



**A**fter a bumpy weekend start, President Trump hopes to re-focus attention on his agenda in his first full week in office. Trump plans a busy week of meetings with business groups, labor unions, and congressional leaders. He plans to issue a series of executive orders, and push Congress to move on his cabinet nominees. He will hold his first meeting with a foreign leader, British Prime Minister Theresa May, and travel to Baltimore to attend the House-Senate Republican retreat.

## TRADE REFORM

President Trump took steps on his first full day in office talking tough on trade, signing orders to withdraw from the Trans-Pacific Partnership and to begin the process of renegotiating NAFTA. Trump also told a group of business leaders that he would impose a "very major border tax" on imports of companies that have moved out of the U.S. However, Commerce Secretary-nominee Wilbur Ross told Congress last week during his nomination hearing that most of these early trade moves by Trump are merely negotiating tactics. The TPP was never ratified by Congress, and the withdrawal was merely a formality. NAFTA negotiations with Mexico and Canada are not expected to result in a U.S. withdrawal from the pact. In addition, the major border tax threats are a way to "precondition" other countries and companies that Trump will be a tough negotiator on trade.

## MNUCHIN HEARING

Treasury Secretary-nominee Steve Mnuchin survived his five-hour long nomination hearing and now appears set to be confirmed as Treasury Secretary in the coming weeks. Mnuchin had to endure tough questioning about his role running OneWest and some missteps in his disclosure forms, but the policy positions he outlined were consistent with a traditional Treasury Secretary. Mnuchin pledged his support for major tax reform, and stressed that tax reform would be deficit neutral. He said he supported raising the debt limit as soon as possible when the current limit expires in mid-March and said he would not risk defaulting on the debt. He affirmed his support for a strong dollar. On financial regulation, he said he would consider supporting a 21st century Glass-Steagall, and he endorsed retaining the Volcker Rule for banks with FDIC insurance. He did however endorse easing compliance burdens on trading which could be affecting liquidity. In addition, he said he supports reforming GSEs, that he would not support the recap and release plan, and that any reform plan should be done in a bipartisan manner. Finally, he said he hoped that tax reform would reduce the need for hedge funds to do business in the Cayman Island and other offshore entities.

## HOUSE AGENDA

House Republican leaders are spreading the news that their agenda for the first 100 days of the new Congress will be focused on four issues designed to get the country and economy moving again. The four agenda items are repeal and replace Obamacare, regulatory reforms to ease the burden on business, major tax reform to get the economy growing again, and an infrastructure plan to rebuild America and create new jobs.

## TAX REFORM

Although tax reform is one of the top priorities of President Trump and the House Republicans, Trump last week potentially "blew a huge hole" in the tax reform plan under development on the Hill. In a newspaper interview, Trump said he did not like the House Republicans' proposed border adjustment tax, saying he thought it was too complicated and not necessary. However, the border adjustment tax is a key feature of the House tax reform plan, raising the revenue (\$1.2 trillion over ten years) needed to pay for the proposed tax rate reductions. Trump appeared to back off from his criticism the next day, saying that the issue was one to be discussed over the next few months. However, if Trump continues to raise concerns about the proposal, which is already under fire from retailers, the Koch Brothers, and others, a major tax reform bill will be much more difficult to achieve.

## TRUMP-YELLEN CLASH

President Trump and Federal Reserve Board Chair Yellen could be heading for a clash in the coming months. The administration is touting its bold new plan to bring back jobs and growth, saying the plan would create 25 million new jobs and return to 4 percent annual economic growth. Yellen, on the other hand, stressed in two speeches last week that the economy was back in shape, at full employment, and that the Fed could not afford to let the economy run hot. Trump has refrained from criticizing Yellen since the election, although he did take a few shots at her during the campaign. However, if Trump thinks the Fed and Yellen are challenging or threatening his economic goals, it would not be surprising to see a White House-Fed clash, with Presidential tweets attacking the Fed Chair.

-- Bruce Thompson

*DISCLAIMER: Options Group is not claiming any positions or political preferences.*