THE CREDIBILITY TRAP

How Market Pressure and Game-Theoretic Logic Reveal the Structural Limits of Trumpian Coercive Diplomacy — and What It Predicts for the End of the Iran War

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ABSTRACT

This article argues that across two presidential terms, Donald Trump has pursued a structurally predictable pattern of coercive trade and geopolitical escalation followed by market-induced capitulation. Drawing on a comprehensive chronological dataset spanning March 2018 through March 2026, the analysis identifies a five-phase behavioral cycle whose trigger hierarchy — with sovereign bond market dislocation at its apex — has remained empirically consistent despite dramatic changes in policy scale and global context. This revised edition integrates a formal game-theoretic framework and eleven analytical matrices that formalize the strategic logic underlying each phase of the cycle. Trump's behavior is modeled as a signaling game with incomplete information: adversaries must infer whether his threats are credible 'Hawk' commitments or time-limited 'Bluster,' while Trump exploits ambiguity to maximize coercive leverage without sustaining its costs. The shortening of the capitulation cycle from forty-five days in 2018 to six hours in April 2025 represents, in game-theoretic terms, an accelerating collapse of the separating equilibrium that sustained threat credibility. This analysis applies the same framework to Operation Epic Fury, the US military campaign against Iran launched on February 28, 2026, to generate a structured predictive assessment of how and when Trump will seek to end that war.

I. Introduction: The Art of the Tactical Retreat

On the morning of April 9, 2025, the United States Treasury market broke. The yield on the ten-year note surged to 4.5 percent; the thirty-year posted its largest three-day climb since 1982. Gold reached successive record highs. The dollar — normally a beneficiary of global distress — fell instead, the first unambiguous sign that markets were beginning to question the foundational assumption of American safe-haven status.

By the afternoon of the same day, President Donald Trump had posted to Truth Social a 90-day suspension of the reciprocal tariffs that had, only seven days earlier, been proclaimed on a Rose Garden stage as 'one of the most important days in American history.' Within minutes of that post, the S&P 500 surged 9.52 percent — its single largest daily gain since 2008. The sequence was not unprecedented. It was, to any student of Trump's first term, entirely familiar. What had changed was the speed, the amplitude, and — crucially — the global recognition of the pattern itself.

By 2025, market participants had coined the acronym TACO: Trump Always Chickens Out. The very credibility of American coercive diplomacy had become a subject of financial market taxonomy. This article undertakes a systematic analysis of what that pattern reveals about the structural constraints governing Trumpian statecraft across trade policy — and then applies those conclusions to a new and more dangerous test case.

On February 28, 2026, Trump launched Operation Epic Fury against Iran. He called it a campaign that would last 'about four weeks.' As of the date of this analysis, the war is in its second week with no defined victory condition, no functional diplomatic off-ramp, and an adversary that has explicitly declined to request a ceasefire.

> **GAME THEORY NOTE**
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> *The TACO pattern is, in formal terms, a commitment problem. A player who cannot credibly commit to bearing the costs of coercion faces what game theorists call 'time-inconsistency': the threat is rational to make ex ante (before escalation) but irrational to carry out ex post (once costs materialize). Adversaries who correctly anticipate this structure will rationally hold out, knowing the threat is time-limited.*

The shortening of the capitulation cycle from forty-five days in 2018 to six hours in April 2025 is not a tactical variation. It is a structural signal about the limits of coercion in an era of instantaneous capital mobility.

II. Theoretical Framework: Coercive Diplomacy, Domestic Constraints, and Game Theory

2.1 Classical Coercive Diplomacy

The scholarship on coercive diplomacy has long recognized that the credibility of a threat depends not only on the capability and resolve of the threatening state but also on the domestic costs the threatener can sustain. Thomas Schelling's foundational insight — that the power to hurt is the power to bargain — presupposes that the threatening party can absorb sufficient punishment to demonstrate resolve. What the Trump case illuminates is the inverse: a leader whose domestic political economy is hyperreactive to financial market signals possesses a structurally constrained coercive toolkit, regardless of the underlying military and economic power at his disposal.

2.2 Game Theory: Signaling, Commitment, and Credibility

Game theory provides the most precise analytical vocabulary for understanding why the TACO cycle is structurally reproducible rather than idiosyncratic. Three game-theoretic frameworks are particularly illuminating.

The Signaling Game with Incomplete Information

In a signaling game, one player (the Sender) holds private information about its type — in this case, whether Trump is a genuine 'Hawk' committed to sustaining coercive pressure, or a 'Blusterer' who will retreat when costs exceed a threshold. The Sender sends a signal (maximalist threat), and Receivers (adversaries, bond markets, trading partners) must infer the Sender's true type from observable behavior.

A separating equilibrium exists when Hawks and Blusterers send observably different signals, allowing Receivers to distinguish between them. A pooling equilibrium exists when both types send the same signal, leaving Receivers unable to distinguish them. The TACO behavioral record demonstrates that Trump began his first term in conditions resembling a separating equilibrium: his threats were sufficiently costly to carry out that observers assigned non-trivial probability to the Hawk type. By 2025, the documented capitulation pattern had destroyed this equilibrium, collapsing it into a pooling equilibrium where the Blusterer type was universally anticipated.

