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Reading the “TACO” Index: Signs of President Trump’s “TACO” Behavior

Signs of a policy shift reflected in the market and public opinion

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Summary

- Since taking office in 2025, President Trump has pursued policies—such as raising tariffs and taking a hard line against Iran—that seem to disregard their impact on the markets and the economy. At the same time, he has repeatedly exhibited a pattern of behavior known as “TACO” (“Trump Always Chickens Out”), in which he softens his stance when concerns grow over market turmoil or a decline in his approval ratings.

- In this report, we have developed the “TACO” index to identify signs of such policy shifts. The “TACO” index is calculated based on the S&P 500, the US 10-year Treasury yield, the US Dollar Index, and his approval ratings; it rises as falling stock prices, rising interest rates, a weaker dollar, and declining approval ratings occur simultaneously. A rise in the “TACO” index can be interpreted as a period in which the administration is facing increasing pressure to revise or withdraw its policies.

- Looking back at the historical trends of the “TACO” index, a common pattern has been observed across different policy areas—including tariffs, issues surrounding the Federal Reserve’s independence, and the situation in the Middle East—where policy responses have softened following an increase in the “TACO” index. In particular, the greater the impact of a policy on markets and households, the more likely it is that a rise in the index signals an impending policy adjustment.

- The “TACO” Index is, after all, merely a mirror reflecting “external” pressures—namely, the market and voters—and has its limitations in that it is difficult to capture the political dynamics “inside” the administration. However, it can be considered a useful indicator for visualizing the “cycle of hardline stances and softening” inherent

in the Trump administration’s policy management. Continuously monitoring the level of accumulated pressure indicated by the “TACO” Index could serve as a compass for identifying turning points in the Trump administration’s policy management.

How to Interpret the Signs of “TACO”

Since taking office in January 2025, President Trump has thrown markets and public opinion into turmoil with policies that seem to disregard the US economy and market trends. The sharp increase in tariffs and the use of military force against Iran are prime examples of this. However, as the acronym “TACO” (“Trump Always Chickens Out”) suggests, it is also true that whenever concerns about market turmoil or an economic downturn have intensified, he has frequently done an about-face, backing down from his hardline stance.

The problem is that, even though we can predict that “TACO” will eventually occur, it is difficult to pinpoint the exact timing due to President Trump’s characteristic erratic statements and behavior. Therefore, this report introduces the “TACO” Index, which was developed as a reference indicator for gauging the signs of “TACO.” After explaining the “TACO” Index, we will review the trajectory of President Trump’s “TACO” to date and outline the characteristics and practical applications of the “TACO” Index.

What Is the “TACO” Index?

