MAKING SENSE OF *THIS* WORLD

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R&R Weekly Column
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Economic Dissatisfaction May Push Trump To Call A National Security Emergency Ahead of Mid-Term Elections

The numbers are unambiguous, and they are not the numbers of a president who intends to face the electorate calmly. The FT's Focaldata survey of 1,913 registered voters finds more than 53% saying their finances have deteriorated since January 2025; among independents the figure approaches 57%, and — the datum that should concentrate minds in the West Wing — nearly a quarter of self-identified Republicans concur. Trump's disapproval on inflation and living costs stands at 64%, his net approval within his own party has fallen eight points in a month, and Democrats lead the generic ballot 44% to 39%.

The macro backdrop corroborates the sentiment rather than contradicting it: headline inflation at 3.4% sits above the level inherited from Biden, real wages fell last month, consumer sentiment has collapsed towards record lows, and the Iranian war has done what wars reliably do to borrowing costs and petrol prices. This is not a communications problem; it is an economic and political one.

As the majority of voters feel worse off under Trump, the temptation of "going socialist" increases. The number of members of the Democratic Socialists of America has reached roughly 130,000, up from 5,000 fifteen years ago. The association has scored primary victories from Brooklyn to Denver to Michigan. However, the same FT poll cited above that records the economic misery also records what Democratic voters actually want: inflation contained, jobs protected, social security and Medicare defended. Fewer than one in five endorse the DSA's signature positions on ICE, Israel or the federal minimum wage. Has a proof of this, the "socialist candidate" Francesca Hong lost her primary election in Wisconsin.

If anything, the more revealing development is the convergence between Republicans and Democrats: an administration contemplating equity stakes in artificial intelligence firms and restrictions on institutional purchases of single-family housing, alongside a vice-president advocating stronger unions. Both parties have concluded that markets alone will not deliver; they differ chiefly on who administers the intervention.

Given economic dissatisfaction, historically the result is a landslide victory of the opposition party in the mid-term elections. We have already discussed how Trump will try everything to prevent this from happening. This week, he refused to deny a possible federal takeover of elections, citing "a national security emergency" that would give him the possibility of imposing voter identification, citizenship proof and mail-ballot restrictions, giving the Republican party a massive headstart in the race.

How likely is it? Legally it is close to nothing. The Constitution assigns the regulation of federal elections to Congress and the states; the Justice Department has lost more than twenty cases seeking voter data, several before Trump's own appointees; the executive orders on mail voting have been struck down and now sit before a Supreme Court asked to permit sweeping change weeks before polling day. The operational risk is real but bounded. The institutional risk is not: an Election Assistance Commission stripped of quorum, CISA gutted, and election workers reporting harassment at scale constitute a machinery degraded precisely where contested outcomes are adjudicated. The Democrats are reportedly preparing exactly for this scenario.

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Looking Ahead

The Week Ahead: Headline Inflation To Increase In EZ And UK, Retail Sales To Shrink In UK

In the US, in July, IP is expected to increase by 0.3% y-o-y (*p:* 0.1%).

In the EZ, in July, headline and core inflation rates are likely to rise to 2.9 % y-o-y (*p:* 2.8%) and 2.5% y-o-y (*p:* 2.4%). In August, ZEW Economic Sentiment Index is expected to increase to 25.4 (*p:* 23.4).

In the UK, in July, headline inflation rate is seen increasing to 2.9% y-o-y (*p:* 2.6%), while core inflation rate is likely to ease off to 2.5% y-o-y (*p:* 2.6%). In June, unemployment rate is expected to edge down to 4.8% y-o-y (*p:* 4.9%). In July, retail sales are seen contracting by 0.3% m-o-m (*p:* 1.0%).

The Quarter Ahead: Iran Rejects US Hormuz Claim; Putin Visits Disputed Kuril Islands; Nvidia Reveals Spacex, Intel Stakes

Iran rejected President Trump's claim that the Strait of Hormuz could become US territory, insisting the strategic waterway remains under Iranian control. Tehran also said no direct negotiations or ceasefire talks with Washington are underway, although Qatar and Pakistan continue to relay messages between the sides.

