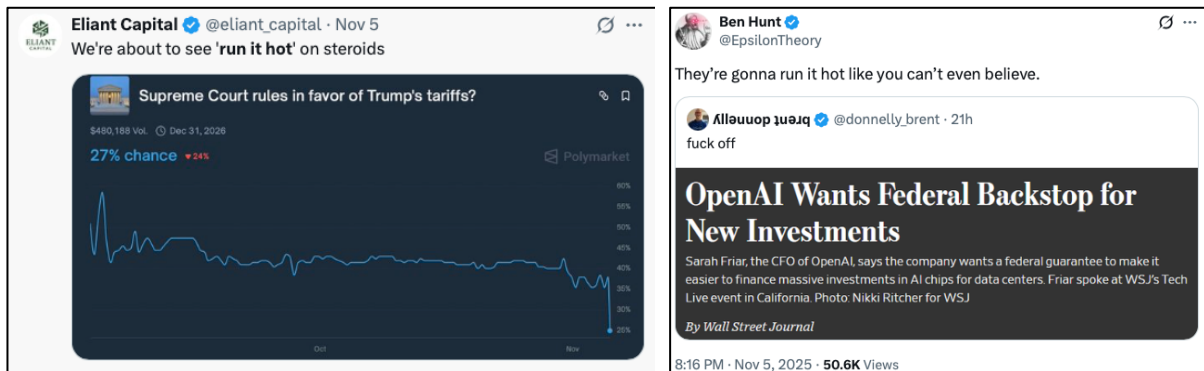


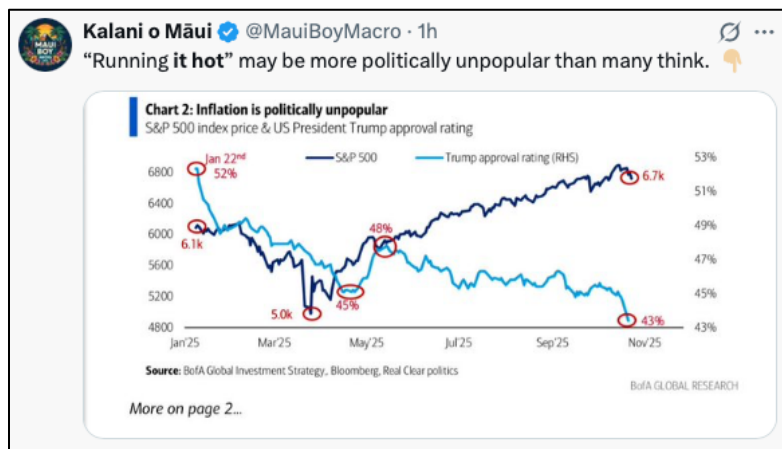
## Running it Hot Into the Ground & Weekend Links

We're going to delve into politics this week to assess the popular narrative that the Trump Administration is going to "run it hot," in an attempt to avoid the usual incumbent party drubbing in the 2026 midterm elections.

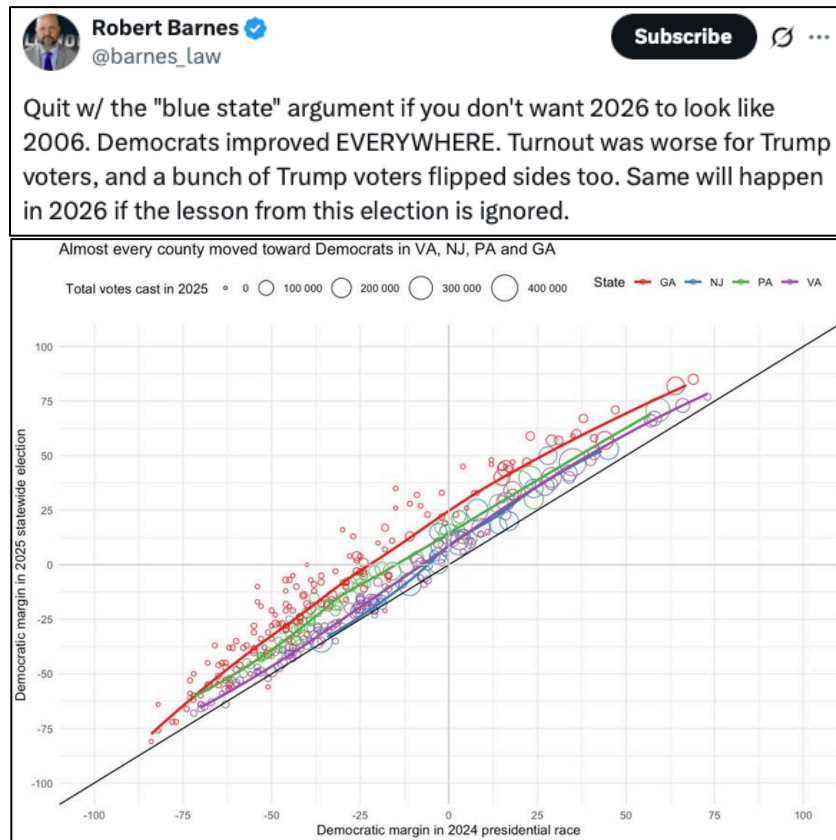
The **talking heads see everything** from the tariffs being overturned to the air coming out of the AI Capex boom **as excuses for the Administration to "run it hot,"** via easing of policies across fiscal, monetary, regulatory, and trade dimensions.



