

## Recent Trends in U.S. Politics and the Economy

A Focus on Foreign Policy Amid Escalating Domestic Immigration Tensions

### Economic and Financial Conditions

- Growth Outlook

The latest GDP figures released on 1/22 show the U.S. economy grew at a 4.4 percent annual rate in the third quarter of 2025, up from 3.8 percent in the second quarter. The main drivers were solid consumer spending and net exports (higher exports combined with lower imports).

Consumer spending data for October and November reinforced this trend. Even though disposable income rose only modestly (0.1 percent in October and 0.3 percent in November), spending increased 0.5 percent in both months, pointing to continued strength in household consumption.

The December employment report showed more moderate growth, with nonfarm payrolls adding 50,000 jobs and unemployment at 4.4 percent. While job growth has slowed and unemployment has edged higher, there's no clear evidence of a sharp labor market downturn. With consumer demand holding up, inflation remains somewhat elevated. The consumer price index rose 2.7 percent year-over-year in December.

Some forward-looking indicators suggest caution, though. The Conference Board Consumer Confidence Index fell to a 12-year low in January, driven by concerns about employment and prices. Meanwhile, the ISM Manufacturing PMI has stayed below 50 for ten consecutive months, indicating persistent weakness in manufacturing.

Overall, while downside risks exist, there's no clear sign of an imminent recession. Looking ahead, the focus is on tax cuts, continued AI-related investment, and potential productivity gains. The Trump administration is likely to maintain policies aimed at sustaining economic expansion while managing inflation.

- Interest Rate

At its meeting on the 1/29, the Federal Open Market Committee held the policy interest rate at 3.5 to 3.75 percent. The yield on the ten year Treasury rose temporarily from 4.16 percent at the end of 2025 to around 4.3 percent on the 20th, amid speculation that the Trump administration was mulling the annexation of Greenland, before subsequently pulling back. Treasury Secretary Bessent attributed the rise in U.S. interest rates in part to spillover effects from Japan, while reports that the New York Federal Reserve conducted a rate check following yen depreciation were interpreted as a signal of heightened sensitivity to upward pressure on yields.

President Donald Trump has repeatedly stated that lower interest rates are desirable to support domestic economic activity, and that a weaker dollar would help improve U.S. export competitiveness. While he has emphasized strong inflows of foreign investment into the United States, a reversal toward capital outflows could have material implications for the economy, keeping markets highly sensitive to interest rate developments.

Although the U.S. dollar index fell by roughly 10 percent in 2025, maintaining dollar stability remains important for preserving the dollar's longer term global position, and the administration is expected to remain attentive to dedollarization trends.

## Trade and Industry

- Agriculture

Ahead of the FY 2026 budget, agricultural groups had expected additional policy support following those announced late last year, including legislation allowing year round use of fifteen percent ethanol blended fuel known as E15, to the benefit corn producers. Under current rules, E15 sales are generally restricted during the summer due to smog related concerns. However, neither the additional support measures nor the E15 provision were included in bills passed by the House of Representatives. Trump stated at a rally in Iowa on 1/27 that he would sign legislation allowing year round use of E15 should it be approved.

- Rare Earth Elements

On 1/26, the U.S. Department of Commerce announced that, under the CHIPS and Science Act, it will provide approximately \$1.6 billion to USA Rare Earth for rare earth mining and refining in the United States. The package consists of \$280 million in grants and \$1.3 billion in loans, and includes the government acquiring an 8 to 16 percent equity stake in the company.

The move aligns with the administration's strategy to strengthen supply chain resilience for critical minerals and reduce reliance on overseas sources. Similar government equity investments have been made in at least ten strategically important companies to date. The funding is expected to support a Texas based mining project, with commercial production targeted for 2028, as well as manufacturing facilities in Oklahoma.

- Japan's Investment Commitments to the U.S.