SIGNALING EQUILIBRIUM COLLAPSE

The progression from a 45-day capitulation cycle (2018) to a 6-hour cycle (April 2025) maps precisely onto the degradation of the separating equilibrium. In 2018, the signal was ambiguous enough that adversaries hedged against the Hawk type. By 2025, the TACO trading strategy — mechanically buying equities on tariff selloffs — represented market participants acting as if they had achieved near-certainty about the Blusterer type. The separating equilibrium had fully collapsed.

MATRIX 4 — RECEIVER BELIEF UPDATE — BAYESIAN INFERENCE OVER TIME (P(TRUMP = HAWK TYPE))

EPISODE	SIGNAL SENT	OBSERVED ACTION	POSTERIOR P(HAWK)
2018 T1 Open	MAX TARIFFS	Proceeds — holds through S&P -9%	**60%**
Dec 2018 G20	MAX TARIFFS	Retreats at equity pain — 90-day truce	**45%**
Jan 2020 Ph.1	MAX TARIFFS	Full capitulation — structural issues untouched	**30%**
Apr 2 2025 Lib. Day	MAX TARIFFS	'No chance backs off' — reversed 7 days later	**15%**
Apr 9 2025 — 6 HR	MAX TARIFFS	Bond break → Truth Social reversal in 6 HOURS	**5%**
Mar 2026 — Iran War	UNCONDITIONAL SURRENDER	Signal behaviorally identical to Apr 4, 2025 — no new information provided	**~0–2%**

Prior probability Trump = Hawk type, updated after each observed capitulation episode. ★ = credibility stock exhausted b 2026.

The Strategy Space: Signal × Action Combinations

The following matrix formalizes the complete strategy space of the signaling game, showing which signal-action combinations are rational for each player type — and why Iran's dominant strategy in 2026 is categorically different from 2018.

MATRIX 5 — STRATEGY SPACE — SIGNAL × ACTION COMBINATIONS BY PLAYER TYPE

PLAYER / TYPE	SIGNAL: MAX THREAT	SIGNAL: MODERATE	SIGNAL: NO SIGNAL
HAWK (True Resolve)	Costly for Hawk to send — credible cost signal. SUPPORTS SEPARATING EQ.	Reveals weakness — reduces coercive pressure below optimal	Hawk cannot stay silent — domination strategy requires active signaling
BLUSTERER (Time-limited)	**MIMICS HAWK. Low cost since never intends to sustain — DESTROYS SEPARATING EQ.**	Reveals Blusterer type — adversary exploits immediately	Blusterer revealed by silence — no coercive leverage
RECEIVER: Hold Out	**OPTIMAL vs BLUSTERER (2026) Wait — bond market triggers capitulation**	Safe bet — limited downside vs moderate signal	No threat present — holding out costs nothing
RECEIVER: Comply Early	**OPTIMAL vs HAWK (2018) Complying avoids being crushed by resolute adversary**	Reasonable — limits own downside given uncertain type	Never rational — no threat to concede to

Gold dot markers indicate Nash Equilibrium cells. In 2018: Receive-Comply was rational against ambiguous type. In 2026: Hold Out dominates regardless of signal, as P(Hawk)≈0.

Brinkmanship: Schelling's Threat That Leaves Something to Chance

Schelling's theory of brinkmanship holds that coercive threats gain credibility not from the certainty of their execution but from the risk of uncontrollable escalation. The coercer creates a 'threat that leaves something to chance' — a risk of catastrophic outcomes that both parties wish to avoid. In the trade war context, Trump's brinkmanship strategy relied on the risk of a full-scale trade recession. In the Iran War, it relies on the risk of nuclear escalation, regional conflagration, and a Strait of Hormuz closure. However, brinkmanship requires that the coercer be willing to genuinely accept some probability of the catastrophic outcome. If adversaries believe — correctly — that the coercer will always step back before the brink is reached, the threat loses its deterrent function entirely.

The Prisoner's Dilemma and the Necessity of Mediation

Beyond the Chicken Game, the US-Iran confrontation can also be modeled as a Prisoner's Dilemma. Without a third-party mediator, both parties have dominant strategies to defect — producing a Nash Trap that is Pareto-inferior to the joint deal equilibrium. The following matrices formalize both games and their equilibrium structures.

MATRIX 1 — CHICKEN GAME PAYOFF MATRIX — US VS. IRAN (FULL 3×3 EXPANSION)

	IRAN: HOLD FIRM (ENDURE STRIKES)	IRAN: SWERVE (REQUEST CEASEFIRE)	IRAN: ESCALATE (PROXIES / HORMUZ)
US: HOLD FIRM (Continue bombing)	(-4, -4) MUTUAL CATASTROPHE Nuclear risk / regional conflagration	(+3, -3) US DOMINANT WIN ★NE Iran submits under bombardment	(-5, -2) ESCALATION SPIRAL Hormuz closed / US costs surge
US: SWERVE (Seek negotiation)	(-3, +3) IRAN WINS — TACO ★NE US credibility collapses	**(+1, +1) ✓ PREDICTED OUTCOME ★NE**	(-2, +2) IRAN ADVANTAGE Iran

		Negotiated settlement — both claim victory	forces terms; US accepts less
US: ESCALATE (Ground troops)	(-6, -6) TOTAL WAR Ground invasion / nuclear threshold	(+2, -4) PYRRHIC WIN High cost — midterm damage	(-7, -7) CATASTROPHIC LOSS Both suffer maximally

(US payoff, Iran payoff). Higher = better. ★NE = Nash Equilibrium. Predicted outcome: Swerve/Swerve — Negotiated Settlement. Iran's hardline Supreme Leader selection = commitment device removing Iran's 'Swerve' option.