On the heels of President Trump's capitulation to Xi Jinping at APEC, there would seem to be little reason to question the "run it hot" thesis. However, **as an electoral strategy, it's not working** very well.



It would be a mistake to believe that Tuesday's election results lacked signalling value because the high-profile races were in solidly blue states. **Republicans got trounced across the board.** They lost the [District Attorney's race in Bucks County, PA](#), for the first time since the 1800s.

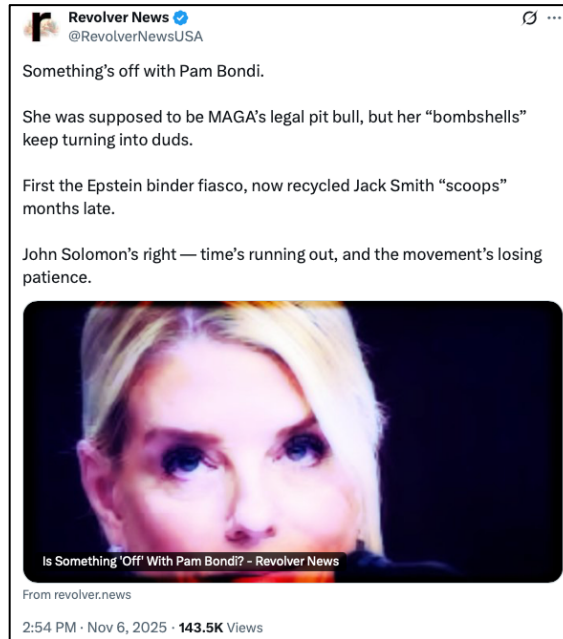


To be fair, off-year and midterm elections are historically difficult for incumbent parties, particularly so for today's Republican Party. Trump's political "secret sauce" has been his ability to rally low-propensity voters – just the kind of voters that tend not to vote in off-cycle, state and local elections

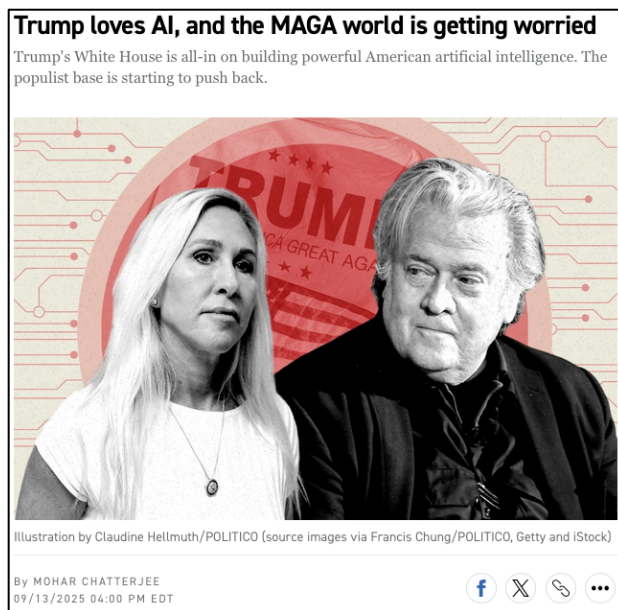
But the zeitgeist suggests deeper problems. **The MAGA coalition is falling apart.**

While an intra-party rift over US policy towards Israel and the Middle East is getting a lot of attention on social media, similar disagreements within the Democratic Party didn't prevent this week's blue wave. The real risk to the MAGA movement, the disintegration of which could relegate the Republican Party to a generation of opposition status, is **broad disillusionment with the performance of the Trump Administration** to this point.