On 1/27, Reuters reported that a synthetic diamond manufacturing project in the United States led by Element Six, a subsidiary of the De Beers Group, could be selected as the first project under the Japan US investment agreement. The report also noted that the announcement could come ahead of Prime Minister Takaichi's planned visit to the United States in early March.

According to an October 2025 fact sheet released by the Japanese and U.S. governments, the project is valued at \$500 million, with participation expected from Japanese suppliers and offtakers. Other projects reportedly under consideration include large scale power generation facilities led by Hitachi and data center construction by SoftBank.

## Domestic Policy

- Fatal ICE Shootings in Minnesota

The fatal shooting of Renee Good by Immigration and Customs Enforcement officers in Minneapolis on 1/7 set off a sharp escalation in tensions between the Trump administration and local officials, along with sustained public protests against federal immigration enforcement. The administration claimed the shooting was self defense, but critics pointed to what they saw as increasingly aggressive ICE operations.

As demonstrations continued, Trump floated invoking the Insurrection Act to deploy U.S. military forces. The Justice Department launched criminal investigations into Minnesota Governor Tim Walz and Minneapolis Mayor Jacob Frey, alleging they interfered with federal law enforcement. Meanwhile, the administration showed no signs of backing down, with ICE announcing a new program on 1/22 targeting undocumented immigrants with criminal records in Maine.

Things got worse on 1/25 when a second fatal ICE shooting occurred during protests in Minneapolis.

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The administration again cited self defense, but video footage from bystanders appeared to contradict the official account, significantly intensifying political and public scrutiny.

Under mounting pressure, Trump shifted toward deescalation. He held calls with Governor Walz and Mayor Frey, signaling more coordination with local authorities. He removed Border Patrol Commander Bovino, who had overseen operations in the state, and sent Tom Homan to Minnesota to take charge. This was a notable shift from the administration's earlier approach, which had touted enforcement successes while portraying opposition as radical.

Democrats ramped up their criticism, including calls for dismissal of Kristi Noem, the homeland security secretary, turning immigration enforcement into a central issue heading into the midterms. On 1/29, ICE announced it would suspend the Maine program, suggesting the administration may be trying to contain the political damage.

- Appropriations

The U.S. Senate initially rejected a motion to proceed with a package of six appropriations bills covering departments including the Department of Homeland Security, the State Department, the Department of Health and Human Services, and the Department of Defense. The motion failed 45 to 55, with eight Republican senators joining all Democrats in opposition, effectively blocking progress. The affected bills account for more than 75 percent of federal discretionary spending, sharply raising the risk of a government shutdown ahead of the current continuing resolution's expiration at 12:01 a.m. on 1/31.

Until recently, expectations had been that the remaining appropriations bills would clear the Senate without major disruption, as the House had already passed them and adjourned. However, the political environment shifted following a series of incidents related to immigration enforcement. Protests that had been building since December intensified after the 1/7 fatal shooting of Mrs. Good by Immigration and Customs Enforcement, followed by the killing of Mr. Pretti by Customs and Border Protection officers. In response, Senate Democrats made clear they would not support the DHS appropriations bill without stronger oversight measures, including requirements such as body worn cameras for enforcement officers.

Reports later indicated that Trump and Senate Democratic leaders had reached a tentative agreement to avert a shutdown, although details had not been made public at the time of writing. On the evening of 1/29, Senate leadership sent members home, citing uncertainty over the timing of further debate. While the Senate is working to pass a revised appropriations package on 1/30, the House remains in recess, making at least a brief technical shutdown likely until the chamber reconvenes to vote.

The significance of this episode goes beyond procedural budget politics. A lapse in funding for DHS or the State Department could disrupt immigration enforcement, border management, and regulatory approvals, creating broader operational and economic effects.

- The Affordability Crisis

Trump has continued to argue that inflation was created under the Biden administration and that the so-called affordability crisis has been exaggerated by Democrats. At the same time, since January he has announced a series of measures aimed at easing cost pressures, particularly in areas of high voter sensitivity. Key initiatives under discussion include the following.