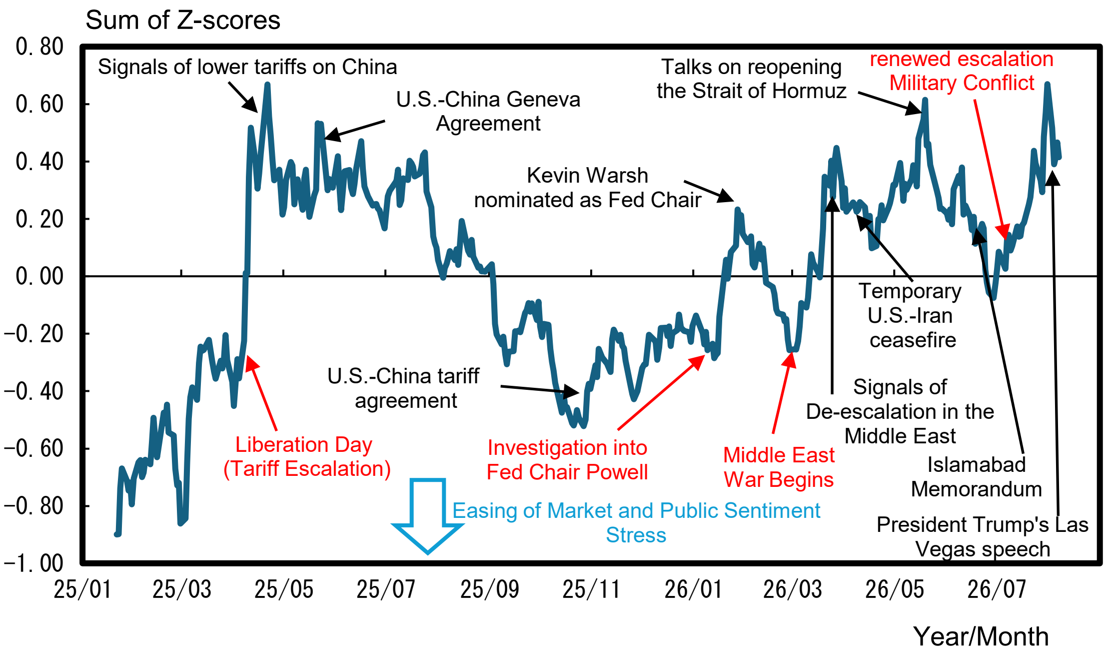
President Trump has repeatedly emphasized his preference for unpredictability. This can be interpreted as a strategy to secure an advantageous position in negotiations by preventing his opponents from anticipating his policy responses. On the other hand, President Trump has repeatedly expressed concern about market trends—such as interest rates and stock prices—in the context of implementing his policies. Furthermore, regarding his approval ratings, while he has dismissed opinion polls as “fake,” he has begun to show a sense of urgency about the need to win the midterm elections—arguing that if the Republican Party loses, he could face impeachment—as his declining approval ratings have raised red flags for the midterms. While he maintains a tough stance on foreign policy, President Trump’s wariness toward the markets and public opinion remains deep-seated.

Against this backdrop, we have created the “TACO” Index as a reference indicator for gauging the timing of “TACO”. The “TACO” Index is calculated by converting the S&P 500, the US 10-year Treasury yield, the US Dollar Index, and President Trump’s approval rating into Z-scores (a metric that indicates how many standard deviations each data point is from the mean, assuming normal distribution) and then combining them with equal weighting (the same ratio). The signs for stock prices, the dollar index, and the approval rating are inverted in the calculation. The index is structured such that it rises as stock prices fall, interest rates rise, the dollar weakens, and approval ratings decline simultaneously; this indicates that dissatisfaction and stress regarding the Trump administration's policy management are mounting among both the market and voters. An upward trend in the index can be interpreted as a period of increasing pressure on the administration to revise or withdraw policies, and empirically, a "TACO" pattern has been observed in which the administration softens its stance after the index peaks.

Looking Back at the Trajectory of the "TACO" Index: Similar Cycles Across Three Policy Areas

A review of the "TACO" Index's historical performance reveals that similar cycles have repeatedly occurred across different policy domains: tariffs, monetary policy, and geopolitics. Below, we present three representative cases in which the "TACO" Index experienced significant fluctuations.

Chart: Trends in the "TACO" Index and Major Events



Source: FRB, S&P, WSJ, Silver Bulletin, Haver Analytics: Compiled by DIR.

Note: The TACO Index is calculated by converting the S&P 500, the US 10-year Treasury yield, the US Dollar Index, and President Trump's approval rating into Z-scores; then, after reversing the signs of the S&P 500, the US Dollar Index, and the approval rating, these components are weighted equally at 25% each and added up. The index rises when stock prices fall, interest rates rise, the dollar weakens, and approval ratings decline; it falls when the opposite occurs. A rise in the index suggests that market and political pressure on policy is intensifying, increasing the likelihood that the administration will soften or withdraw its policies, while a decline indicates the opposite.