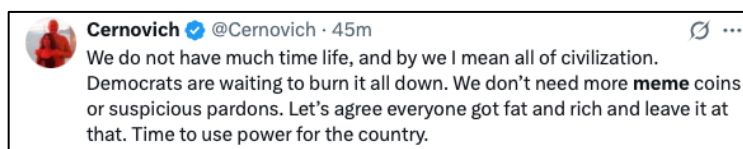
There's deep disappointment with Attorney General Pam Bondi...



There is deep skepticism about the Administration's embrace of the so-called tech oligarchs in Silicon Valley and its adherence to AI:



Attitudes towards the naked gifting run from disappointment to disgust...



The MAGA base voted Trump back into office to do the difficult, risky things, in some cases politically incorrect things, and to shake up a government perceived to be working to the advantage of the elites, not the people.

Recall the excitement over DOGE (on both sides), among the “go fast and break things” enthusiasm of the first 100 days? Well, **DOGE was a dud**.

The One Big Beautiful Bill, rather than addressing irresponsible deficits and unsustainable entitlement spending, produced a “same old, same old” of “something for everyone” (in Washington, at least) – a missed opportunity.

Look around Washington. All the furniture remains intact.

Trump’s base voted for a scorched-earth romp through the political mainstream and, outside of immigration, has been roundly disappointed.



If Trump is losing Marjorie Taylor Greene, he is losing his base.

Here’s Greene again ([full clip here](#)), breaking with the Administration on what most pundits believe was the deciding issue on Tuesday: affordability.



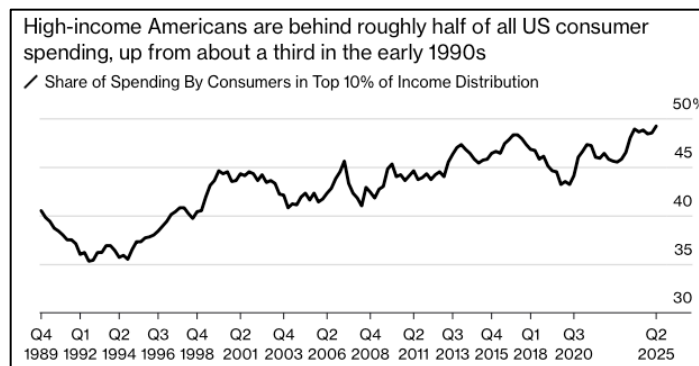
While topline spending numbers remain robust, under the surface, the k-shape is going pear-shaped.

Rich Drive Economy as More Americans Struggle

*One of the major criticisms of Democrats before last year’s election was they kept talking about how low unemployment was, how wages were rising, inflation was falling, and a bevy of other numbers showing an economy firing on all thrusters. And while most of that was true, the reality for many lower-income Americans was they were nevertheless struggling to make ends meet.*

*In 2025, it’s not just low-income America that’s in trouble: now it’s the middle class, too.*

*The data are sobering: The richest 10% of households are fueling almost half of total US spending thanks in part to the aforementioned stock market frenzy. Meanwhile, lower-income and middle-class families are pulling back in the face of tight budgets, higher costs of living, and a grim, rising tide of mass firings.*



Fast-casual restaurant chains favored by the 18-35 set have face-planted this earning season.

[Cash-squeezed Gen Zers and millennials are bringing down America's favorite slop bowl chains](#)

*Chipotle, Cava, and Sweetgreen reported earnings in the last two weeks, and all three reported the same problem: Diners age 25 to 35 are visiting their stores less frequently as they pinch pennies.*

*"We're not losing them to the competition. **We're losing them to grocery and food at home,**" said Chipotle's CEO, Scott Boatwright.*

*In the last month, Chipotle is down 26%, Cava is down 27%, and Sweetgreen is down 21%.*

Housing remains a sore spot, with the market frozen between rate-locked sellers and a pool of buyers that simply lacks the income to purchase homes at current prices.

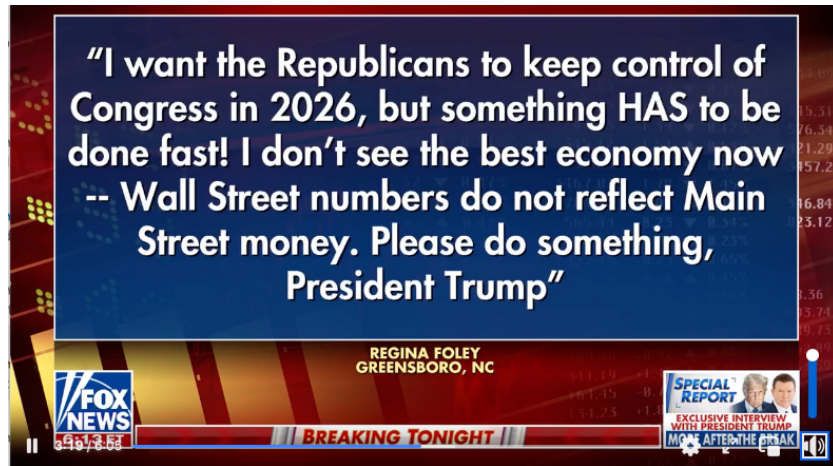
[Builders Are Offering Mortgage-Rate Discounts. Home Buyers Aren't Biting.](#)