- ✓ Credit cards: The administration announced a one year cap on credit card interest rates beginning on 1/20, but the measure lacks legal force and would require congressional action to be binding. No legislative progress has been made, and financial institutions have expressed opposition, leaving the proposal effectively stalled.
- ✓ Housing: To lower mortgage rates, the administration directed Fannie Mae and Freddie Mac to purchase \$200 billion in mortgage backed securities. On 1/20, Trump also issued an executive order barring large institutional investors from purchasing single family homes. The Treasury Secretary has been tasked with defining both "large institutional investors" and "single family homes" within thirty days.
- ✓ Health Care: The administration reached an agreement with major pharmaceutical companies to lower drug prices, including the application of most favored nation pricing for Medicaid, under which prices would not exceed those in other advanced economies.
- ✓ Tariff Review: The administration delayed for one year a planned tariff increase on furniture scheduled for 1/1/26, maintaining the existing 25 percent rate. In November 2025, approximately 200 agricultural products, including beef, coffee, and bananas, were excluded from reciprocal tariffs to help contain food price inflation. Tariff actions under Section 232 targeting semiconductors and critical minerals have also been limited, with greater emphasis placed on negotiations with foreign partners. According to Bloomberg, only one in four tariff threats issued by Trump is actually implemented. The president has also floated the idea of distributing tariff revenues as \$2,000 per capita payments.

While these measures focus on housing, health care, and food prices, areas of direct concern to voters, their actual impact on inflation remains uncertain. With the administration prioritizing foreign policy and immigration dominating the domestic political debate, attention to affordability has faded somewhat compared with earlier periods. Nonetheless, public perceptions of cost of living trends are likely to play a decisive role in shaping overall assessments of the administration's performance.

## Foreign Policy

- Venezuela

Following the removal of President Nicolás Maduro, the Trump administration has shifted its Venezuela policy from military action to stabilization and economic recovery. The focus now is on coordinating with the interim government led by Delcy Rodríguez and using the oil and gas sector as the primary tool for rebuilding the economy.

On 1/29, the Treasury Department issued a general license<sup>1</sup> authorizing transactions with the Venezuelan government and PDVSA related to crude oil production, sales, transportation, and refining. This is a significant change from the previous approach of issuing narrow, case by case licenses, and it's designed to enable a broader resumption of Venezuela related oil activity by U.S. companies.

The move represents conditional sanctions relief aimed at spurring investment and production, though it falls short of fully lifting sanctions. The timing aligned with Venezuela's National Assembly passing sweeping reforms to the country's hydrocarbon law on 1/29, opening up the sector to greater private participation from both domestic and foreign companies. Together, these steps suggest a U.S.

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<sup>1</sup> <https://ofac.treasury.gov/media/934886/download?inline>

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strategy that uses the oil sector as economic leverage—favoring U.S. firms, boosting production and exports, strengthening the interim government's financial position, and maintaining U.S. influence.

That said, industry sentiment remains cautious. Market participants widely note that major oil companies are still reluctant to make significant commitments in Venezuela given the aging infrastructure, difficult operating conditions, and ongoing political and regulatory uncertainty. In practice, oilfield services firms like Halliburton are expected to move first, with smaller wildcat producers potentially following if conditions improve. Major players like Exxon Mobil are holding back. CEO Darren Woods has said the company won't consider investing without a clear return to civilian rule, highlighting that political risk remains the biggest barrier to large scale energy investment.

