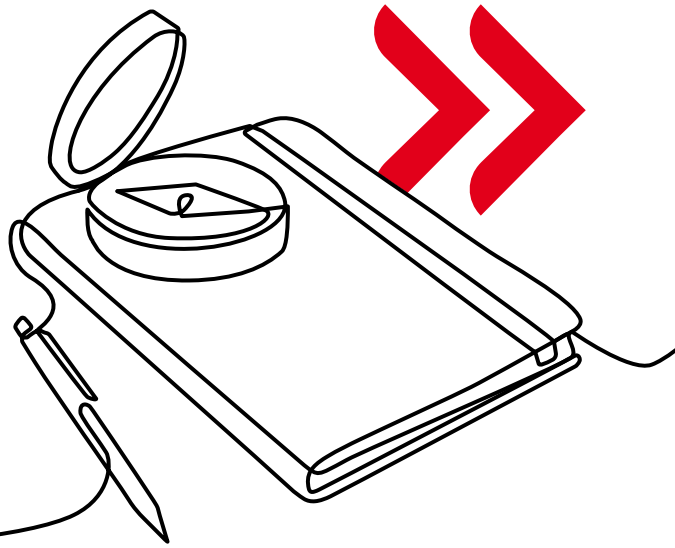
The Investment Institute
by UniCredit

Letter from the Editor
Trump's emergency presidency



Edoardo Campanella,
Director and Chief Editor of The Investment Institute
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Letter from the Editor is our weekend read,
which looks at the big picture, one question at a time.

There is a broad consensus that President Donald Trump will lose the midterms. Whether Republicans lose only the House or also the Senate remains an open question. If anything, a partial or full Democratic majority in Congress could act as a moderating force on the Trump administration. But this is no reason to breathe a sigh of relief. A defeat, especially a decisive one, rather than having a restraining effect, could prompt Trump to push the boundaries of presidential authority even further, relying increasingly on real or perceived national emergencies to bypass Congress and reassert his leadership of the Republican Party.

Hello from the Investment Institute

"What would happen if Donald Trump lost the midterm elections?". This is the key question every investor is asking. The answer that probably best captures the market mood is: "Not much. For Trump, Congress is like an obsolete piece of furniture inherited from a distant relative: it's there, it takes up a lot of space, but it's useless."

The track record of the past eighteen months speaks for itself. Since the beginning of his second term, Trump has issued roughly 290 executive orders. More than Barack Obama did over eight years, and almost twice as many as during Biden's presidency, in the middle of a pandemic. On issues ranging from immigration and trade to agriculture and energy, Trump has been ruling by decree.

If Republicans lose the House, or even the Senate they control by a narrow margin, Trump will undoubtedly face additional constraints, particularly on fiscal policy and key appointments. But the substance of his presidency would change very little. He would continue to rely on executive orders to advance his agenda. The difference is

that, with an opposition-controlled Congress, turning those measures into lasting legislation would be nearly impossible, while a future president could reverse them more easily.

But the current political environment is highly unusual, and Trump's political behavior remains difficult to predict. Assuming that the next two years will resemble the last two, already marked by considerable turbulence, may not be a safe bet. Trump is unlikely to accept defeat lightly, especially if his leadership of the Republican Party were to come under challenge. Rather than fading into irrelevance, he would likely seek to prove forcefully that he is not a lame duck.

So, the question worth asking today is: **What if an electoral setback pushes Trump to further test the limits of presidential power?**

Trump might respond to his defeat by switching to a mode of almost permanent emergency, testing how far presidential authority can be stretched to justify increasingly unilateral decisions. This would not result in the emergence of an authoritarian regime. If anything, the past two years have shown that the US system of checks and balances remains remarkably resilient. Federal courts and the Supreme Court have repeatedly blocked or delayed parts of Trump's agenda. Yet the broader trend is unmistakable: a continued expansion of presidential power at the expense of Congress.

The imperial presidency



Presidential power has increased for decades

To understand how the American presidency is changing under Trump, it is important to take a step back and look at the broader historical picture. Scarred by their experience with the British monarchy, the framers of the US Constitution gave Congress the power to declare war, control public finances and legislate, while assigning the president a more limited role as commander-in-chief and head of the executive branch, constrained by a system of checks and balances.

This equilibrium began to shift in the twentieth century under the pressure of successive crises. Franklin D. Roosevelt's response to the Great Depression dramatically expanded the role of the federal government and, with it, the institutional capacity of the presidency. The New Deal, the creation of the Executive Office of the President and an increasingly complex federal bureaucracy transformed the White House into a far more powerful centre of government.

Subsequent emergencies accelerated this trend. World War II, the Korean War and the Vietnam War established precedents for presidents to deploy military force and invoke emergency powers with limited congressional involvement. As each crisis expanded executive authority, future presidents inherited a larger toolkit for unilateral action.

This dynamic was famously described by historian Arthur M. Schlesinger Jr. in “The Imperial Presidency”, published in 1973, at the time of the Nixon presidency. His argument was simple: every emergency creates precedents, and every president is tempted to use them. Powers initially justified as exceptional gradually become normal. The result is a presidency that steadily accumulates authority at the expense of Congress.

This process did not stop with the Cold War. After 9/11, Congress granted the White House sweeping powers on national security and counterterrorism, many of which were never fully reclaimed. At the same time, growing political polarisation made Congress less capable of exercising effective oversight. Even impeachment has become a weaker constraint in an era of partisan division.