MATRIX 2 — PRISONER'S DILEMMA — ESCALATION VS. COOPERATION (WHY MEDIATION IS STRUCTURALLY NECESSARY)

	IRAN: COOPERATE (ACCEPT DEAL TERMS)	**IRAN: DEFECT (REJECT / ESCALATE)**
US: COOPERATE (Offer terms)	(+3, +3) JOINT DEAL Both gain: enrichment halt + US face-saving + Iran sovereignty preserved	(-2, +4) IRAN EXPLOITS Iran gains without conceding; US credibility collapses
US: DEFECT (Max pressure)	(+4, -2) US DOMINATES Iran fully capitulates — historically unprecedented	**(-1, -1) NASH TRAP ★NE Both defect, both lose. Dominant strategy equilibrium. MOST LIKELY without mediator.**

Without a third-party mediator (Oman / Qatar), both parties have dominant strategies to defect — producing the Nash Trap (-1,-1). The mediator's role is to shift payoffs so cooperation (+3,+3) becomes individually rational.

The Repeated Game and Reputation

In a one-shot game, a player with no future interactions has no incentive to sustain costly commitments for reputational purposes. In a repeated game, however, a player builds reputation across multiple interactions, creating incentives to behave consistently even when single-episode rationality would counsel retreat. Trump's behavioral record reveals a player with a high discount rate — one who systematically underweights future reputational costs relative to immediate domestic political relief. Each capitulation erodes the stock of reputation that would sustain future threats.

REPUTATION IN REPEATED GAMES

In game theory, reputation is a capital stock accumulated through costly, consistent behavior. Trump's repeated capitulations have depleted this stock. The strategic consequence: adversaries now discount American coercive threats more steeply than at any point since 1979. Each future escalation will require higher initial amplitude to produce the same deterrent effect — exactly the pattern observed across Term 1 and Term 2.

Bargaining Theory and the Role of Impatience

Rubinstein's alternating-offers bargaining model establishes a foundational result: in negotiations between two patient players, the equilibrium agreement captures the greatest surplus for the more patient party. Impatience — a high discount rate, or a short time horizon before an outside constraint binds — disadvantages a bargainer. Trump's capitulation trigger hierarchy maps directly onto his effective discount rate: the moment bond yields spike or consumer price data worsens, his effective time horizon collapses, driving him toward rapid settlement regardless of terms.

Iran, by contrast, has demonstrated strategic patience calibrated precisely to this dynamic. Tehran's refusal to request a ceasefire from a position of visible weakness — despite absorbing significant aerial bombardment — reflects a rational calculation that the American side's high discount rate will ultimately produce more favorable terms than early capitulation.

MATRIX 7 — RUBINSTEIN BARGAINING — SURPLUS SPLIT BY EFFECTIVE DISCOUNT RATE (US VS. IRAN)

SCENARIO	US DELTA (PATIENCE)	IRAN DELTA (PATIENCE)	US SHARE	IRAN SHARE	PREDICTED DEAL QUALITY
2018 — T1 Trade War	0.55 (MEDIUM)	0.70 (HIGH)	**41%**	**59%**	Phase One — structural issues unresolved
Apr 2025 — Liberation Day	0.20 (LOW)	0.75 (HIGH)	**25%**	**75%**	90-day pause — China gains most
2026 — Iran War (Baseline)	0.15 (V. LOW)	0.80 (V. HIGH)	**16%**	**84%**	Enrichment halt only — Iran keeps nuclear architecture
2026 — Oil Shock Accelerated	0.05 (CRITICAL)	0.80 (V. HIGH)	**6%**	**94%**	Minimal US gains — Trump announces win
Hypothetical: Patient US	0.80 (HIGH)	0.80 (V. HIGH)	**50%**	**50%**	Full nuclear dismantlement possible

Formula: US share = δ_Iran / (1 + δ_Iran). Iran share = 1 - US share. More patient party captures larger share of surplus. Trump's δ ≈ 0.15 gives Iran structural bargaining advantage regardless of military outcome.

2.3 Converging Literatures

Three additional literatures converge to explain the behavioral pattern documented here. The political economy of trade policy identifies financial markets as a transmission mechanism through which economic pain is converted into political pressure. Unlike tariff-affected manufacturing workers, whose electoral influence is diffuse and slow-moving, bond markets communicate with instantaneous precision. The literature on audience costs — the domestic political price leaders pay for backing down from public commitments — helps explain why Trump's retreats are invariably reframed as victories rather than acknowledged as reversals. The offensive realist framework, as developed by John Mearsheimer, illuminates the structural incentives facing a hegemon that perceives its relative power declining.

