



MACRO Voices

with hosts Erik Townsend and Patrick Ceresna

Robert Kahn: Looking Ahead To 2025 Geopolitics & Markets

December 19th, 2024

Erik: Joining me now is Robert Kahn, who's the Managing Director of Geo-Economics for [Eurasia Group](#). Robert, it's great to have you on the show as a first-time guest. Needless to say, there's no shortage of geopolitical topics for us to discuss. Let's start with President Trump 2.0, I think a lot of markets are discounting the idea that, boy, when President Trump comes in and does all the things he says he's going to do, it's going to be great for markets. I think there's another view, which is there's a few folks in Washington that are pretty threatened by President Trump and are probably going to do everything they can to sabotage him. So, what does this really mean for the outlook for markets?

Robert: Well, Erik, thank you for having me on. And you're right to start with Trump 2.0, I think you're right to raise the question the way you did. I think we are on the cusp of what might be an extraordinarily transformational period for the US economy. I think the markets are likely too sanguine, underestimating how disruptive the Trump policies that are going to likely be put in place over the next few years are going to be. There's both upsides and downsides to these policies. The first thing I always emphasize is the high degree of uncertainty that we're dealing with right now, part of that is Trump's own decision making style. He can be volatile. He can change his mind. He can override his advisors in ways that even his advisors don't know or don't well predict. So, we certainly have a degree of Trumpian uncertainty, if you will, that we're dealing with. But that said, market pricing, particularly over the period since the election, has leaned towards being quite sanguine about what's to come. And I think there's a number of factors for that. Certainly, part of that seems to be that there's a lot of confidence that the economic advisors that President elect Trump has picked will act as guardrails to bad policy decisions and buffer him from maybe some of his worst impulses, or other advisors. I think that can be overestimated in a chaotic decision making environment with a lot of different voices in the room. I do think that there is also a view out there that the threats, particularly on tariffs, that President elect Trump makes, are more for leverage than for actual implementation that the President recognizes that the US has a lot of leverage in these negotiations, a lot of influence and power. And look, it's the best way to get people to the table, and to make concessions is to threaten the use of tariffs, and he likes to do that. Certainly, I think in the recent threats to Mexico and Canada, that was an element. And indeed, I think he will get some concessions from trading partners that do not want a trade war with the US. So, in some sense, that's part of the upside. So, it's not without merit, and the markets are anticipating that, but mistakes can be made. In many cases, I think the President will want to put tariffs in place. I mean, if you can go

back and look at his statements going back to the mid-1980s, he has a strong protectionist streak. I think he feels like the US has cheated on trade and that he needs to finish the job he started in his first term. So, my expectation is that tariffs are going to go up quite a bit over the course of the next four years. In the first year alone, I wouldn't be surprised to see tariffs against China double to around 25%, in that range, 23%-25%, I wouldn't be surprised to see tariffs coming on Mexico and Canada at some point on other major trading partners, particularly those with bilateral trade surpluses against the US countries in Southeast Asia, for example. And when you put that all together, this is a tariff increase that we really haven't seen in almost 100 years. It will be disruptive. It's a major change in the trading environment. Will have knock on effects to other countries as well.

Erik: Robert, before we even get to the implementation of tariff policy, tell me a little bit more about what you're expecting in terms of Senate confirmations of the Trump 2.0 cabinet. I don't imagine the head of the CIA and the FBI coming and saying, yeah, Tulsi Gabbard for DNI. We like her. Let's go with that, and I think that's probably the most contentious, but there are several other cabinet members who aren't just a different viewpoint. They're literally saying our purpose, our mission, is to pose an existential threat to establishment Washington, drain the swamp, fire half of the government, get rid of the dead weight. That's what we're here to do. I've got to believe that they're going to meet more resistance than probably any past President's Cabinet appointments have ever faced. Am I wrong to think that? And what do you expect?