*The number of **completed but unsold new homes has reached levels last seen in the summer of 2009**, data from the Federal Reserve Bank of St. Louis shows. At the end of last year, builders were confident that sales would recover in 2025 and built tens of thousands of units to have enough supply for the spring-buying season. But demand didn't pick up, and more homes sat unsold.*

*They have tried to use sweeteners to shift inventory. D.R. Horton, which builds roughly one in every seven new homes in the U.S. and has its own financing arm, is offering 3.99% mortgages to buyers. The company has also knocked 3% off its average selling price over the past 12 months and expects to cut prices further in its 2026 fiscal year, which runs through September.*

*America's second-largest builder, Lennar, said it offered buyers incentives worth \$64,000 on its average home sale last quarter to meet its sales target. A combination of subsidized mortgages and price cuts on offer from Lennar was **equivalent to a 14.3% price reduction**. The last time it had to offer home buyers such a deep discount was during the global financial crisis.*

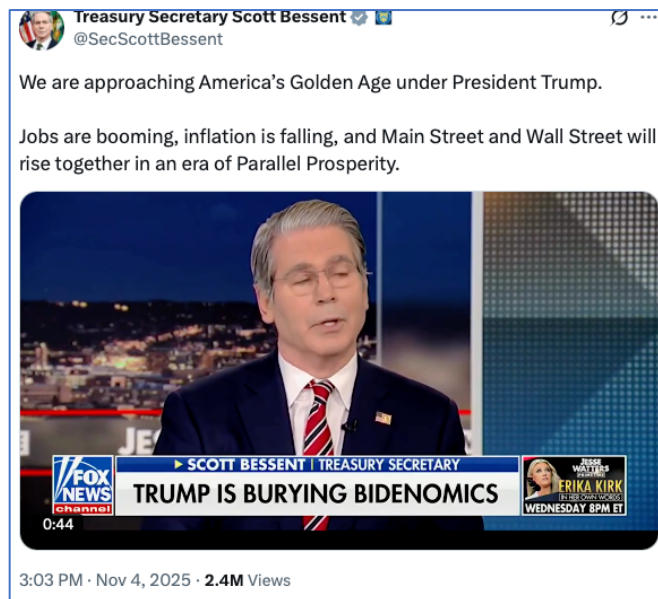
Trump keeps touting the performance of the stock market, but **the stock market is irrelevant to much of his base**. [Brett Baier interviewed President Trump](#) this week and hit him with this plea from a three-time Trump voter in North Carolina:



The President's response was lacking:

*Well, I do say this: beef we have to get down. In terms - I think of groceries, you know, it's an old-fashioned word, but it's a beautiful word. Beef, we have to get down, but we've got prices way down, and think of this energy - she drives a car probably, and her energy prices are way down. And energy is so all-encompassing. It's so big, and when energy goes down, everything comes down. Everything follows it, and I have energy down to a 5-6 year low now.*

Treasury Secretary Bessent was [on Fox this week](#) talking about something called "parallel prosperity," which is his claim that both Main Street and Wall Street will do well next year.



This sounds like the old Republican saw that “a rising tide lifts all boats,” which is true if the tide is rising through real economic expansion stemming from an improvement in the supply side of the economy.

While Bessent suggests the 2026 economy will resemble Trump’s first term, which produced healthy growth in real incomes for lower-income cohorts, he neglects to mention, or fails to understand, that Trump 1.0 produced the largest net tax cut in a generation, while **Trump 2.0 is engineering a net-negative supply shock** via a big swing in net migration, a destabilizing tariff agenda, and the continuation of market-unsettling fiscal deficits – all only in part offset by some marginal new tax cuts and a deregulation effort that seems like more talk than substance.

