Is Trump going to crash the markets?

Published: January 12, 2026, 8:44 pm

When markets realise Trump is serious about tariffs and that the US is now an isolationist state seeking to cut itself off from the rest of the world, they're going to react, and we'll get a crash.

https://www.youtube.com/watch?v=BNgoZo2R5HA?si=eXwxrWTcIB2LkAnj

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This is the transcript:

Is Trump going to crash world financial markets? There very clearly is a risk that he's going to, if he carries on in the way that he is, and I want to talk about that because although I do think world financial markets are seriously overvalued, a downward revaluation of the type Trump is threatening would be chaotic and bad news for almost everyone. So, we need to talk about what is going on right now as a consequence of what Trump is doing now in middle February.

Let's be clear. Trump is increasing business risk around the world.

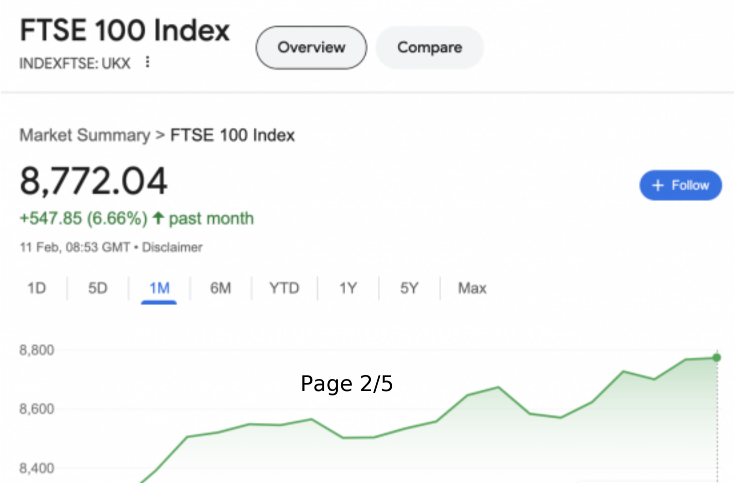
He has said that tariffs are his favourite word, and everyone at first thought, I think, that he was talking about as a short-term weapon; part of his negotiations; the way in which he might enforce change in relationships between the USA and the EU, or Canada, or whoever else he might be picking upon. But now it seems that tariffs are not just going to be used for that role. Tariffs, it seems, are here to stay because despite everything that Elon Musk is doing to cut US government spending - or at least is supposedly doing to achieve that goal - Trump wants to deliver tax cuts for the wealthy that are bigger than anything that Musk is likely to come up with. In that case, he needs new tax revenues, and tariffs seem to be his answer to every question right now.

So, the latest move is that we have a 25 per cent tariff on all imported steel and aluminium. That appears to be without exception. In other words, it applies to the UK, it applies to the EU, and all the exemptions that were negotiated during Trump's first term of office, when he also put tariffs on steel and aluminium, have gone. They are now history, the tariff is here, it's really going to bite, and this is going to have a significant impact on business in the USA, where the price of steel and aluminium are going to go up, meaning that all construction projects are going to be significantly more expensive, and cars are going to be significantly more expensive, amongst many other consumer products which are dependent upon both those metals. There's also going to be a massive disruption in world trade as a consequence because these are core construction materials used in so many products, both fundamental infrastructure projects and consumer products around the world.

So, what Trump is doing is fundamentally increasing business risk. And when you increase business risk by creating uncertainty, which is what he is doing, the rate of return that investors supposedly require from the markets in which they invest is higher. There's a simple trade-off. As risk goes up, the rate of return goes up to cover for the possibility that the rate of return will not be delivered.

Now, the relationship is not precise, and things are fudgy as they always are in economic markets because the economists who come up with these relationships suggest that people are rational, and in the real world, people aren't. But there's little doubt at all that what Trump is doing is wrong. It is increasing business risk, and it will have a cost, and that is going to seriously unsettle financial markets.

And what's the likelihood of that? It is twofold. First, in the short term, we're seeing some very strange movements in financial markets. One is in the UK where the FTSE 100 reached record highs on the 10 February.

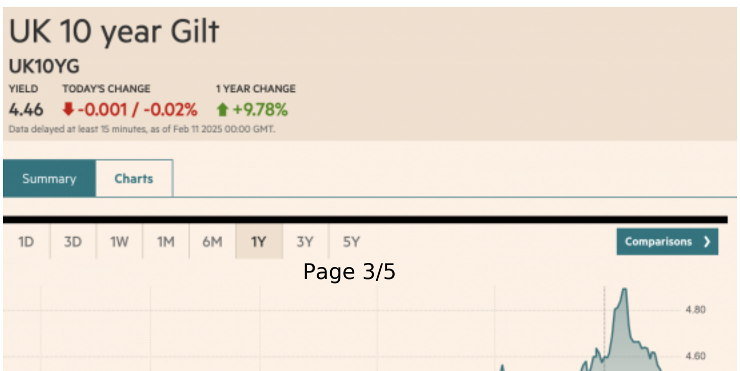


Now that is very strange because in the face of an onslaught on globalised financial markets - and the FTSE 100 is a reflection not of business in the UK but of business around the world which happens to quote its shares in London - why, when markets are under threat from Trump, the FTSE should reach a record level, it's hard to work out. It's almost utterly irrational.