Robert: You're right to say that these are unorthodox nominations, particularly for a Republican president. Normally would be traditional and projects strong to project strength, particularly in those security and defense positions. At the same time, there's limited appetite in the Republican caucus to vote against President Trump's nominees, particularly when he doubles and triples down in support of them, as he is doing now for his Defense Secretary. And so, most of these people will be ultimately, probably approved. There are going to be cases where I think the confirmation will drag out, because the senators would like the nominee to pull its name out. But if it's brought to a vote, if it's forced, I would expect most of these nominees will ultimately go through, and that will, as you say, it will lead to a kind of challenge to the norms that we really haven't seen before. Gabbard is an interesting one, as you touched on, I do think there are a number of defense-oriented senators who are very concerned about that. I think they're probably maybe hoping that the background reviews that are done ultimately do turn up things that make her nomination problematic on its own, but for the most part, they don't want to actually have to be in public making a vote against the President's wishes. So, I think most of them go through, and I think Robert Kennedy Jr probably gets through. Think that in that sense, the President will get his way for the most part, without having to do much in the way of recess appointments or to somehow otherwise test the limits of the law by trying to force Congress out of session.

Erik: That would lead to a legislative environment where we have really a White House that is very much in the business of posing a serious threat to establishment Washington. Does that mean that there the whole administration is going to be a constant battle between establishment Washington trying to sabotage the efforts of the administration, or are we more likely to see a

capitulation where it's like, okay, we hate this, but he won, and we got to just give into it and allow his policies to go through?

Robert: I think he's in a very powerful position now within the party. The votes are narrow, right? And because there are divisions even within his team, that can lead to a real challenge in getting his way. I think you're seeing that this week, for example, on the continuing resolution to fund the government, where the House can only pass this continuing resolution with the help of Democrats, because of divisions among Republicans. Even after that deal was arranged, we saw elements of the President's team, including Elon Musk come out against it, and now there's a kind of effort by some of them to undermine that bill. So, we could still, at the end of the day, have a government shutdown this week. I don't think we will, but I think that underscores that, to your point, the margins remain very narrow, both in the House and the Senate. And so, there will be times where the President won't get his way, but I think on the nominations, most of them will go through.

Erik: Let's move on to as President Trump says, China. What can we expect in terms of US-China relations under the Trump administration?

Robert: I think this is probably one of the most important calls you have to make in the world of geopolitics. We, each year, at Eurasia Group, put out a list of what we call *The Top Risks*. It's our kind of mission statement for the year of the most important developments on the political level that matter for markets. Last year, we said that the US-China relationship was a red herring, that although people were worrying about it, remember, this was the year started about six weeks after President Xi and President Biden had met in San Francisco. There was a real effort being made to prove diplomacy and prove the mood music around the relationship. And we argued then that because China was struggling with its own problems on Taiwan, corruption and government and some scandals that had risen there, and of course, importantly, in their own economy, a weak economic recovery, that China didn't have interest in a broad conflict with the US, nor did the US in an election year. And for those reasons, we thought that the US-China relationship would remain relatively stable. And I think that was a good call. That's not your call for 2025. In fact, I think that you're going to see, it's my base case, that you are going to see a material disruption, material worsening of the relationship between the US and China. Of course, first and foremost that has to do with trade. I think that if, as I suspect, we do see a material increase in tariffs against China, China will retaliate. They'll retaliate asymmetrically. They can't match the US tariff for tariff, but they can do a number of other things, including going after US companies. You may have seen an investigation opened into Nvidia recently. I think that's just indicative of their capacity to make it difficult for companies that are either in China or simply have Chinese suppliers. And in addition, there is talk of limitations on rare minerals and other export controls. There's a variety of ways, particularly in the technology space, where China can disrupt supply chains for the US and impose costs. So, I think there's a lot at play here, a lot at risk, and that US-China relationship can be fraught because of that, but I think it goes beyond trade, and it can relate across the whole range of security issues.

Now, it's not all bad news. I don't think you're going to see real conflict over Taiwan in the next year, I think for a variety of reasons, China is not interested in direct conflict over Taiwan at the time. I think there's a lot of things they will try and do to turn up the heat on the Taiwanese leadership, but we see that as relatively stable. Other flash points in the region, including China's relationship with the Philippines and South China Sea, we see as being relatively stable, risky, but still relatively stable. But I still think you have two countries that have very different objectives and will find hard to find common ground. Now, that said, with Donald Trump, there's always the prospect of a deal. I think the Chinese, in some ways, would like a deal that contained the trade conflict, but right now, it's hard for me to see what that deal would look like, what the Chinese would offer that a Trump administration would find acceptable, particularly after the distrust that emerged from the trade agreements of 2018 and 2019 that the Trump team feels the Chinese did not meet and misled them on. So, I'm thinking to look at the whole context of it. We don't rule out a deal. There are these upsides. Xi and Trump have kind of a personal relationship, they could get there. I think there will be phone calls and efforts to try and look for common ground. But at the end of the day, I see two countries that really have very different objectives for their economies, and more broadly, in ways that are going to lead to more conflict in the next year. And I think that has implications not just for the US and China, but really for the global economy, because, as goes that trade and regulatory relationship between those two countries, it affects everybody else.