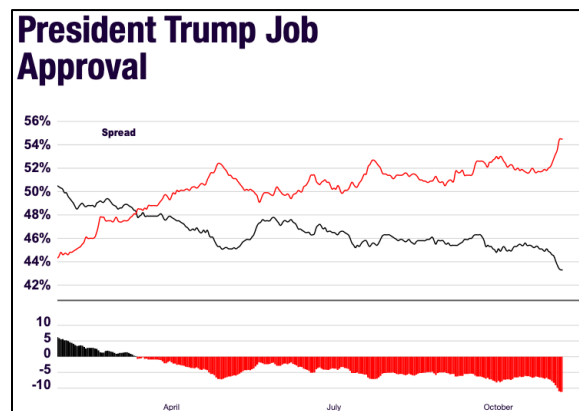
Worse, Bessent is touting the benefit to “Main Street” of outsized tax refunds due next April, stemming from gimmicky tax breaks like no tax on tips, no tax on overtime, and a new deduction for social security income. These range from near-zero to negative in their supply-expanding incentive effects. They’re essentially tax expenditures.

“Running it hot” via excessively easy fiscal policy, overcooking monetary accommodation, and talking down the Dollar can goose nominal growth, but that’s a rising tide that lifts prices, not real wages, in its wake.

Unsurprisingly, **the gaslighting is not working.**

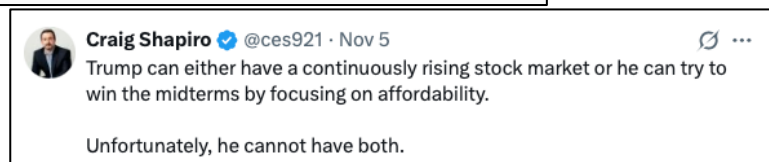
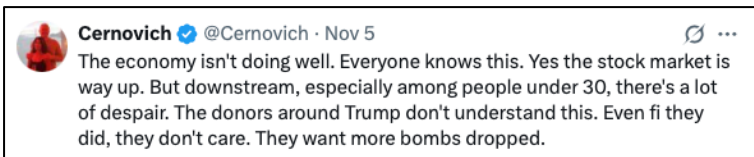
### Elections Show Trump’s Edge on the Economy Slipping

*Only 30 percent of voters believe Mr. Trump has lived up to their expectations for tackling inflation and the cost of living, according to a recent NBC News poll, his lowest mark for any issue asked. And a meager 27 percent of voters in a CNN poll in late October said Mr. Trump’s policies had improved the country’s economic conditions — less than half of those who thought he had made matters worse.*



OK, let's bring this back to markets. There are two takeaways from this political setup.

- One: **running it hot is not the no-brainer** political strategy so many pundits think it is.
- If “running it hot” also runs the Republican Party into the ground, **the implications for the Dollar are severely negative.**



### Can Trump Pivot?

While the knee-jerk response to Tuesday’s electoral drubbing was to double down on the gaslighting, I don’t discount the possibility that Trump might pivot. He obviously doesn’t like to lose, and unless he’s fully ensconced in a sychophantic bubble, he’s surely getting fed memos dissecting Tuesday’s debacle.

The talk, both from within the White House and the chattering classes, is of an impending pivot.

### ‘There Should Be Flashing Red Lights’: Steve Bannon on Mamdani’s Win

*I do believe that **the White House is going to pivot now back to even a bigger focus on domestic policies**, not just affordability, but job creation, making sure that the Big Beautiful Bill is fully implemented, making sure that all these investments that have been talked about actually get made.*

### Prioritize economy over foreign policy, Republicans tell Trump

*One person close to the White House argued that Trump had to get most of his foreign policy goals done first this year, insisting that the administration would come full circle and return to domestic politics.*

*“Knowing that everything after the off-year election is going to be the economy, they ran for the finish line on international stuff,” this person said. “The shift to domestic economic issues, domestic politics, has always been in the works.”*

### Top Trump political adviser says president will focus on affordability going forward

*Fresh off Democrats’ clean sweep of the 2025 off-year elections, President Donald Trump plans to refocus his political messaging on affordability, James Blair, the political director for Trump’s 2024 presidential campaign and the RNC, told POLITICO in an exclusive interview Wednesday.*

*“The president is very keyed into what’s going on, and he recognizes, like anybody, that it takes time to do an economic turnaround, but all the fundamentals are there, and I think you’ll see him be very, very focused on prices and cost of living,” Blair, who now serves as White House deputy chief of staff*

But what can they pivot to? **The supply-side problems** the economy faces – namely, a stagnating labor force and a large increase in barriers to trade – **are central to the Administration’s** agenda.

Trade policy could be rationalized, for starters. Perhaps an overturn of the IEEPA tariffs will be a blessing in disguise. A reset might allow the President and his team to rethink the wisdom of slapping 15-20% tariffs on allied trade partners.

How about reducing that to 10% in return for a firm commitment to work together on supply-chain de-risking? Better yet, how about a full-court press on Congress to codify a baseline 10% tariff, giving markets confidence in the durability of the income stream?