III. The Behavioral Cycle: A Five-Phase Anatomy

The evidence assembled across both presidential terms supports the identification of a five-phase behavioral cycle that has repeated with structural consistency. Understanding each phase through both empirical and game-theoretic lenses is essential to applying the framework predictively to the Iran War.

Phase 1: Maximalist Opening

In each documented episode, Trump initiates with a position of maximal coercive intensity — tariff rates, territorial claims, or military objectives far beyond what any conventional negotiating framework would suggest as a reasonable opening bid.

ANCHORING EFFECT

In bargaining theory, this is an extreme anchoring strategy: by establishing an extreme initial position, the coercer shifts the reference point for subsequent negotiations, making a moderate outcome appear as a concession by the adversary even when it fully satisfies the coercer's real objective.

Phase 2: Equity Market Stress Absorption

Following each maximalist announcement, equity markets have invariably sold off sharply. Trump's behavior in this phase has been consistent: he does not retreat. Instead, he doubles down rhetorically — urging Americans to 'hang tough.' The empirical record demonstrates that equity losses alone, including double-digit percentage declines, have never been sufficient to trigger capitulation in isolation.

HAWK-TYPE MIMICRY

Game-theoretically, this phase represents costly signaling. By enduring equity losses without retreating, Trump signals that he may be the Hawk type willing to sustain pressure. The signal is costly (markets fall), which gives it some credibility. However, because adversaries know that a different threshold (bond markets) will eventually force retreat, the signal carries diminishing information value with each repeated cycle.

Phase 3: The Critical Threshold

The invariant trigger across every documented capitulation episode has been dysfunction in the sovereign debt market rather than the equity market. Bond market dislocation raises U.S. government borrowing costs, threatens mortgage markets, and signals to institutional investors a potential erosion of reserve currency status.

NASH EQUILIBRIUM VIOLATION

The bond market threshold represents the point where the payoff matrix changes structure: continuing the coercive strategy becomes a dominated strategy (worse than retreat regardless of adversary behavior). The transition from 'hang tough' to capitulation is not irrational from Trump's perspective; it reflects a rational response to a payoff matrix that has shifted against continuation.

Phase 4: Strategic Retreat with Reframing

The retreat, when it comes, is never announced as such. It is reframed as a negotiating achievement, a demonstration of strength, or a strategic pivot. The personnel signal invariably accompanies the policy signal: hardliners are sidelined, pragmatists elevated.

AUDIENCE COST MINIMIZATION

The reframing mechanism is a rational solution to the audience cost problem: having made public threats, retreat generates domestic political costs. By reframing capitulation as victory, Trump minimizes these costs while preserving the option for future escalation. The game-theoretic literature identifies this as 'face-saving' behavior: an equilibrium in which all parties understand that a retreat has occurred, but publicly maintain the fiction of victory to enable resolution.

Phase 5: Partial Re-escalation

Capitulation in the Trumpian system is never terminal. Within weeks or months of each retreat, a modified version of the original pressure is reapplied at lower intensity, with strategic exemptions. This phase preserves the credibility of the coercive threat for future use while providing ongoing negotiation leverage — a partial restoration of the separating equilibrium through renewed costly signaling.

IV. Term I, 2018–2020: Establishing the Template

The first Trump administration's trade war with China established the behavioral template that Term II would replicate at dramatically higher amplitude. Between March 2018 and January 2020, the administration executed eleven documented escalation-retreat cycles. The mean elapsed time from policy escalation to partial retreat was forty-five to ninety days — suggesting a market pain tolerance that, while finite, allowed for sustained confrontation.

Two features of the Term I record warrant particular analytical attention. First, the stability of the sovereign bond market throughout 2018–2019 was the principal permissive condition that allowed Trump to sustain equity market losses without triggering capitulation. Second, the December 2018 G20 retreat established the reframing template that every subsequent capitulation would follow.

Table 1. Trump Term I Escalation–Capitulation Chronology (March 2018 – January 2020)

DATE	TYPE	EVENT	MARKET SIGNAL	OUTCOME / SIGNIFICANCE
Mar 2018	**ESCALATION**	Section 232: 25% steel, 10% aluminum on global imports including allies	S&P -2.5%; Dow -420; VIX rises	Proceeds. Sets legal template for all subsequent broad tariff use
Jun–Sep 2018	**ESCALATION**	Section 301 Lists 1–3: $250B Chinese goods taxed at 10–25%	S&P volatile; multiple 1–2% daily drops. Bond market stable	No retreat. Bond market stability is the key permissive condition
Dec 2018	**PARTIAL RETREAT**	S&P -9.2% for month. G20 Buenos Aires: Trump-Xi 90-day truce; January tariff increase deferred	S&P +7.9% January 2019 — best January since 1987	First documented retreat. Framed as 'negotiations progressing.' Mnuchin elevated
May 2019	**ESCALATION**	Talks collapse. List 3 tariffs raised to 25%. Huawei blacklisted	S&P -4.7% first week May. Nasdaq -3.4%	No retreat. Electoral cycle still distant — pain tolerance intact
Aug 2019	**PARTIAL RETREAT**	List 4 consumer electronics exempted within days. Rationale: 'protect Christmas season'	Dow -767 pts Aug 5. Yuan breaks 7:1 vs USD	Consumer retail calendar becomes explicit driver. Prototype of TACO pattern
Jan 2020	**CAPITULATION**	Phase One deal signed. List 3 tariffs cut to 7.5% on $120B. China commits $200B in purchases	S&P at all-time high by Feb 2020	Full cycle complete. Structural issues untouched. Both sides claim victory

Source: Congressional Research Service; PIIE; Tax Foundation. Green rows = retreat/capitulation episodes; red rows = critical threshold events.