President Putin made his first visit to the disputed Kuril Islands, drawing a strong protest from Japan, which claims the four southernmost islands as its Northern Territories. Prime Minister Sanae Takaichi called the visit "unacceptable," while Tokyo summoned Russia's ambassador. The dispute over the islands, seized by the Soviet Union in 1945, comes amid deteriorating Russia-Japan relations following Tokyo's sanctions over the war in Ukraine.

Nvidia disclosed stakes worth nearly $21 billion in SpaceX and $30 billion in Intel as of June 30. Meanwhile, Elon Musk reported a 48.4% stake in SpaceX, worth more than $900 billion at current prices, while retaining over 82% of the company's voting power. SpaceX, which went public in June at a valuation above $2 trillion, has seen volatile trading but rebounded in August following strong quarterly results.

Last Week's Review

Real Economy: QoQ GDP Advanced In EZ, While Decelerated In UK; Inflation Cooled In US

In the US, in July, headline and core inflation rates eased off to 3.4% y-o-y (*c:* 3.4%; *p:* 3.5%) and 2.5% y-o-y (*c:* 2.5%: *p:* 2.6%) respectively. In July, retail sales rose by 5.0% y-o-y(*p:* 6.8%). In August, Michigan Consumer Sentiment fell to 51.0 (*c:* 54.5; *p:* 55.2).

In the EZ, in Q2, according to the preliminary estimates, GDP growth rate advanced by 0.4% q-o-q (*c:* 0.4%; *p:* 0.0%) and 1.0% y-o-y (*c*: 1.0%; *p:* 0.5%). In July, IP rose by 0.1% y-o-y (*c:* -0.8%; *p:* -0.1%).

In the UK, in Q2, according to the preliminary estimates, GDP growth rate decelerated to 0.4% q-o-q (*c:* 0.4%; *p:* 0.6%), while rose to 1.2% y-o-y (*c*: 1.1%; *p:* 0.9%). In June, IP contracted by 0.2% y-o-y (*p:* -0.5%).

Financial Markets: Stocks and Long-Term Yields Rose; Dollar, Oil And Gold Prices Also Increased

Market Drivers: Major US stock indexes ended the week mixed as easing inflation and Fed concerns and positive AI-related earnings were offset by higher oil prices, Strait of Hormuz uncertainty, and weak consumer data. Treasury yields were volatile, with shorter-term yields falling as rate-hike expectations eased, while longer-term yields remained elevated amid heavy supply and fiscal concerns. Meanwhile, the STOXX Europe 600 fell 0.36%, as resilient economic data and solid earnings were outweighed by geopolitical uncertainty surrounding the US-Iran conflict and the Strait of Hormuz.

Global Equities: rose *w-o-w* (MSCI ACWI, +0.7%, to 1,160.34). The US S&P 500 index increased (+2.8% w-o-w, to 7,785.76). In the EZ, share prices were up (Eurostoxx 50, +0.2% w-o-w, to 6,539.59) In EMs, equity increased (MSCI EMs, +2.6%, to 1,701.17). Volatility rose to 18.11 (VIX S&P 500, 52w avg.: 19.4; 10y avg.: 19.9).

Fixed Income: *w-o-*w, the 10-year US Treasury yields were up (+4 bps to 4.70%). The 2-year US Treasury yields declined (-3 bps to 4.17%). The German 10-year bund yields edged up (+7 bps to 3.20%).

FX: *w-o-w,* the US Dollar Index increased (DXY, +0.1%, to 99.67; EUR/USD +0.1%, to 1.16). In EMs, currencies increased (MSCI EM Currency Index, +0.2% w-o-w, to 1,902.80).

Commodities: *w-o-w,* oil prices increased (Brent, +7.8% to 88.60 USD/b). Gold rose increased w-o-w (+0.7% to 4,432.00 USD/Oz).

