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Introduction

In today's tumultuous political scene, a Bank's CEO must quickly mobilize to develop a holistic understanding of Mr. Trump's economic playbook, adjust a bank's strategy to take advantage or protect against the impact of such playbook and execute with resolve to enrich the shareholders' value for the coming 4 years of Mr. Trump's presidency.

We at Alberta Advisory strongly believe that Middle Eastern Banks will be directly impacted by the new USA executive mandates given the huge political and military influence the US exert on the region.

In our 3-Part series, we attempt to help a Middle Eastern Bank's CEO address the following strategic puzzles-

1. **Where To Look?** Explain what the USA is likely to change and why in a prioritized manner. We call this the "The Pliability Factor".

2. **What To Do?** Explain what banking products and services are mostly impacted and how.

3. **How To Do It?** Explain what changes a Middle Eastern Bank should embrace to succeed.

The 3 Camps

The academic and press literature is rife with predictions on President Trump's next moves or the medium term impact of his moot executive orders. To date, the crowds can be loosely divided into 3 camps-

1. **The Conspiracy Theorists**, tout that the executive mandates would bring down a recession and a market crash that will enable the Oligarchs or Billionaires to collect the middle-class assets at a fraction of its true value, hence expanding those Oligarchs' share of the economy.

Conspiracy Theorists cite empirical evidence of- the S&P-500 2025 YTD decline by 15%, the NASDAQ-100 similar period decline by 17% and the Federal Reserve Of Boston's recent study predicting that on a worse-case scenario, Mr. Trump's policies may add 1.4 – 2.2% to the current inflation rate of 3.1% (i.e. doubling it).

2. **The MAGA Fans**, tout that the executive mandates are a genius 3-Step roadmap to- (i) shrink the "current account deficit" which stood in 2024 at circa USD 3 Trillion, (ii) drive funds from stock markets to fixed income markets while reducing the Feds interest rate to optimize US public debt interest expense and (iii) re-structure and/or write-off outstanding debt through a mix of- offloading of government assets (e.g. gold, facilities, inventory), (ii) adoption of alternative assets (i.e. cryptocurrency) and (iii) exercising USA gigantic political influence on rich creditors.

MAGA Fans cite empirical evidence of- additional USD 500 B of income due to import tariffs and the fact that "a quarter basis point reduction in fed rate translates to up to USD 71 B reduction in interest burden on outstanding government debt".

3. **The Scrupulous**, tout that economic value is generated and preserved through prudent risk management irrespective of political and social drivers. Hence, in turbulent times, they adjust their "Asset Allocation Strategy" to favor liquid, every-day-use elementary products such as- high-rent-yield real estate, staple food production companies, rare in-demand mineral mining companies, etc.

The Scrupulous cite empirical evidence of- TESLA Stock's loss of nearly 40% of its value despite Elon Musk's direct influence over the Trump Administration, Berkshire Inc. maintaining USD 318 Billion in cash by end of 2024 and being a net seller of stocks in Q4 2024 and the flagship US Banks of JPMorganChase and Bank Of America pitching a Tier-1 Capital Adequacy Ratio of 16% and 13% respectively, far beyond the 10.5% minimum imposed by the Basel committee and the Federal Reserve.

The Pliability Factor

A Middle Eastern Bank CEO need not side by any of the 3 camps above. Rather, he/she needs to go back to the basics and ask a simple question of- "*If I were in Mr. Trump's shoes, what would I do to improve my balance sheet and current account balance?*".

Simply put, Mr. Trump is faced with an outstanding debt of circa USD 36.5 Trillion that draws an annual interest expense of nearly USD 1 Trillion and likely to expand by USD 3 Trillion per annum in current account balance deficit. More importantly, time is of essence as USD 9 Trillion of US government debt is due for payment this year.

Mr. Trump is likely to address first those "*Balance Sheet*" and "*Current Account Balance*" items that are- (i) quickly responsive to government policies, (ii) have a large impact on the problem at hand and (iii) their side effects can be curbed through political, military or prerogative coercion. We combine these 3 elements in a single term called "*The Pliability Factor*". Any economic driver that is highly pliable should be attacked first.

The attached diagram holds our preliminary analysis of "*The Pliability Factor*" of each balance sheet and current account balance element of the US.

The Upcoming Waves

To date, Mr. Trump has addressed the elements of- "Trade Deficit" and "Government Expenses" through- import tariffs hikes and public servants layoffs.

In the near future, we foresee Mr. Trump to-

1. **Increase Tax Rates, Penalties and Collection Mechanisms**. In 2024, 63% of the expected USD 404 B tax revenue was deemed uncollectible! This is a grave issue that cannot be allowed to continue. This is a high pliability driver.

2. **Curb New and Securitize Present Student Loans**. In 2024, Student and Education loans reached USD 1.4 Trillion in value. Some reports place the delinquency rate of such loans as high as 11%, while others claim an average rate of 5-6%. Either way, this is a toxic asset to keep on your balance sheet and you'd better sell at a hefty discount to generate cash flow. This is a medium pliability driver due to the time and effort required for price discovery, securitization and sell-off activities.

3. **Reduce Military Surplus & Inventory**. In 2024, nearly 82.5% of government inventory was related to Department Of Defense (i.e. USD 200 Billion). This is a medium pliability driver due to ramifications on national security.

4. **Sell Government Facilities**. In 2024, the US government held USD 1.1 Trillion in buildings and facilities. As public servants lay-off accelerate so will the early termination of lease contracts and the offload of real estate assets by government. This is a high pliability driver due to the low regulatory barriers and the prime locations of various government buildings.

5. **Cap Mortgage Subsidies**. In 2024, the US Government's investments in Fannie Mae and Freddie Mac lost USD 33 Billion in value. The mortgage industry is likely to face rising delinquencies and foreclosures in the coming years, warranting an early deleverage by the government. The scars of the 2008 (Mortgage-backed Securities) MBS-triggered crisis is likely to thwart any major deleverage attempt. Hence, the low pliability factor of this driver.

6. **Choke Overseas Investments By US Investors**. USA bleeds a net capital outflows of USD 0.25 Trillion per quarter. This warrants immediate government actions in the form of- special tariffs on capital outflows, higher tax rate on overseas profits and the use of USA foreign policy leverages to improve inbound FDIs.

7. **Devalue The USD and Reduce Fed Rates**. The Trump Administration is keen to make US exports expansive and more affordable. A devaluation of the US Dollar may achieve that. The same applies to extending export credit at very preferential interest rates. Moreover, devaluation of the USD will enable the government to liquidate its assets at relatively higher prices to payback debt or reinvest in high-yield activities.

In our next article, we will attempt to explore the specific impact each action will have on a Middle Easter Bank.

Thank You.

Alberta
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