Perhaps that income stream and a renewed attempt at rationalizing entitlements could be packaged in a 2026 reconciliation package to pay for some personal tax cuts with incentive effects, like reducing rates or, better yet, cutting the capital gains tax (a real “rising tide that lifts all boats” policy).

Ok, that's asking a lot. How about just stop bashing the Fed and talking the Dollar down?

Let's appoint a Fed Chair who has the intellectual chops to just get it right once in a while. If left to his devices, Kevin Hasset should be fine. Continued stepwise reductions in the federal funds rate won't constitute "running it hot," so long as their executed in line with a falling neutral interest rate (still the base case here).

And here's a counterintuitive idea: **stop pumping up AI**. The AI Capex boom – bubble or not – is sucking the life out of the rest of the economy by pushing up the aggregate-demand stabilizing rate of interest. Through its elevation of equity values, it is creating price pressures both through the wealth effect on spending and the aggressive expansion of financial liquidity.

First, get the Silicon Valley guys out of the White House. Next, let's cool it with this silly talk that we're in some kind of existential race with China, in which whoever comes up with a chatbot that gets you off the phone with the cable company in less than 30 minutes will control the planet for the next 100 years.

AI might be the greatest invention since the wheel, for all I know. Then again, it may not. If people like Mark Zuckerberg, who three years ago thought we'd all be wearing VR headsets 24/7 by now, turn out to be overhyping the usefulness of gargantuan data centers, we're going to have a bust that could cause significant social upheaval.

Under no circumstances should there be any explicit or implicit government support for the datacenter buildout. **The risks of moving too slowly are greatly overblown**, and the risks of moving too rapidly are underappreciated.

Obviously, no one wants to see a sharp reversal in equity prices, but the electoral lesson seems clear that higher equity values don't align, one-for-one, with Republican votes. Expect the President and his team to get this message and **lay off the incessant stock-market cheerleading**.

And knock it off with the crypto gifting, while you're at it.

## The Costs of Failure

I expect the Administration to pivot rhetorically, but not substantively. At this point, **the modal expectation is for a failed second term**.

- Immigration policy is popular, but with economic costs that have gone unexplained to the public.

- Trade policy is a mess. De-risking supply chains from China is a rationale for which the public might endure some economic hardship. Alas, President Trump seems more intent on putting up a broader protectionist wall that will leave the US a decidedly less efficient place to do business.
- I am skeptical that inward investments pledged by allied trading partners will materialize in anything close to the stated volumes. To the extent they do, the centrally planned nature of the investment bodes ill for ROI's. Market-oriented approaches to rebuilding in critical industries have sadly been eschewed for an industrial policy doomed to failure.
- Between DOGE and OBBB, two opportunities – perhaps the only two they get – to rein in out-of-control government spending have been squandered. The dramatic expansion of government that took place during the pandemic is being codified, with significant costs to economic dynamism.

In the absence of a policy pivot that seems beyond the realm of possibility given current political dynamics, any attempts to “run it hot” via further fiscal easing, overly aggressive monetary easing, or putting the government behind the AI buildout will result in **a sharply negative response in the US Dollar**.

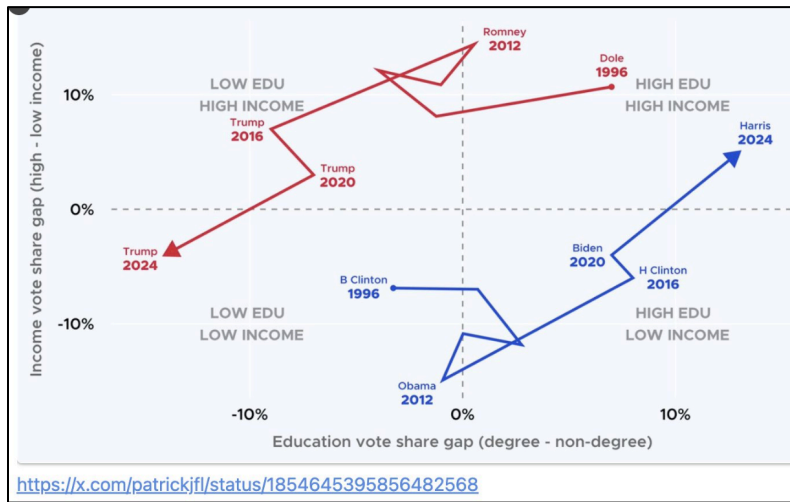
Regular readers will know that I have not been one to play up the “end of US exceptionalism” bearish-USD narrative. In May (at around current levels in DXY), I suggested the “sell US” trade was overcooked. ([Dissecting the Dollar Narrative](#), 05/16/25).