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Nato Balavadze *contributed to this Viewsletter.* *The picture in the first page was taken from this website.*

Abbreviations, Acronyms and Definitions

a	*Actual*	*LN*	*Northern League, Italy*
AKP	*Justice and Development Party, Turkey*	*M5S*	*Five Star Movement, Italy*
ann.	*annualized*	*m-o-m*	*Month-on-month*
ARS	*Argentinian Peso*	*mb*	*Million barrels*
avg.	*Average*	*mb/d*	*Million barrels per day*
bn	*Billion*	*MENA*	*Middle East and North Africa*
BoC	*Bank of Canada*	*MHP*	*Nationalist Movement Party, Turkey*
BoE	*Bank of England*	*mn*	*Million*
BoJ	*Bank of Japan*	*MPC*	*Monetary Policy Committee*
bpd	*Barrels per day*	*NAFTA*	*North-American Free Trade Agreement*
bps	*Basis points*	*NATO*	*North Atlantic Treaty Organization*
BS	*Balance sheet*	*OECD*	*Organization for Economic Cooperation and Development*
c	*Consensus*	*Opec*	*Organization of Petroleum Exporting Countries*
C/A	*Current account*	*p*	*Previous*
CB	*Central bank*	*P2P*	*Peer-to-peer*
CBB	*Central Bank of Bahrain*	*PBoC*	*People's Bank of China*
CBK	*Central Bank of Kuwait*	*PCE*	*Personal Consumption Expenditures*
CBT	*Central Bank of Turkey*	*PE*	*Price to earnings ratio*
CDU	*Christian Democratic Union, Germany*	*PM*	*Prime minister*
CNY	*Chinese Yuan*	*PMI*	*Purchasing managers' index*
CPI	*Consumer Price Index*	*pps*	*Percentage points*
DJIA	*Dow Jones Industrial Average Index*	*pw*	*Previous week*
DJEM	*Dow Jones Emerging Markets Index*	*QCB*	*Qatar Central Bank*
d-o-d	*Day-on-day*	*QAR*	*Qatari Riyal*
DXY	*US Dollar Index*	*QE*	*Quantitative easing*
EC	*European Commission*	*q-o-q*	*Quarter-on-quarter*
ECB	*European Central Bank*	*RE*	*Real estate*
ECJ	*European Court of Justice*	*RBA*	*Reserve Bank of Australia*
EIA	*US Energy Information Agency*	*RRR*	*Reserve Requirement Ratio*
EM	*Emerging Markets*	*RUB*	*Russian Rouble*
EP	*European Parliament*	*SWF*	*Sovereign Wealth Fund*
EPS	*Earnings per share*	*tn*	*Trillion*
EU	*European Union*	*TRY*	*Turkish Lira*
EUR	*Euro*	*UAE*	*United Arab Emirates*
EZ	*Eurozone*	*UK*	*United Kingdom*
Fed	*US Federal Reserve*	*US*	*United States*
FOMC	*US Federal Open Market Committee*	*USD*	*United States Dollar*
FRB	*US Federal Reserve Board*	*USD/b*	*USD per barrel*
FX	*Foreign exchange*	*UST*	*US Treasury bills/bonds*
FY	*Fiscal Year*	*VAT*	*Value added tax*
GCC	*Gulf Cooperation Council*	*VIX*	*Chicago Board Options Exchange Volatility Index*
GBP	*British pound*	*WTI*	*West Texas Intermediate*
GDP	*Gross domestic product*	*WTO*	*World Trade Organisation*
IMF	*International Monetary Fund*	*w*	*Week*
INR	*Indian Rupee*	*w-o-w*	*Week-on-week*
IPO	*Initial public offering*	*y*	*Year*
IRR	*Iranian Rial*	*y-o-y*	*Year-on-year*
JPY	*Japanese yen*	*y-t-d*	*Year-to-date*
k	*thousand*	*ZAR*	*South African Rand*
KSA	*Kingdom of Saudi Arabia*	*2y; 10y*	*2-year; 10-year*

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