From this historical perspective, it emerges that Trump did not create the imperial presidency. He inherited it. But he has arguably pushed it further than any of his recent predecessors. As early as 2019, during his first presidency, Trump argued: “I have an Article II where I have the right to do whatever I want as president.” The reference was to the constitutional provision that defines the executive powers of the president of the US. Beyond the substance of the extraordinary number of executive orders, the defining feature of his presidency has been a systematic effort to test the boundaries of executive power: bypassing Congress, asserting greater control over federal spending, pressuring independent institutions, and strengthening White House authority over the federal bureaucracy.

For Trump, however, this concentration of power is not merely a domestic objective. It is also the precondition for projecting power abroad. As I discussed a couple of weeks ago, if his foreign policy seeks to free the US from the constraints of interdependence and the burdens of the postwar international order, his domestic agenda seeks to free the presidency from many of the constraints traditionally imposed by Congress and other institutions.

How things could deteriorate

A divided government is hardly unusual in American politics. Clinton lost both chambers in 1994. George W. Bush lost Congress in 2006. Obama lost the House in 2010 and the Senate in 2014. Trump lost the House in 2018, while Biden suffered the same fate in 2022. The predictable consequence is legislative paralysis: major policy initiatives become harder to pass, which is precisely why US presidents tend to front-load their most ambitious reforms into the first years of their term.

As midterm elections generally result either in policy continuity (if the president's party performs well) or policy moderation (if it performs poorly), markets have historically paid limited attention to them. This is our baseline as well. We expect Trump to continue governing largely through executive authority, ignoring Congress, without escalating tensions beyond what we have already witnessed since January 2025.

But let us consider a risk scenario for a moment: Trump suffers a decisive defeat, losing substantial ground in the House, the Senate, or both.

The congressional environment would become considerably hostile. Legislative priorities would stall, congressional oversight would intensify, and confirmation battles would slow personnel appointments. In response, and to avoid being seen as a lame-duck president, Trump would not just lean on executive authority –as we believe in our baseline scenario. He could move toward a state of permanent emergency.

Existing national emergencies could be expanded and new ones declared under statutes such as the National Emergencies Act (NEA) and the International Emergency Economic Powers Act (IEEPA), citing continued border pressures, fentanyl trafficking, trade imbalances, and foreign-policy threats. One emergency declaration could quickly be followed by another, following the logic of flooding the zone: disorienting opponents, dominating the news cycle, and distracting the public.

Over the last eighteen months, we have seen how creative the current administration has been in identifying emergencies requiring extraordinary action. Trump, who has paused attacks on Iran ahead of the midterms, may well resume a more confrontational posture after 3 November. Likewise, a broader regional conflict in the Middle East, just look at Saudi Arabia, could provide further justification for the expanded use of presidential powers.

Even if Trump were to push presidential authority beyond what the courts ultimately permit, many of these measures could remain in place long enough to create significant domestic and international disruption. Consider the tariffs announced on "Liberation Day", which, although subsequently ruled unlawful, still disrupted the global trading system. Some emergency measures might eventually be narrowed or blocked by the courts, while others could survive through lengthy appeals. This "emergency playbook" is one reason why Benjamin Netanyahu, one of Trump's closest international allies, has managed to remain in power for so long in Israel.

Looking at fiscal policy, budgetary priorities could be pursued through delays, rescissions, and aggressive use of discretionary spending powers, testing the limits of existing appropriations law. Congress would likely respond with subpoenas, funding restrictions, and legislative challenges, many of which could in turn be met with presidential vetoes or Senate gridlock. States would file legal challenges across multiple jurisdictions. Moreover, government shutdowns would become a recurring risk, but the more consequential issue for markets would be the debt ceiling. In both cases, a presidential approval would be needed, even if Democrats fully controlled Congress.

A state of emergency could gradually become a state of chaos.

Implications for investors

If Trump's imperial presidency were to evolve into an emergency presidency, the implications for investors would be wide-ranging. A more confrontational Trump would likely increase market volatility, at a time when concerns about a possible AI bubble are already growing, alongside worries about America's fiscal trajectory. Each new emergency

declaration could trigger market dislocations, followed by periods of uncertainty until federal courts or, ultimately, the Supreme Court ruled on the legality of executive actions.

The asset classes that would be affected the most are: **1.** Gold would benefit from safe-haven demand amid heightened political and institutional uncertainty in the United States; **2.** Stocks, particularly those of companies aligned with the Trump administration's priorities, would benefit, while firms exposed to regulatory or political headwinds could underperform; **3.** The USD would face opposing forces. On the one hand, the domestic institutional chaos described above would be consistent with a weakening of the USD as investors would lose trust in the American democratic system (similarly to what happened after "Liberation Day"). On the other hand, Trump's continued reliance on force and hard power abroad, coupled with the risk of further geopolitical escalation, could still support the US dollar through its safe-haven status. However, we believe the first scenario, pointing to a weaker USD, is ultimately the more likely outcome. **4.** Government bond yields, by contrast, might not be affected in a meaningful way if a Democratic-controlled Congress were to impose some degree of fiscal restraint. However, the risk of Trump's obstructionism in approving government funding agreements and debt-ceiling deals could exert upward pressure on rates.

Enjoy your weekend!

Edo

Edoardo Campanella
Director and Chief Editor of The Investment Institute (UniCredit, Milan)
edoardo.campanella@unicredit.eu

UniCredit S.p.A.
The Investment Institute by UniCredit, Piazza Gae Aulenti, 4, I-20154 Milan
the-investment-institute@unicredit.eu

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