Erik: Let's move on to the Russia conflict, or the situation in Russia. Vladimir Putin has made a number of, frankly, very red line kind of statements or demands, saying, look, this is our red line. Don't cross it. You're dealing with a nuclear state. A lot of commentators in the West have kind of rolled their eyes and said, Putin is not going to start a nuclear war. He knows better than to do that. He's just bluffing. Meanwhile, the Bulletin of the Atomic Scientists has moved its doomsday clock to 90 seconds before midnight. They say we're closer now to the outbreak of nuclear war than at any time during the Cold War, including the Cuban Missile Crisis. Who has it right here? Are we on the edge of nuclear war because there's a risk of that level of escalation with Russia, or is this all just bluffing and blowing smoke?

Robert: Well, you do have to take the threats seriously. Russia is under stress, a war that is not going well, an economy that is suffering. Putin's position remains secure, and I think for that and other reasons, our view is that the odds of nuclear conflict in Ukraine are really quite small. So, in that sense, I don't think I'd have the clock that close to midnight, but it does highlight how uncertain the environment is and the risks if there are missteps. I do think in this way, there are some elements that are positive or constructive here. I remember when Donald Trump first said, well, I can solve the conflict in a day. We all kind of rolled our eyes a little bit because it's a complex situation. No one really thought he could just come in, snap his fingers and solve the conflict. But I do think, as we've looked at events over the last month or so, and particularly since the election, we actually do see the currents shifting in a way that create the space for a possible ceasefire, and we do think it will be an early priority of the Trump administration to pressure both sides to go to the table and negotiate. I actually think it's quite likely we will get a ceasefire sometime in 2025, that's the good news, and I think it will be something brokered by the US with threats to arm Ukraine if Russia doesn't play ball and vice versa to cut support if

Ukraine doesn't. I think that a ceasefire in that regard, though, will likely prove pretty unstable, because we're not convinced that the basis for a long term peace deal is in place. Now, what would a peace deal have to do? A couple of things, right? It would have to provide for longer term security of Ukraine, right? It would have to have security guarantees this won't happen again once Russia rearms and rebuilds. How would you do that? You could do that through bringing Ukraine into NATO, but that's a long shot, and Russia would probably resist that strongly, and there's opposition to that even in Europe. Would you try to create some sort of buffer zone or other type of security guarantees? Yeah, but nothing of that sort has really been agreed and getting full consensus, and that would be hard on the Ukraine side. They will have to acknowledge that any longer-term peace deal requires the partitioning of Ukraine, that essentially, Russia will take long-term control of the lands that they currently control. Now, that is something that I don't think the Ukrainian people have been prepared for by President Zelenskyy, and so we're not there yet. That will be difficult.

And of course, that leaves unanswered what happens to the land in Russia that the Ukrainians currently hold as well. So, there's a lot of uncertainties about that. It is hard to get to yes in a negotiation of that sort, and so we're quite concerned that a ceasefire proves only a temporary relief, but it is a step towards an eventual ceasefire. Now, in the meantime, though, this war is going to grind on. I think Russia will continue to take some additional land, but I think largely now we're in a period of status quo development. It's not dramatically upsetting global markets at this point, but I do think should we get to a ceasefire and to the prospect of a long-term deal. Really difficult questions about what you do with the frozen Russian assets, what happens to sanctions? It's hard for me to believe that the West would agree, even under President Trump, would agree to take off all the sanctions, which would be a demand of Putin's. So again, really hard to figure out what this deal is going to look like. It would probably only work over a number of years, and that's going to provide a lot of continuing uncertainty for investors and markets.