- Greenland

The Trump administration's renewed focus on Greenland reflects two overlapping motivations: strategic geopolitics and presidential legacy building. From a geopolitical perspective, Greenland's strategic value is increasing rather than diminishing. Its location gives it growing importance as a geographic chokepoint, including proximity to the GIUK gap<sup>2</sup>, early missile warning and missile defense functions linked to the Golden Dome architecture, and broader surveillance and interception capabilities. At the same time, rising pressure from China over rare earth supply chains has elevated the relative importance of Greenland's mineral resources. In the space domain, Greenland stands out as one of the few viable locations for large scale deployment of ground stations supporting polar orbit satellites, offering geometric advantages even over Alaska. As Arctic ice recedes and the commercial viability of the Northwest Passage improves, concerns about Russia gaining a dominant position in Arctic maritime routes have further reinforced U.S. interest in deeper engagement.

Beyond geopolitics, Trump's personal view of legacy also plays a meaningful role. The president has consistently framed the physical expansion of U.S. influence and presence as a core achievement, a perspective aligned with the administration's emphasis on the Western Hemisphere as articulated in its National Security Strategy. There is also a clear desire to advance issues that previous administrations failed to resolve, particularly given the rejection Trump faced from Denmark during his first term. Within this context, the administration's refusal to rule out the use of military force is widely seen not as a genuine policy intent, but as negotiating leverage.

This approach is consistent with Trump's long standing negotiating style: presenting maximal demands and strong rhetoric to force issues onto the agenda that would otherwise remain politically untouchable. By Washington's assessment, this tactic has yielded results. Discussions are now underway that include a potential review of the 1951 U.S. Denmark defense agreement, marking a shift from dismissal to substantive engagement and reinforcing the view within the administration that the current approach has been effective.

- Iran

Following Iran's nationwide outbreak of protests late last year, the Trump administration has steadily intensified military pressure on Tehran. Within the administration, the recent removal of Maduro in Venezuela is widely viewed as reinforcing U.S. coercive credibility, strengthening confidence that forceful signaling can influence adversary behavior, including in Iran.

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<sup>2</sup> Greenland forms part of the GIUK Gap (Greenland–Iceland–United Kingdom line), a key strategic corridor in the North Atlantic used to monitor and deter Russian naval access to the Atlantic Ocean. From the Cold War to the present, the GIUK Gap has been regarded as a core strategic chokepoint for the United States and NATO.

Following the Iranian regime's crackdown on protestors, Trump warned that the United States would take "very strong measures" if the killing of protesters continued. In response, Iranian signals appeared to soften at the margins. Iran's foreign minister indicated greater openness to discussions with Washington on the nuclear issue, and following a presidential social media post criticizing the use of the death penalty against detained protesters, Iranian authorities reportedly delayed some planned executions. While these moves do not amount to a policy shift, they suggest that U.S. pressure may be generating limited tactical responses in Tehran.

Trump further escalated his messaging on 1/28, issuing his most explicit warning to Iran to date. In a social media post, he claimed that a large naval force centered on the aircraft carrier Abraham Lincoln was rapidly deploying toward the region and stated that U.S. forces were prepared to act decisively if required. He demanded that Iran immediately agree to a deal premised on abandoning nuclear weapons development, while also referencing last June's U.S. strikes under Operation Midnight Hammer and warning that any future military action would be substantially more severe. The message deliberately combined an offer of negotiations with overt military threats, reflecting the administration's preferred approach of maximum pressure coupled with diplomatic inducement.

Despite the sharper tone, uncertainty in Washington remains focused on the administration's ultimate objective. Some analysts believe Trump is seeking a historic outcome centered on the collapse or fundamental transformation of Iran's supreme leadership structure. Others argue that a far reaching nuclear agreement represents the more realistic end state, particularly after U.S. and Israeli military actions in June 2015 significantly constrained Iran's nuclear capabilities. Under this scenario, Tehran could be pressed to accept sweeping concessions, including the abandonment of uranium enrichment, in exchange for sanctions relief and a redefined relationship with the United States.

These paths are not necessarily mutually exclusive. Consistent with the president's past behavior, the administration may seek to keep military action limited in scope and duration while simultaneously pursuing a high impact diplomatic deal. At present, Washington appears focused on expanding both.

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