(1) Successive Tariff Increases (Apr–Oct 2025):

The first case study is the Trump tariffs. President Trump has been raising tariff rates since shortly after taking office, but the event that had the most significant impact was “Liberation Day” on April 2, 2025, when President Trump announced reciprocal tariffs for each country and region. If the announced reciprocal tariffs had been implemented, effective tariff rates were expected to temporarily surge to levels exceeding 20%, triggering a “triple sell-off”—falling stock prices, rising interest rates, and a weakening dollar—in the United States. In response to the market turmoil, many of the additional tariffs on countries and regions other than China were suspended for 90 days. Meanwhile, tariff rates were significantly raised against China, which had hinted at countermeasures against the reciprocal tariffs. Market turmoil stemming from concerns over the negative impact of high tariffs on the US economy and inflation, combined with a decline in the President’s approval ratings, caused the “TACO” index to surge to approximately 0.6 in late April—its highest level since the beginning of the year. Subsequently, Treasury Secretary Bessent suggested a reduction in tariffs on China—stating at the end of April that high tariff rates on China were unsustainable—and following US-China talks in Geneva from May 10 to 12, additional tariffs on China were significantly reduced from a cumulative 145% to 30%. During this phase, the “TACO” index showed a gradual downward trend, falling to around 0.2 by the end of June.

In early July, the “TACO” index began to rise again after new tariff rates were announced regarding the reciprocal tariffs that had been postponed until then, climbing to around 0.4. However, as trade negotiations between the United States and various countries and regions—such as Japan and the US, and the US and the EU—reached agreements, and it became clear that tariff rates lower than those announced in early July would be applied, the “TACO” index began to decline. Furthermore, with the US-China tariff agreement reached in Busan, South Korea, at the end of October, the turmoil surrounding trade policy largely subsided, and the “TACO” index remained in negative territory (indicating low levels of dissatisfaction and stress regarding the Trump administration’s policy management among both the market and voters) from November 2025 through mid-January 2026.

(2) Monetary Policy and Concerns over Fed’s Declining Independence (January 2026):

The second case study concerns political interference in monetary policy and the Federal Reserve. President Trump has been increasingly pressuring the Federal Reserve to cut interest rates significantly, and he has criticized then-Federal Reserve Chair Powell—who had maintained a wait-and-see stance, particularly during the first half of 2025—as “Mr. Too Late.”

As Chair Powell’s term neared its end in May 2026, it was revealed in early January 2026 that he had become the subject of a criminal investigation in connection with his congressional testimony regarding renovation work at the Fed’s headquarters. In response to this unprecedented criminal investigation into the head of the central bank, the market viewed it as political interference in the Fed’s independence, causing the “TACO” index to turn positive and peak (at around 0.2) in late January. Furthermore, starting around mid-January, even some Republican lawmakers—who had previously been critical of the Fed’s wait-and-see stance—began to express concerns that the criminal investigation could threaten the institutional boundary of the Fed’s independence.

Amid discontent from the markets and Republican lawmakers, President Trump began shifting his focus from the criminal investigation into Fed Chair Powell to the selection of his successor in late January. When President Trump formally nominated Kevin Warsh as the next Fed Chair on January 30, concerns over political interference in the Fed shifted from the extraordinary measure of a criminal investigation to the standard institutional process of the chair’s appointment. As a result, the “TACO” index began to decline and turned negative in late February.

(3) Deteriorating Situation in Middle East and Rising Energy Prices (February–August 2026):

The third case study concerns the deterioration of the situation in the Middle East. Beginning with the use of force against Iran by the US and Israel on February 28, 2026, the crisis surrounding the Strait of Hormuz intensified. As a result, energy prices rose sharply, sparking concerns in the markets and among the public about negative impacts on the economy and inflation, and the “TACO” index surged from negative territory to around 0.4. Subsequently, at the end of March 2026, the “TACO” index began to decline as President Trump signaled a willingness to engage in negotiations between the US and Iran, and it continued its downward trend until a temporary ceasefire agreement was reached in early April.

However, against the backdrop of concerns that the blockade of the Strait of Hormuz would be prolonged due to stalled US-Iran negotiations, the “TACO” index rose again, reaching approximately 0.6 by mid-May 2026—its highest level since the escalation of tariffs on China in April 2025. In late May, as negotiations between the US and Iran to reopen the Strait of Hormuz gained momentum, the “TACO” index began to decline again. Fueled by growing expectations of a de-escalation following the “Islamabad Memorandum” signed between the two countries in mid-June, the index continued to fall through the end of June, reaching its lowest level since early March.