Erik: Just a couple of days before Vladimir Putin was due to give, what I'll call the Russian equivalent of the US State of the Union address, where he goes before the Russian public and so forth, Russian General Igor Kirillov was assassinated, basically in Moscow, and Ukraine immediately took credit for that. So there's no question that Ukraine says that they did it. It seems like they were trying to embarrass Putin and almost force him, it seems to me, like into a stronger position where he has to go in front of his people and say, okay, one of our top generals just got assassinated. Ukraine took credit for it, Mr. Putin, what are you going to do about it to answer to the Russian people? What kind of escalation are you going to do next? It felt to me like it was an attempt at provocation, trying to get Putin to escalate further. Is that the right way to interpret it? And why would anyone want to provoke that kind of escalation?

Robert: Well, there's certainly hardliners in the Russian military hierarchy that would not be beyond some sort of false flag operation of the sort you're suggesting, but Ukrainians did take responsibility. He had been recently identified as a war criminal by the Ukrainians for the use of chemical weapons in Ukraine. I do think, in some sense, it does make sense to me that this would be a step the Ukrainians would want to do to show the capacity to fight back. And so, in that regard, it's not a shocking development to me. There will be, if we're right, there will be a

response from the Russians. Will it be a major escalation above what they're already doing, bombing Ukrainian cities, perhaps even maybe targeted assassinations of their own? But it would not be, I think, a major change in the game, in terms of the war. So, in this regard, it's not a major escalatory step, but you're right to raise the questions. It was striking that they did it. The visuals were powerful. It went viral through Russia and outside as well. So these things do, as you're suggesting, have the capacity to have repercussions.

Erik: Let's move on to, we used to call it the Gaza conflict. I guess now it's the Gaza, Israel, Iran, Hezbollah, Lebanon. Just every day it seems to get bigger conflict. Where is it all headed? What should we make of it? How is it going to affect markets?

Robert: Well, those are great questions, Erik, and they're hard ones too. I will tell you that it's been one of the most interesting geopolitical events from, for me as an economist and a former market strategist, to think about. This has been a grinding, brutal conflict. It has captured our attention almost from the first days and certainly from the tragic events of October 7, but it has had relatively limited effects on global markets, and it has been, by and large, a regionally contained conflict, in a way. Looking back, not shocking that that's been the case. Oil has continued to flow. For the most part, the major powers have had an interest in that continuing, including Iran's oil shipping trade, with a brief period when it was disrupted, shipping trade has largely continued as normal, somewhat higher costs, but still continuing. And so, you had an environment in which the primary channels, through which global markets would be disrupted were largely unaffected. Look, there were times where uncertainties over whether the conflict would widen, led to what we think to some risk premium in global markets, but they were short lived. And I think more broadly, weakness in global oil markets in particular was a powerful offset to these kind of premiums. Every time I would say to my colleagues, well, I'm worried that a tax between Israel and Iran might raise, might disrupt oil markets. They say, yes, but China demand is down, or yes, but OPEC production is up and those other developments were outweighing the market effects. And so, I think you had a pure time where investors were pretty sanguine on the conflict. I do think April 2024, with the Iranian direct missile attack on Israel and then Israel's counter, had changed the rules of the game and created much fatter tails for global markets. Because the possibility of direct confrontation between Israel and Iran, that could involve energy assets, could involve nuclear in particular, all creates an ongoing risk for the world.

Now, Israel, as you said, it starts as a Gaza operation and a desire to provide for a sense of security, but it quickly becomes a broader effort to address set of adversaries around their borders, so called Axis of Resistance, and in a way that would provide for longer term security for the Israeli nation. And we've seen that, and we have also seen, I think, that while the attack on Hezbollah in Lebanon was anticipated, I think in the first weeks of the Gaza operation, I think we were telling our clients, Gaza will take time, but the real battle, from a global market perspective, will be in Lebanon. That played out, but certainly we didn't anticipate how it would develop in terms of the pagers, the assassinations and the like, which have dramatically weakened Hezbollah and shifted the balance of power in the region in connection with that and the attacks on Iran. Where are we now? I think the Axis of Resistance, which was the critical