V. Term II, 2025–2026: Amplitude, Compression, and Credibility Collapse

The second Trump administration replicated the first-term behavioral template with three critical modifications: dramatically higher policy amplitude, a compressed capitulation timeline, and the introduction of a geopolitical-territorial dimension absent from the first term. The result was a period of global policy uncertainty without modern precedent — the Economic Policy Uncertainty Index peaked at 460, a reading that had never exceeded 250 outside the COVID-19 pandemic.

The April 9 episode deserves extended analysis because it represents the clearest and most precisely documented case of market-triggered presidential capitulation in the post-1945 record of American statecraft. The sequence is documented with hour-level precision. At midnight, the highest reciprocal tariff rates took legal effect. By morning, Treasury yields were posting their most acute multi-day spike since 1982. Within six hours of the bond market break, Trump had posted his reversal to Truth Social.

SEPARATING EQUILIBRIUM COLLAPSE — EMPIRICAL MARKER

The April 9 reversal is the single most important data point in this study because it occurred in real time and with documented precision. The 6-hour gap between bond market break and capitulation is the revealed preference of the payoff function: it establishes empirically that the 'Hawk' type would sustain pressure for at most 6 hours after a bond dislocation event. Any adversary with access to a Bloomberg terminal now possesses a decision rule for timing counteroffers.

Table 2. Trump Term II Escalation–Capitulation Chronology (January 2025 – March 2026)

DATE	TYPE	EVENT	MARKET SIGNAL	OUTCOME / SIGNIFICANCE
Feb 1, 2025	**ESCALATION**	IEEPA invoked: 25% on Canada/Mexico; 10% on China. First IEEPA broad tariff use	Dow -600; CAD/Peso multi-year lows	Proceeded. IEEPA legal overreach later struck by SCOTUS
Feb 3, 2025	**PARTIAL RETREAT**	Mexico and Canada granted 30-day pause within 48 hours	Markets recover 50% of losses in 48 hrs	Fastest capitulation of either term — consumer and agricultural lobby immediately active
Jan–Feb 2026	**PARTIAL RETREAT**	Greenland military threat: Trump backs down at Davos; accepts NATO framework from Secretary-General Rutte	EU retaliation threat credible	Congress + public opinion + market + EU threat — five simultaneous pressure inputs required
Apr 2, 2025	**ESCALATION**	LIBERATION DAY: EO 14257 — reciprocal tariffs 10–50% on all countries. 'Most important day in American history'	S&P -4.8%; VIX to 52. $10T wealth destruction	No immediate retreat. Commerce: 'No chance Trump backs off.' Navarro: 'This is not a negotiation'
Apr 9, 2025 AM	**CRITICAL THRESHOLD**	Higher tariff rates take effect. Bond market breaks: 10-yr to 4.5%; 30-yr largest 3-day spike since 1982	Bond AND equity crash simultaneously. Dollar falls. USD safe-haven narrative fractures	CRITICAL THRESHOLD: first concurrent sovereign bond dislocation in either term

Apr 9, 2025 PM	**CAPITULATION**	Truth Social: 90-day pause for all countries except China. Posted 6 hours after bond break	S&P +9.52% — largest single-day gain since 2008	Definitive case study. Elapsed time: bond break to capitulation = 6 HOURS
May 12, 2025	**PARTIAL RETREAT**	US-China Geneva truce: tariffs 145% to 30%; China 125% to 10%. 90-day truce	S&P +3.3%; turns positive for year on May 13	Mirrors Dec 2018 G20 truce exactly. TACO enters financial lexicon as trading strategy
Feb 20, 2026	**JUDICIAL OVERRIDE**	SCOTUS 6-3: IEEPA does not authorize tariffs. $166B in collected tariffs struck down	Markets rally; risk-on; bond yields ease	Most consequential judicial override of executive trade power in modern US history

Source: Congressional Research Service; Tax Foundation; JP Morgan Global Research; SCOTUS. Dark red rows = critical threshold events.

VI. The Capitulation Trigger Hierarchy: An Empirical Assessment

The behavioral record permits the construction of a rank-ordered trigger hierarchy — an empirically grounded taxonomy of the conditions under which capitulation becomes probable. In game-theoretic terms, this hierarchy constitutes Trump's revealed payoff function: the priority ordering of costs that determines when the payoff from continuation is dominated by the payoff from retreat.

REVEALED PREFERENCE THEORY

The trigger hierarchy is derived using the game-theoretic methodology of revealed preference: rather than accepting stated preferences ('we will never back down'), the analysis infers actual preferences from observed choices across many iterations of the game. The consistent ordering — bond markets dominate equity markets dominate consumer prices dominate legal rulings — reflects the actual payoff function governing Trump's decisions.

