed at the energy and climate sectors are geared toward ramping up fossil-fuel production while limiting support for renewable technologies and climate-related funding. The new directives aim to revitalize fossil-fuel production by reversing the Biden administration’s halt on new



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liquefied-natural-gas exports, streamlining energy permits in Alaska, and calling for an end to California's phase-out of gas-powered vehicles. Trump's declaration of an energy emergency could broaden the executive branch's authority in enhancing US energy output, although the exact powers he might invoke remain unspecified.

While the OMB withdrew its January directive imposing a broad freeze on federal funding, the White House insists its executive orders remain intact. For the time being, this includes measures that target funding under the Democrats' Inflation Reduction Act and the bipartisan infrastructure law—two critical measures that are allocating billions in federal infrastructure and energy funding nationwide. In yet another significant setback for clean-energy initiatives, these orders not only demand an immediate stop to funds allocated, but also suspend leasing, permitting, and approvals for offshore-wind projects, and specifically target electric-vehicle infrastructure spending as part of a larger effort to halt what's referred to as a Green New Deal expenditure.

China Relations

President Xi Jinping made a rare acknowledgment on New Year's Day that the world's fastest-growing economy has begun to flag. He vowed that his government was working to usher in a new phase of growth and emphasized that "everyone should be full of confidence," but he still attributes economic stagnation to familiar concerns, such as Western influence, corruption, and austerity. To navigate this challenging period, his approach seems consistent with his usual strategy of consolidating authority within the Chinese Communist Party (CCP).

Xi has recently pledged to increase public borrowing, spend more, and cut interest rates to stimulate consumer spending. But the economy is still dragging as it continues to recover from the pandemic, with challenges in real-estate markets and falling prices.

Trump's threats of a dramatic increase in tariffs above the recent 10% levy is also a worrying economic challenge for China. Future relations between Beijing and Washington aren't solely dependent on trade, but also technology, Taiwan, and influence across the Pacific. Trump is surrounded by China hawks in his cabinet, but appears to be taking a different tack with Xi, possibly eyeing a fresh trade deal.

What to Watch

The transformation of the federal workforce and government programs is well underway, and pockets of resistance are emerging—even among some Republicans. With DOGE slashing a different agency every week and the House considering trillions in spending cuts, Republicans in purple districts are starting to sound the alarm. Despite this, Republican leaders are displaying confidence that their rank-and-file will ultimately vote for their budget blueprint when pressed with the choice of advancing Trump's legislative agenda.

We expect this frenzied pace to continue into the summer and beyond. Trump is on track to transform everything he has set his sights on with few guardrails to check his power and only minimal obstacles in his path.



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Talk to your financial professional to help make sure your portfolio is prepared for whatever happens in Washington, D.C.

About the Author:

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