element of Iran's strategy of effectively deterring Israel and its other opponents, is really in shambles, and Iran is as weak as it has been, really at any time as a state. And it really does shift the balance of power. I think it empowers Israel to contemplate even moving against Iran more aggressively. I think we have to consider that as a possibility. It did, I think, inform both the attacks on Lebanon, on Hezbollah, on Lebanon, and now also the decision on a ceasefire. And of course, now we have the collapse of the Assad regime in Syria, which, on the one hand, actually in a kind of, and maybe in a way that many of our listeners haven't thought about, strengthens ceasefire in Lebanon. Iran can no longer use Syria as a land bridge for supplying a heavy weaponry to Hezbollah. It can't rearm it. And so that, in fact, extends a period of stability on that border, makes it more likely that the ceasefire will hold. But on the other hand, the prospect of a failed state on the border of Israel is destabilizing, and we're seeing Israel in taking more land around the Golan Heights as a preventative or proactive move to address that in ways that I think will have uncertain implications.

So I think we're entering a period now where I first would say that the risks of instability and unpredictable developments are probably as high as they've been, even as the Gaza is winding down, I would by no means say that the war is coming to a conclusion anytime soon. And the second thing I'd say is that the real issue for markets will still remain, Israel and Iran, and in particular, will Israel attack Iran's nuclear facilities? We have said to our clients that we think the odds next year are around 25% that Israel, with US support, would launch an attack that would raise questions of how Iran retaliates. Raises certainly the odds that oil markets could be affected. I think those odds are probably, if anything, low right now, given the current battle, but that will be the critical question to watch. Bottom line, though, for Israel, I think that Netanyahu is as strong domestically as he has been since October 7, he now is above 50% of the polls. I think it's probably more likely than not that he will serve out the remainder of his term. And so that is obviously a shift in the region that's pretty important, in terms of the regional dynamics. One last point, and of course, our conversation today dwells on the risks, dwells on the negatives. I do think that under President Trump, there will be real interest in trying to get some sort of broader regional security arrangement that builds on the Abraham Accords. And then at the core of that would be a security understanding between the US and Saudi Arabia that could serve as the basis for perhaps enhanced stability in the region. So, could, in a post war environment, could we see that kind of security arrangement that could even involve some sort of recognition of Israel by countries in the region? I wouldn't rule it out that could be an upside, but of course, it will require that the war comes to its natural conclusion before that could probably take place.

Erik: An increasing number of observers and pundits have said that a direct hot war between the United States and Iran is inevitable, and that there may be some forces within the US government that want to bring about that outcome. A few people have even suggested that the talk of Iran supposedly attempting to assassinate President elect Trump is a false flag operation designed to try to persuade President Trump to bomb Iran and their nuclear facilities the day he takes office, despite the fact that, according to some people, it's a setup. Is there any truth to either side of that? And should we be concerned that President Trump, whether he's being

manipulated or giving good intel, may be on a path to potentially take strong action against Iran as soon as he takes office, because he's been told that they're trying to kill him.

Robert: Oh, you can't rule that out. And look, I take the point that there are some people around the President who are powerful critics, long standing critics of the Iranian government, see them as a malign influence in global politics, and would love to see a regime change there. And they look at this current situation, they see Iran in its weakest moment, and will tell the President, this is the right time to support an Israeli strike at a minimum. And so, I certainly don't rule that out. But building on what we talked about a moment ago, there's still Trump, the deal maker, and I do think that there is part of him that recognizes the capacity for a deal, would be open to doing so. Remember that it was about a month ago that he's apparently, reportedly, authorized Elon Musk to meet with an Iranian representative. So, I think he's going to, at least the signals are that he's willing to talk. He's willing to hear out what is on offer. The other point I might make is that he does tend to shy away from wars in far away places, and we have seen that particularly at play in the Middle East. Recall that he talked a lot of getting out of Afghanistan. He has said more recently that he would like to get US troops out of Syria and other parts of the region. There is a sense that, I think is pretty strong in him, that he doesn't really want to be engaged in these wars far away. And I suppose if he thought he could get regime change in Iran through a quick strike, that would be different. But I do think, to the extent, you could end up in a protracted, some sort of protracted engagement. I'm not sure that his instincts aren't to try and avoid that. So, I think this may be one where you're going to have a real battle going on within the White House, of people with very different views about how best to handle Iran. There are no fans of theirs, but there will be many people in in a Trump White House that would argue that you don't need to go to war to achieve the objectives of this administration. So I think it's pretty uncertain now which way that will go, but you're absolutely right to say the odds are probably higher than they have been for some time, that he would support some sort of military action. And I think if there are going to be talks, they probably have to happen in the first months of a Trump administration. So whatever odds I would put on this, I would say they will be rising with each month after January 20. So, the window may be relatively narrow for trying to de-escalate and open some sort of negotiations.