However, as July began, military tensions flared up again following ceasefire violations, attacks on ships by the Islamic Revolutionary Guard Corps, and the US announcement that the ceasefire had ended, causing the “TACO” index to resume its upward trend. By the end of July, it had risen to just over 0.6—its highest level since negotiations on the liberation of the Strait of Hormuz began in earnest in May. The turning point came with President Trump’s speech in Las Vegas on August 5. Following this speech—in which President Trump emphasized economic achievements such as tax incentives and expressed a positive stance toward continuing negotiations between the US and Iran—the “TACO” index shifted into a downward trend.

How to Use the “TACO” Index and Points to Keep in Mind

The two commonalities across these three policy areas are: (1) During periods when the “TACO” index surged, the Trump administration consistently adopted policies—such as high tariffs, political interference in central banks, and the escalation of military tensions—that “rapidly increased political costs”; and (2) a shift toward a more conciliatory stance was observed with a lag of several days to several weeks following the index’s peak.

In particular, the “TACO” index tends to be most effective in situations where the consequences of policy—such as tariffs or geopolitical risks—have a broad and direct impact in the form of market prices and the cost of living, and where public and market reactions are easily translated into political costs. In such situations, when the “TACO” index rises to around 0.6, President Trump tends to exhibit “TACO”-like behavior.

On the other hand, when examining periods of concern over the erosion of the Fed’s independence, the “TACO” index has not risen as much as it has in response to tariffs or geopolitical risks. This is likely because concerns over the erosion of the Fed’s independence are less likely to have a direct and widespread negative impact on the economy and markets than tariffs or geopolitical risks, and because the dynamics at play stem from factors that are difficult to quantify, such as dissatisfaction expressed by some Republican lawmakers. It is important to note that while the “TACO” index can capture pressure from the market and voters, it cannot fully account for any softening that arises through other channels, such as Congress.

In addition, there are several points to keep in mind when interpreting this index. First, the relationship between the index and policy shifts does not prove a strict causal relationship. Second, the number of observed episodes is limited, so the index cannot be used to verify statistical robustness. Third, in cases such as the situation in the Middle East—where there is not a “complete resolution” but rather a “cycle of temporary détente and renewed conflict”—it is important to note that a decline in the index does not necessarily indicate a fundamental resolution of the issue.

In Conclusion

President Trump’s words and actions are inherently erratic, making it difficult to accurately predict, on a specific date basis, when he might soften his stance. On the other hand, the “TACO” index can serve as a “pressure gauge” that continuously visualizes the extent to which pressure from the market and voters has built up, thereby helping to gauge turning points in policy management.

The fact that the same cycle—a sharp rise followed by a softening of the “TACO” index—has been repeatedly observed across three distinct policy domains—tariffs, monetary policy and the independence of the Federal Reserve, and the situation in the Middle East—suggests that “TACO” is not a one-off occurrence, but rather a structural feature embedded in this administration’s policy management. In other words, it can be interpreted that a high sensitivity to the costs of backlash from the markets and public opinion—rather than the act of maintaining a hardline stance itself—has become a consistent pattern of behavior for the Trump administration.

That said, as the Fed’s case demonstrates, this barometer does not provide a uniform view of all “TACOs.” In situations where outcomes are determined by dynamics within Congress or political parties, the “TACO” index tends to lose its persuasive power as a reference indicator. It is important to use this index with an awareness of its limitations: it is, after all, merely a mirror reflecting pressure from “external” sources—namely, the market and voters—and it is difficult for it to reflect the political dynamics “inside” the administration.

Given that President Trump has placed a high value on unpredictability and has utilized it as part of his negotiating strategy, it is conceivable that he will continue to pursue policies that appear to disregard the US economy and market trends even in areas beyond the three sectors discussed so far. Each time this occurs, continuously monitoring the level of accumulated pressure indicated by the “TACO” index could serve as a compass for identifying turning points in the Trump administration’s policy direction.