MULVIHILL

By the Way

Monthly commentary from Jack Way

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"If you don't know, don't shoot".

The investment industry is rife with old adages and aphorisms, many of which serve no real purpose or in fact are dead wrong or are no longer relevant. However, one that I believe has validity and is useful is "financial markets abhor uncertainty". President Trump has taken uncertainty to new levels, and made attempts to forecast the economy and markets (already an extremely difficult activity) nigh on impossible. He changes his mind and policies on an almost daily basis, and his uneven and hyperactive methods are equally confounding. March 4th was a red-letter day for the announcement of tariffs but was followed the next day by news of temporary deals and U.S. Commerce Secretary Lutnick raising the possibility of further negotiations with the affected countries and industries. Make no mistake, tariffs will be an integral part of the Trump administration in some form or another. There are many more pending tariffs to be enacted this year; in particular a system of reciprocity to offset tariffs put in place by other countries. Peter Navarro is a staunch supporter of Donald Trump (although as recently as 2018 he was a registered Democrat) and a fierce proponent of tariffs. He definitely has the President's ear and will keep the pressure on to ensure there is no backing down. As always, there are those who suggest a more positive outcome. Namely that Trump is getting the worst and least popular policies out of the way early in his term. As one analyst pointed out, so far it's been "all spinach and no candy".

When Trump was elected in November, markets were delighted to welcome a business-friendly candidate to the Oval Office with promises of lower taxes and fewer regulations. In the last month, that exhilaration has been overtaken by the aforementioned uncertainty of where this administration was taking the country. Economist, Herb Stein, opined "If something cannot go on forever, it will stop." We may have reached that point with reference to U.S. outperformance in financial markets. Certainly, investors have been given reasons to pause and reflect on the notion that the U.S. and especially the Mag 7 companies, were the only game in town. Given NVIDIA is up 24,000% in a decade, a rest was probably warranted. Jesse Livermore, considered by many as the best stock operator ever, wrote "The obvious rarely happens, the unexpected constantly occurs." We can't lay the blame for the market uneasiness totally at the feet of Mr. Trump, but we can say he's not helping.

The U.S. economy continues to report ambivalent results; some good, some bad. Last year such reports were interpreted as the glass is half full, more recent judgements lean toward half empty. Purchasing Managers Indices are mixed: Services are better at 53.5, but New Orders and Consumer Expectations are lower. The CITI Economic Surprise Index is weaker and the Atlanta FED GDP forecast has turned negative. Still, consensus GDP expectations on Wall Street remain above 2% for this year, and S&P EPS estimates, while down from 13% last month, remain around 11%. Growth might well be slowing but cannot yet be described as slow. S&P EPS was higher by an excellent 16% in the 4th quarter of 2024, partly resulting from buying being pushed forward by the fear of tariffs and by peak margins unlikely to be repeated. Some analysts make a cogent argument that the recent sluggishness in GDP is merely a reversion to the mean and not a new trend. Whatever the case, we should remember that the "powers that be" still have plenty of ammo should things start to go off the rails; increased fiscal spending and tax cuts, plus the FED has room to cut interest rates.

Which brings us to the question of how does the FED view the outlook and how do recent events impact policy. Its dual mandates are maximum employment and stable prices. We saw above that the economy is fine, but bears watching. Concerns about stable prices also need to be monitored carefully. Wage increases are one of the “stickiest” parts of inflation and recent labor settlements are disquieting: Boeing machinists received 32% over 4 years and longshoremen got 62% over 6 years. History has indicated that very often inflation will come in two waves and neither we nor the FED know the answers to what the future will look like. The FED is quoted as saying “We are well positioned to take time to assess the evolving outlook for economic activity.” That seems a sensible approach and it fits with an old hunting maxim “If you don’t know, don’t shoot”.

It's impossible not to be shocked by the Zelensky at the White House session. Almost as stunning was Trump’s speech to Congress. Both were very strong indicator that the President actually enjoys confrontation. Arguing over who is at fault is pointless, but we should prepare ourselves for four more years of the same. It makes for great theater, but also great disruptions. There is a sense internationally that the U.S. can no longer be trusted to stand by its word. Trump policies smack of isolationism, both economically and politically. Whether or not those policies will turn out for the best is open to question, but in the meantime Russia and China may be picking up the pieces in the “new world order”.

Two final thoughts on Canada:

- 110% of the labour force works for the Government (DOGE Canada?)

- The Loonie actually rose against the U.S. dollar despite the tariffs (proving Jessee Livermore correct about the obvious?)

Disclosures