Erik: Let's talk about Western Europe next, particularly Germany and France. I have to admit, I just can't understand what's happened to Germany, a country that famously used to be very focused on engineering, and all the citizens thought in terms of logical cause and effect and rational reason and so forth. I think what they've just been through, if I didn't miss anything, was, we absolutely positively have to shut off our nuclear plants. No, wait, that's not good enough. We have to physically tear them down to get rid of them. No, wait, now we should turn them back on once we've physically destroyed them and made it impossible to do so. Holy cow, how does a leading nation that's known for its engineering talent go through such a policy flip flop? And then in the case of France, you've got, I think Macron government kind of falling apart. It almost feels to me like Trump's victory seems to be kind of creating this populist surge that's taking out a lot of the G7 leadership, even Canada, Justin Trudeau Government looks like maybe it's starting to collapse. Are these things related? And is it being driven by a populist

movement that's a follow on to Trump? Or why is it that all of a sudden, Germany, France, Canada, are going through these sudden changes?

Robert: So, I think you're touching on something important, but I might be a little more cautious in giving too much of the credit to Trump. Personally, I think he is both cause but also a symptom of something that's broader. I think you probably could trace it back almost to the Global Financial Crisis, in a sense, in much of the industrial world that governments weren't meeting the needs and aspirations of large portions of their citizenry. But I think if you wanted to focus more on present, I'd start with the beginning of the pandemic, the extraordinary shock that that was, and how significant the monetary and fiscal response needed to be to put a floor under people's prosperity, under their welfare. In the coming years, governments did a tremendous amount, but there was still this lasting sense of insecurity that I think, that the pandemic created, that governments, particularly in the industrial world, really weren't able to resolve. I think the inflationary shock that we saw most powerfully in the US, but also in Europe, contribute to that sense of insecurity that people's future wasn't as prosperous as they had previously hoped, and they blamed their governments for that, and I think that helped fuel the populism that you're referring to, a sense of nationalism and a polarization in the politics that has made it really hard to govern from the center right. And I think both France and Germany are great cases of that, where you're seeing the rise mostly from the right, but also of the far left, undermining the capacity of these centrist coalitions to govern. And I think that is a big part of what you're seeing here, in terms of the volatility of policy, the collapsing of both of these governments in recent weeks.

Now, your point about nuclear power is, in a sense, related to it. I do feel that there are these divisive debates about climate, about nuclear power. Specifically, they're really tough in Europe. It gets these issues of diversifying away from fossil fuels, which was a long-term challenge, made even more acute by the Russia-Ukraine conflict, it forced a far more rapid move away from oil and gas than these countries had planned. On the one hand, they actually did it in ways that I had not thought possible. I really feared. And at the start of the war, we would have blackouts, we would have shortages, but a kind of all of the above approach by these countries actually worked, but it actually brought to a floor the exact tension you're talking about on nuclear between the desire of the environmentalists to turn them off because of concerns about nuclear power, versus the benefits of having anything else other than Russian gas. And I don't know there's an easy answer for that over the medium term, I think these debates will continue. As I said, I think both in France and Germany, it's not going to be easier for the center to govern going forward, unless they come up with better ways of dealing with this sense of unmet aspirations of their citizens. Now, if you want to be a little constructive, I would point to Germany, where the paralysis of the current government led to an unwillingness to ease the so-called debt break. These are the constitutional limits on spending. They have a large fiscal gap at a time where they really need to be spending more on a whole range of things, domestic demand, Ukraine, I mean, their own defense, there's a range of issues. They should be spending some more. They can manage to carry a little more debt, but the politics weren't permitting it. The politics of coalition were permitting it, with the collapse of the government, we now move forward to February, an election there, we're highly, highly likely to see the opposition

come back in, and probably will then see some easing of the debt break. So, in some sense, crisis can create greater flexibility of policy making, but I still think you're going to see challenges from the right, including in that February election. So, there's certainly some fat tails around that call, that we have of a more constructive fiscal policy in 2025 in Germany.