MATRIX 8 — CAPITULATION TRIGGER — MULTI-FACTOR SENSITIVITY SCORING (2018–2026, 8 EPISODES)

TRIGGER	SPEED (HRS)	RELIABILITY (CONSISTENCY)	AMPLITUDE (SCALE OF PAIN)	FISCAL DIRECTNESS	TOTAL SCORE / 25
Sovereign Bond Yield Spike	★★★★★ 2–6 hrs	★★★★★ 8/8 episodes	★★★★★ $280B per basis point	★★★★★ Direct fiscal	**25 / 25**
Consumer Price Inflation / Affordability	★★★☆☆ 2–4 weeks	★★★★☆ 6/8 episodes	★★★★☆ Electoral pain	★★★★☆ Indirect	**21 / 25**
Midterm Electoral Proximity / Recession Risk	★★★☆☆ 8–12 months	★★★★☆ 5/6 pre-election	★★★★☆ Survival stakes	★★★☆☆ Mediated	**19 / 25**
Equity Correction >10–15%	★★☆☆☆ 3–4 weeks	★★★☆☆ 4/8 episodes	★★★☆☆ Moderate	★★☆☆☆ Diffuse	**13 / 25**

Allied NATO / Sovereignty Pressure	★☆☆☆☆ Weeks	★★☆☆☆ 2/6 episodes	★★☆☆☆ Low in isolation	★☆☆☆☆ Political only	**7 / 25**
WTO / International Legal Rulings	★☆☆☆☆ Months	★☆☆☆☆ 0/8 episodes	★☆☆☆☆ Negligible	★☆☆☆☆ None	**4 / 25**

Each trigger scored on 4 dimensions (Speed, Reliability, Amplitude, Fiscal Directness). Total score /25 drives rank in capitulation hierarchy.

The asymmetry between bond and equity market sensitivity is the single most important analytical finding of this study. Unlike equity declines — which can be absorbed by pension funds and retail investors over time — bond yield spikes have immediate and irreversible fiscal consequences. The bond vigilantes are the one constituency Trump cannot outlast.

The following cross-reference matrix shows how trigger combinations compress the time-to-capitulation window — from 45–90 days in isolation to hours when bond, oil, and electoral triggers fire simultaneously.

MATRIX 9 — TIME-TO-CAPITULATION VS. TRIGGER COMBINATION — CROSS-REFERENCE MATRIX

TRIGGER COMBINATION	ISOLATED	BOND + EQUITY	BOND + OIL SHOCK	BOND + OIL + ELECTION	BOND + OIL + ELECTION + ALLIES
T1 (2018–2020) — Baseline	45–90 days	30–60 days	15–30 days	7–14 days	3–7 days
T2 (2025–2026) — Compressed	7–30 days	3–7 days	**6–48 HRS**	**6–24 HRS**	**HOURS**
Iran War 2026 (Predicted)	N/A (military)	30–60 days	7–14 days	3–7 days	**24–72 HRS**

Red cells = hours-level capitulation. Compound triggers compress timelines nonlinearly. Iran War predicted capitulation: 24–72 hrs under full trigger combination.

VII. The TACO Problem: Credibility Erosion and Its Strategic Consequences

Perhaps the most consequential long-run implication of the behavioral pattern documented here is the progressive erosion of the credibility of American coercive threats. By mid-2025, the financial press had formalized the TACO concept as a systematic trading strategy. Market participants had learned to buy equities aggressively on tariff-driven selloffs, anticipating reversal. Foreign governments had begun to calibrate their responses not to the announced policy but to the probable endpoint of the capitulation cycle.

BABBLING EQUILIBRIUM

In signaling game theory, when a Sender's signals carry no information — because all types send the same signal and Receivers cannot distinguish them — the result is a 'babbling equilibrium': a state in which communication has broken down entirely. By 2025, Trump's maximalist announcements had approached a babbling equilibrium: markets treated them as zero-information events, immediately pricing in the expected capitulation. The signal had been fully devalued.

MATRIX 6 — EQUILIBRIUM TYPE COMPARISON — 2018 VS. 2020 VS. APRIL 2025 VS. 2026 IRAN WAR

YEAR	EQUILIBRIUM TYPE	P(TRUMP=HAWK)	ADVERSARY STRATEGY	TRUMP STRATEGY	OUTCOME
2018	Partial Separating	**55–60%**	Hedge — some compliance, monitor bond markets	Hold firm up to 45–90 days	Protracted escalation — partial deals
2020	Near-Pooling	**~30%**	Mostly hold — await price signal	Sustains until election pressure	Phase One deal (structural issues untouched)
Apr 2025	Pooling / Babbling	**~5–10%**	Hold out — TACO rule established as market strategy	6-hour capitulation post bond break	90-day pause framed as victory
2026 Iran War	Full Babbling	**~0–2%**	Absorb + patience dominates — hold out for bond/oil trigger	Announced max; will retreat on oil/bond	Predicted: negotiated settlement, 30–90 days

P(Trump=Hawk) = posterior probability assigned by markets and adversaries. Full babbling equilibrium in 2026 means Iran's optimal strategy is independent of Trump's signal intensity.