Sadly, I am warming to the theme. Since May, the Trump Administration has executed poorly, particularly on trade. DOGE flamed out, and OBBB was a disappointment

And with Tuesday's rout, **a significant tail risk for the Dollar peeks over the horizon**.

“Running it hot” might well lead to a midterm wipeout for the Republicans and the disintegration of the MAGA coalition, handing power to Democrats in 2028 and beyond. The administration's inability to address “kitchen table” issues would nip the nascent political realignment in favor of the right in the bud.

These were the first two slides I presented in my weekend video on November 9th, 2024, in the immediate aftermath of Trump's resounding victory. The first shows a dramatic shift in the composition of the two parties, with higher educated, higher income Americans moving to the left and lower educated, lower income Americans moving to the right. It was a shift triggered by Trump's entrance onto the scene in 2016 and his efforts to reshape the Republican Party.



The second slide speaks for itself, and seems sadly prescient:



If the base of the new Republican coalition – the young MAGAs, conservative minorities, and disillusioned blue-collar voters – becomes disillusioned, they're not going to move to the center. As the New York mayoral race suggests, they're going to move to the other extreme in search of a political movement that will give them a voice.

This is the cliff that the Republican Party risks walking off of. They're at risk of squandering Trump's breaking of the "blue wall" of electoral votes across the rust belt and handing the Democrats an electoral calculus that could sustain them for multiple cycles.



If that happens, we won't be running it hot. We'll be running it molten.

On to the links...

Pivot or grift? An early test, perhaps...

### [OpenAI Asks US to Expand Chips Act Tax Credit to AI Data Centers](#)

*OpenAI has asked the Trump administration to revamp a Chips Act tax credit to help lower the cost of artificial intelligence infrastructure, as the startup explores additional ways the US government can support an industrywide data center build-out for AI.*

*In a letter last week to White House Office of Science and Technology Policy Director Michael Kratsios, OpenAI Chief Global Affairs Officer Chris Lehane suggests the administration work with Congress to expand a 35% chips-focused tax credit to AI data centers, AI server producers, and electrical grid components, such as transformers and the specialized steel used to produce them.*

*Broadening the tax credit will "lower the effective cost of capital, de-risk early investment and unlock private capital to help alleviate bottlenecks and accelerate the AI build in the US," Lehane said in the letter.*

### [China Economics and Finance](#)

TBH, these big Chinese political events put me to sleep. It's always the same pablum. Nothing ever changes. They're just plowing ahead with Xi's new paradigm of "central planning, but better this time."

### ["We Must Depend Entirely on Ourselves": Policy, Politics, and U.S.–China Relations at the Fourth Plenum](#)

*...continuity was the key policy message of the Fourth Plenum. Xinhua stated that it was "particularly clear" the 15th Five-Year Plan will remain "consistent with the 14th Five-Year Plan" in promoting Xi's vision of "high-quality development." That means emphasizing the quality rather than the speed of growth, strengthening domestic industries and markets, and increasing China's control of global supply chains.*

*The most notable change from five years ago was **the elevation of industry above innovation** as the first substantive section of the Proposals. "The framework, structure, and design of the document are deeply significant," Xinhua noted. While industry and innovation are intertwined in China's strategy, this reordering signals a **renewed emphasis on remaining the world's factory in established sectors** as well as "seizing the commanding heights" of emerging and future industries. It is Xi's sequel to China's old growth model built on debt, property, and cheap labor.*

AI is a sideshow. The geopolitical race to reach supply-chain dominance, and China won the first heat.

### [Will Trump's Tariff Deal Tilt the Playing Field Back Toward China?](#)

*Mr. McMaster lamented the time he had spent on building up production in India. At least for the time being, he said, "I'm not going to spend any more energy trying to get out of China."*

*According to calculations by the Yale Budget Lab, the average effective tariff on Chinese goods has risen by 20.2 percentage points this year, compared with 17.3 percentage points for the rest of the world.*

*Many companies remain intent on diversifying where they source their products and are cautious about tying their fortunes to China over the longer term. Yet the current system of tariffs removes some of the urgency for companies to find factories outside China.*

*"At the beginning of the Trump administration, there was a very clear sense that there was going to be a lot of pressure for companies to move supply chains out of China," Mr. Stein said. "But at this point, that pressure hasn't materialized."*

Trump has managed to get credited for not selling China chips they don't want to buy...