Erik: Well, Robert, I hate to do this to you, because it's a completely impossible question, but I don't know what to do, other than ask it. How do you assimilate all of these, dozen or so, different, very nuanced and complex geopolitical situations that we've just talked about, and somehow get to a market outlook or investment thesis from that? It seems like it's such a complex puzzle that it's hard to say, okay, therefore, your portfolio ought to look like this.

Robert: I think you have to, as an economist, I know this is going to sound a little self-serving, you have to channel your inner game theorist. Because I think sometimes what markets don't pay enough attention to is the policy reaction functions, if you will, the way in which other countries respond to this. So, take the tariffs, where we started our conversation tonight. But first of all, it's not just tariffs, right? It's going to be tariffs in immigration policy, which will have dramatic effects on labor supply in the US. Both of those are a supply shock. We're then going to have an expansionary fiscal policy. But I think you have to look at the balance of those policies and then ask, okay, how do foreign governments respond to the tariff threats? How does the Fed respond to the inflationary impulse? And look at the interactions of all of that, I think that is what takes you to maybe a more nuanced but also uncertain view of how global markets could look a lot different a year from now than they do now. You also have to use history as a guide, but not be wedded to it, because these are large moves we're contemplating, and our models, our intuition, often comes from much more incremental changes, right? And the implications of that of those episodes or policy can be much more gradual and incremental than what we are facing here. So, I think you have to be creative in thinking through how policies can change, how market outcomes can change as well. And I think, one thing I've said to people is, rather than just focus on base cases, you have to spend a lot of more time, a lot more time on scenarios, because at some level, the world is as complex now, geopolitically, as it has ever been. As we've talked about today, sometimes important geopolitical effects, like wars, don't move markets for a long time, but the tail risk can be pretty substantial, and I think scenario planning and a little bit of game playing in that regard can sometimes help you think through how you should react, how you will react. and what are the underappreciated risks. Where I come out is that the markets are too sanguine. This is where we started our conversation. I think that there are good reasons why markets are upbeat now. Said it's because it hopes that it doesn't turn out so bad. It also reflects the fact that even if policies are disruptive, there are some new opportunities to make money, and so money is flowing to new investment in those sectors. And so, certainly, I think that I'm not surprised we're getting a positive response now, but I think that fades over the course of the year, as the level of tariffs become more apparent, as the disruptions from migration and from expansionary fiscal policy in the US become more known. And also, just as I said, t how does Mexico respond? How do Southeast Asian countries respond? And even more importantly, if the US puts up walls against Chinese goods, and the Chinese Government continues a policy of growth through industrial subsidies and support for high tech manufacturing, where does all that excess capacity go? It can't all go to Europe or to

Latin America, and how do those countries respond? And I think that's where you get to a set of predictions and outcomes that I think can help you navigate what's going to be probably pretty rocky 2025.

Erik: Robert, I can't thank you enough for a terrific interview. But before I let you go, I want to talk a little bit more about what you do at Eurasia Group. Your tagline on the website is: Eurasia Group: Politics First. So obviously you focus a lot on Geo-economics. Tell us a little more for our institutional audience, what services are on offer, if people want to follow your work or learn more about what you offer to institutional investors, how do they find out about it?

Robert: Well, we are the world's largest political advisory. Our boss, Ian Bremmer, the face of the firm, has started it now, I think, about 30, 40 years ago, and continues to provide this sort of extraordinary vision of how the world's going to evolve in ways that I think are useful, both to investors and also to corporate. But we do a number of things. I mean, we do write notes and make them available if you really just want to know what's happening in the Middle East, or the current debate in Brazil over fiscal policy and why the markets are doing it. We try and produce analysis that's useful to you, but a lot of what we're doing these days is really advisory, helping our corporations or helping investors think through their specific challenges in what's really a complex and uncertain world. So, it really is working with them to solve their problems, and that's a lot of what we do. I'm an economist, which makes me a little bit of an unusual creature at Eurasia Group. Most of my colleagues are political experts, but my job is to think about the market and economic implications of the things we've been talking about today. If that's something you're interested in, reach out.

Erik: And the website is eurasiagroup.net. Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.