This credibility erosion has structural parallels in the deterrence literature. Once a coercive actor's threats are understood to be time-limited rather than resolute — once the adversary has internalized a model of when and under what conditions the threat will be withdrawn — the threat's deterrent value degrades toward zero. The adversary need only hold out until the bond market breaks, the consumer price data worsens, or the electoral calendar approaches. Patience becomes the optimal counter-strategy.

China's behavior in 2025 is the clearest illustration of this dynamic. Rather than negotiating under maximum tariff pressure, Beijing maintained its retaliatory posture through the April-May period, correctly anticipating that the compound market signal would force American concessions without Chinese capitulation. The TACO trade had been internalized by the world's second-largest economy as a strategic decision rule.

VIII. Applying the Framework: A Predictive Assessment of the Iran War

The five-phase behavioral cycle, the capitulation trigger hierarchy, and the game-theoretic framework developed in the preceding sections generate a set of structurally grounded predictions about how and when Operation Epic Fury will end. These predictions are not based on intelligence about Iranian military capabilities or internal decision-making; they are derived entirely from the structural logic of Trump's domestic political constraints and the revealed preferences documented across eleven episodes.

The first prediction concerns the mechanism of capitulation. The compound trigger most likely to force the Iran War off the trajectory of indefinite continuation is an oil-price shock sufficient to generate both consumer inflation pressure and sovereign bond market dislocation simultaneously. Iran's capacity to threaten — or partially interdict — the Strait of Hormuz constitutes its primary transmission channel from military escalation to American consumer pain.

The second prediction concerns the identity of the mediator. Oman's Foreign Minister Badr bin Hamad Albusaidi had been actively mediating US-Iran nuclear talks before the war began. Qatar, which brokered

the June 2025 ceasefire that ended the Twelve-Day War between Iran and Israel, has demonstrated both the diplomatic infrastructure and the credibility with both parties to function as an effective intermediary.

MEDIATOR AS FOCAL POINT

In game theory, a mediator serves as a focal point coordinator — providing a salient resolution that both parties can coordinate on without either appearing to capitulate directly. Oman and Qatar both satisfy the conditions for effective focal point coordination: they are trusted by both parties, they have existing diplomatic channels, and they can construct the face-saving narrative that permits Trump to reframe retreat as victory.

MATRIX 11 — PROBABILITY-WEIGHTED IRAN WAR OUTCOMES — ASSESSMENT (MARCH 2026)

SCENARIO	TRIGGER	TIMELINE	TRUMP DOMESTIC GAIN	IRAN OUTCOME	PROBABILITY
NEGOTIATED SETTLEMENT ★ BASELINE Enrichment halt + framed as 'MIGA'	Oil shock + sovereign bond yield spike	45–90 days	**HIGH — sellable win**	Preserves state structure; nuclear cap only; IRGC acknowledged	**68%**
RAPID CEASEFIRE 6-hr Liberation Day mirror	Brent >$140 + 30-yr yield >5.5%	7–14 days	MEDIUM — credibility gap	Minor concessions; Iran stronger position; TACO confirmed globally	**20%**
PROLONGED WAR Electoral pressure overrides bond signal	Midterms + public opinion + gasoline crisis	>90 days	LOW — electoral damage	Attrition war; new Supreme Leader consolidates domestic position	**8%**
ESCALATION FAILURE Ground troops / nuclear threshold	Catastrophic signal failure — nuclear threshold	Variable	**VERY LOW — crisis**	Regional conflagration; $200+ per barrel; Hormuz closure	**4%**

Probability weights reflect structural analysis of Trump's discount rate, trigger hierarchy, and game-theoretic payoff structure. Not based on intelligence assessments of Iranian military capability.

MATRIX 3 — COMPARATIVE PAYOFF SUMMARY — WHICH OUTCOME IS INDIVIDUALLY RATIONAL FOR TRUMP?

OUTCOME	US PAYOFF	IRAN PAYOFF	TRUMP DOMESTIC	IRAN DOMESTIC	MARKET REACTION	PROBABILITY
Unconditional Surrender (Iran)	**+5**	**-5**	**MAXIMUM WIN**	Collapse	+8%	2%
Negotiated Settlement (Predicted) ✓	**+2**	**+1**	**SELLABLE AS WIN**	Acceptable	+4%	**68%**

TACO — US Swerves First	**-2**	**+3**	CREDIBILITY LOSS	WIN	-3%	20%
Escalation Spiral	**-4**	**-3**	ELECTORAL DAMAGE	Damage	-12%	10%

Negotiated Settlement (68% probability) is the only outcome that is both individually rational for Trump and structurally achievable given Iran's dominant strategy of patience.

The third prediction concerns what Trump will be willing to accept as a definitional 'victory.' The most analytically probable outcome — restricted to nuclear dismantlement — is consistent with Trump's stated red line: 'no nuclear weapons.' This provides the minimum condition for Phase Four reframing.

The fourth prediction concerns the bond market as accelerant. Should energy market disruption produce an oil shock of sufficient scale to generate concurrent Treasury yield spikes, the capitulation timeline could compress to the 6-to-48-hour range documented in the April 9 episode.

The pattern from the trade war — where formal bilateral negotiations were always preceded by informal third-party facilitation — strongly suggests the Iran War off-ramp will be structured similarly: a Gulf mediator constructs the face-saving framework; Trump announces it as a victory.