[Exclusive: China bans foreign AI chips from state-funded data centers, sources say](#)

*The Chinese government has issued guidance requiring new data centre projects that have received any state funds to only use domestically made artificial intelligence chips, two sources familiar with the matter told Reuters.*

*The move could represent one of China's most aggressive steps yet to eliminate foreign technology from its critical infrastructure amid a pause in trade hostilities between Washington and Beijing, and achieve its quest for AI chip self-sufficiency.*

*The latest move by Beijing, however, would dash Nvidia's hopes of regaining Chinese market share, while giving local rivals, including Huawei, yet another opportunity to secure more chip sales.*

What if this whole "AI race" thing is a CCP plot to get us to set fire to \$5t?

[China offers tech giants cheap power to boost domestic AI chips](#)

*Local governments have beefed up incentives to help Chinese tech giants such as ByteDance, Alibaba, and Tencent, which have been hit with higher electricity costs following Beijing's ban on purchasing Nvidia's artificial intelligence chips, according to people familiar with the matter.*

*They added that the new subsidies come after several tech groups complained to regulators about the increased costs of using domestic semiconductors from companies such as Huawei and Cambricon, most of which are less energy-efficient than Nvidia's.*

*Local governments in data centre-heavy provinces such as Gansu, Guizhou, and Inner Mongolia have responded by offering subsidies that slash big data centres' electricity bills by as much as 50 per cent, provided that they are powered by domestic chips.*

*Data centres using chips from foreign vendors such as Nvidia are not qualified for such entitlements, the people said.*

You wanna win the race, don't ya?

[Nvidia's Jensen Huang says China 'will win' AI race with US](#)

*Nvidia chief executive Jensen Huang has warned that China will beat the US in the artificial intelligence race, thanks to lower energy costs and looser regulations.*

Meanwhile, China has apparently resigned itself to wallowing in debt-deflation...

### [China's Premier Woos Global Firms With \\$24 Trillion GDP Vow](#)

*Li said gross domestic product is expected to surpass 170 trillion yuan (\$23.9 trillion) in five years, implying an average annual growth rate of about 4% through 2030 without adjusting for price changes. That's in line with the nominal GDP growth reported so far this year.*

They've now loaned nearly \$1T to deadbeat developers to deliver pre-sold housing units. They've yet to make much of a dent in the problem (\$1t would cover ~15% of the [estimated 48m unfinished units](#)) but they're declaring victory nonetheless.

### [半年增加一万亿元 全国房地产“白名单”项目融资稳步推进](#)

*Since the real estate financing coordination mechanism was established at the beginning of 2024, its progress has drawn close attention. According to the latest official data compiled by a reporter from Securities Times, **the total amount of approved loans for projects on the national “white list” has now exceeded 7 trillion yuan**, which has effectively ensured the construction and delivery of commercial housing projects.*

*This figure is more than 2.03 trillion yuan higher than the 5.03 trillion yuan recorded at the end of 2024, and 1 trillion yuan higher than the figure of over 6 trillion yuan in early March this year.*

*Industry insiders interviewed by Securities Times believe that compared with the same period last year, the pace of guaranteed housing delivery has become more stable this year, the quality of delivery has clearly improved, homeowner satisfaction has continued to rise, and the “guaranteed delivery of housing” effort has shifted from emergency, campaign-style tackling to normalized, steady operation, with key projects in most cities already delivered.*

Are they really feeling confident and prepared to finally let the housing market go? Pulling support for Vanke would be a watershed – a dangerous watershed...

### [Vanke Is Reigniting the Debate China Wants to Bury](#)

*Shenzhen Metro Group Co., a state-owned enterprise that is its largest shareholder with a 27% stake, seems to have had a change of heart lately on how much financial support it's willing to give.*

*The urban rail operator, owned by the city government, is asking Vanke to retroactively pledge collateral for existing unsecured loans worth 20.4 billion yuan (\$2.9 billion). It's also setting a cap on the loan facilities it will provide.*

*This came as a shock. Throughout the year, Shenzhen Metro has been seen as the entity the city government will use to rescue Vanke. As of Oct. 30, roughly 70% of its loans were unsecured, in what investors perceive as the most concrete sign of an informal bailout.*

*The burning question now is who will be responsible for Vanke's bills. The company needs to repay 5.7 billion yuan of public bonds in December, and another 7.7 billion yuan in the first half of 2026. As of June, the developer's cash pile was only able to cover 44% of its short-term debt, the lowest since data became available in 1992.*

*It's understandable why Shenzhen Metro is balking. Vanke is growing into an ever-expanding black hole. Contracted sales are at risk of falling by 40% this year, creating a cash shortfall north of 100 billion yuan*