And at the same time, two other markets were actually acting in what seemed to be quite unusual ways, and the messages are deeply contradictory. The gold market has seen prices reach an all-time high. This, when expressed in pounds sterling, means that gold is now at over £2,350, a massive increase on the price from only a year or so ago, when gold could be bought for £1,600 an ounce. That is an extraordinary change and must be a measure of fear.

Now, let's be clear about it. Gold is a completely worthless commodity in financial markets, representing nothing at all except what is called a supposed safe store of value. This price rise, therefore, represents people fleeing from the financial markets to buy gold to get protection from whatever Trump is doing. So, there are some clear signs from that behaviour that people are getting out of financial markets.

That's also true of the UK gilt market. You might remember that only a month or so ago, everyone was talking about the incredible hike in interest rates in the UK gilt market because prices of gilts were going down because nobody apparently wanted them. And that's now changed considerably. From hitting nearly 5 per cent interest rate on 10-year bonds in the UK only a month ago, the rate now is only a little over 4. 4 per cent because the price of gilts has gone up so much.



That's not because the interest rate changes, it's because the price of the gilt changes, and the fixed interest payment made on the gilt therefore changes the effective actual interest rate earned by somebody who buys it at today's current price, which will give them a yield of just over 4.4%.

But the point I'm making is that a fall in yields means that the price of gilts has gone up because people are buying them. In fact, Hargreaves Lansdown, the broker in the UK, has said that demand for gilts in January was more than double that in December, or from a year ago. So, in other words, people are looking for another safe haven asset.

Financial markets are, therefore, deeply confused. At the same time as the FTSE is hitting record highs, people are clearly leaving the market. And the likelihood is that what's going on is that there is more money coming into markets at present because consumers are - those consumers who can afford to save that is - those consumers who can afford to save, are saving.

Not only is business not going to invest at present because risk is high and, therefore, they don't know what rate of return they're going to get, and therefore, they won't invest because that's the consequence of that, but when people feel under personal financial threat from a situation beyond their control what they tend to do is save. They put money aside for the proverbial rainy day.

What is more, the risk might be that we are not facing a rainy day. We might be facing a storm, and not even a thunderstorm, a tornado or something. This is what I'm really worried about. Because these irrational behaviours - and they are irrational - should not be happening at the same time.

If those things are happening in that way, we are seeing confusion. And when that confusion resolves itself, and it will, because people will come to terms with what Trump is doing over time, they will realise just how bad it is. And Trump is really, really bad for global financial markets because, literally, the world's financial markets are integrated. There are seamless joins between the US market, the UK market, the European market, the Japanese market, and so on. Whether this is good or bad doesn't matter. That is how they are working. And what Trump is doing is putting decidedly big seams - absolute barriers - between those markets. And that is going to be deeply disruptive. And when the consequences of that are understood, I do not see how we are going to avoid a serious downturn in the value of stock markets.

I think the signs of that are already seen in that gold price and in that gilt price, both of which are signs of people fleeing to safe havens. The markets, the stock markets, have not yet done that. They have not seen that coming, and maybe that's because - well, who knows what it's because. Maybe it's just because they're hoping, against all hopes, that having a Republican who claims to be pro-market, and who has Musk on the team, who claims to be in favour of big business, is going to deliver results for them when in reality, I don't see how that's going to happen.

My point is, every real underlying sign coming from Trump is that we are heading for a crash.

When is that crash going to be?

I don't know.

Will it be by the summer of 2025?

I think that is likely.

It could be sooner.

Higher costs, which is what Trump is imposing on the people of the USA, on businesses, and on the world at large - because these tariffs will have knock-on effects - are going to suppress markets.

They are going to suppress the enthusiasm for buying stocks and shares.

They are going to force people to save more.

They are going to reduce investment, and they are going to lead to people fleeing to safe havens like gilts, like bonds, and like gold.

All of that suggests that we're in for deep financial trouble. And unless Trump changes his track, and I can't see that he's going to, this is almost inevitable.

Why he wants to do that, I don't know because, most certainly, in his first term, he saw the vibrancy of US stock markets as a sign of his own almost virility, his success as a president.

And this time, I think that success is going to be decidedly short-lived. Markets are going to rumble that tariffs aren't for overnight or for threat but are actually here to stay. And once they realise that the US is an isolationist state, seeking to protect itself and cut itself off from the rest of the world, they're going to react.

They're going to react, and markets are going to fall, and life is going to be very uncomfortable for a lot of people.