IX. Comparative Analysis: Trade War vs. Iran War

The comparison across all documented escalation-retreat cycles reveals that the Iran War endgame is structurally isomorphic to the trade war capitulation cycle, with the critical modification that the threshold trigger has shifted from pure bond market dislocation to a compound trigger combining oil shock, consumer inflation, and midterm electoral arithmetic.

MATRIX 10 — CYCLE COMPARISON — TRADE WAR (2018–2025) VS. IRAN WAR (2026) — FULL GAME THEORY MECHANISM MAPPING

CYCLE PHASE	T1 TRADE WAR 2018–2020	T2 LIBERATION DAY APR 2025	IRAN WAR 2026 (PREDICTED)	GAME THEORY MECHANISM & KEY VARIABLE
Opening Position	'Most important day in history' — 25–50% tariffs	'Liberation Day' — 10–50% all nations	*'Unconditional surrender' — Iran War launch*	Extreme Anchoring (Bargaining theory) — Credibility of commitment: P(Hawk type)
Equity Stress Phase	S&P -9%; Trump 'hang tough' — 45–90 days	S&P -12%; 'No chance backs off' — 7 days	*Defense stocks up; oil spike — absorption phase*	Costly Signaling (Hawk mimicry) — Duration of absorption before bond break
Critical Threshold Trigger	Bond market stable — no threshold hit	10-yr to 4.5%; 30-yr spike — THRESHOLD HIT	*Brent >$120 + 30-yr >5.5% (predicted)*	Nash Equilibrium Violation — continuation becomes dominated strategy. Oil + yield compound trigger
Off-Ramp Mechanism	Bilateral negotiations — Mnuchin leads	Bessent elevated — Navarro sidelined	*Oman/Qatar mediation — Witkoff/Rubio lead*	Focal Point Coordination (Schelling mediator) — Gulf state credibility with both parties
Reframing Template	'Historic Phase One deal' — China wins most	'Protecting consumers' — China to 30%	*'Iran begging to talk' — Enrichment halt only*	Audience Cost Minimization — face-saving fiction preserves domestic signaling utility
Capitulation Speed	45–90 days per episode	**6 HOURS after bond break**	*30–60 days baseline; 6–48 hrs (oil shock)*	Rubinstein Discount Rate — how quickly Trump's patience runs out under fiscal pressure
Probable Outcome	Phase One — 7.5% on $120B; structural intact	90-day pause framed as victory	*Enrichment halt + IRGC framework + 'MIGA'*	Pareto-Suboptimal Equilibrium — neither achieves stated objective; both claim victory

Red / italic cells denote predicted values for Iran War. Game Theory Mechanism column maps each phase to formal game-theoretic construct.

This compound trigger is in some respects more powerful than the single-variable bond yield signal: it activates multiple pressure vectors simultaneously, reducing Trump's strategic flexibility and compressing the capitulation timeline. The comparison also reveals a consistent pattern of personnel signaling: in each capitulation episode, the elevation of pragmatists (Mnuchin → Bessent → Witkoff/Rubio) precedes or accompanies the formal policy reversal, serving as an early indicator of Phase Four reframing.

X. Conclusion: The Structural Limits of Trumpian Coercion

The evidence assembled in this analysis supports a conclusion that is both analytically precise and strategically significant: Trump's coercive diplomacy — whether exercised through tariffs or military force — is structurally constrained by a consistent and identifiable capitulation trigger hierarchy, with sovereign bond market dislocation and consumer political pain at its apex. This finding does not suggest that American power is diminished. What it does suggest is that the specific modality of coercive pressure employed by the Trump administration is self-limiting in ways that create predictable strategic opportunities for patient and sophisticated counterparties.

In formal game-theoretic terms, the study's findings can be summarized as follows. First, Trump's coercive strategy has degraded from a partial separating equilibrium (2018) to a near-complete pooling or babbling equilibrium (2026): adversaries no longer treat his threats as carrying information about his true type. Second, Trump's high effective discount rate — revealed through the documented capitulation trigger hierarchy — systematically advantages patient adversaries in any bargaining interaction. Third, the repeated-game reputation stock accumulated through costly signaling in Term I has been substantially depleted, requiring progressively higher initial coercive amplitude to produce equivalent deterrent effects.

For middle-power states seeking to navigate the Trump era, the strategic implication is clear: the optimal posture is neither full compliance (which rewards the coercer and invites further pressure) nor full confrontation (which risks bearing costs before the capitulation trigger fires). The optimal posture is patient strategic waiting — absorbing initial pressure, maintaining domestic cohesion, and allowing the bond market and the electoral calendar to perform their structural function. This is, in the language of Indonesia's bebas-aktif doctrine, the art of strategic autonomy in a period of hegemonic self-limitation.

STRUCTURAL CONCLUSION

Across four game-theoretic frameworks — Chicken Game, Prisoner's Dilemma, Signaling Game, and Rubinstein Bargaining — a single prediction emerges: Trump will seek an exit from the Iran War on the same structural timetable as every previous coercive episode. The bond market is the decision variable. Iran's optimal strategy is patience. The mediator's job is to construct the face-saving fiction. The outcome is Pareto-suboptimal — and both sides will call it a victory.