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By the Way

Monthly commentary from Jack Way

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"fearless man with bad judgement"

Hard data versus soft data; the two are giving dramatically different indications about what is happening in the U.S. economy. On the one hand the soft data is suggesting we are in the process of falling off a cliff, while the hard data continues to imply growth is okay, so carry on as usual. Solid hard data, such as initial jobless claims and wholesale sales, are measures of the past and represent real events (although often subject to revision), and as such can be more readily relied upon. Soft data, on the other hand, is much more subjective and open to interpretation. Surveys of business and consumer confidence and expectations are good examples. Educated opinions can prove very useful when correct, but more often than not, like all attempts to forecast the future, are not necessarily reliable. That still might be better than looking in the rear-view mirror for answers, particularly when Trump's tariff policies are probably distorting the figures. The gap between the two data sets (which is historically large) will eventually be resolved but in which direction?

Whether it's the economy, geopolitics or markets, President Trump always seems to emerge as the main protagonist. As such, I believe it is important to be transparent and honest about my biases when it comes to the man. I think I can be logical and somewhat dispassionate about his policies and I appreciate many of them, but as a person I am not his fan. He deals with people through intimidation and fear. Senator Lisa Murkowski, the Republican Senator from Alaska stated she was anxious when voting against a Trump initiative because the potential for "retaliation is real". He has angrily threatened Canada, the FED Chair, Harvard and even called out the members of the Supreme Court that he, himself, nominated. In his defense, he has been described as "exaggerated but true". I prefer Peggy Noonan's depiction of the President as a "fearless man with bad judgement".

While most government releases on the economy remain at least moderately positive, there is a growing group of analysts expecting a recession this year. Certainly, the fear of anticipated tariffs has caused buying to be pulled forward creating at least the appearance of growth (which is not to say the growth isn't real). The FED is between a rock and a hard place as it attempts to balance its twin mandates of growth and stable prices in a very uncertain world. Despite Trump's pressure, cutting rates now raises the risk of overheating the economy and inflation. Conversely, waiting for proof in the data risks being too late (e.g. unemployment is a lagging indicator) and risking the economy falling into a recession.The FED may want to be apolitical but that doesn't mean it can ignore the impact of politics on its mandate.It is clear there will be no immediate monetary policy support for growth (barring a calamity), leaving the task to offset the negative implications of tariffs up to Congress and fiscal policy.

Fiscal policy is being addressed in the current debate in Congress to pass a new tax bill. As usual, there will be much give and take, deals, demands, concessions etc. before a final piece of legislation emerges. Trump priorities like no taxes on tips or overtime are likely to pass but make the spending neutrality of the total bill more difficult to achieve. Almost the whole individual income tax code needs to be dealt with. Most issues can be taken care of by extending current provisions, although support will not necessarily be easy to accomplish given the efforts by many to reduce spending and deficits. The bottom line for the economy and markets is whether the final budget will net out to stimulus or austerity.

The S&P 500 has risen over 15% since April 8th, the low since the Presidents so-called "Liberation Day" April 2nd. It has been an impressive rally from the oversold levels of that day, but the market internals, while strong as well, haven't quite measured up to historic standards. However, it wouldn't take much to achieve an extension in the rally. Good news on peace talks, tariff reductions (especially the China negotiations), or the tax bill would in my mind accomplish the task and make those April lows more significant. I keep in mind though that market history indicates a retest of lows often happens before the resumption of an uptrend. While my friends accuse me of being like the two-handed economist, I will point out I at least haven't allowed for significant new lows. Again, to be transparent, my formative years in the investment business were almost universally during bear markets. I developed a deep-seated cynicism that has cost me profits over the years; be advised.

Other thoughts:

- The debt ceiling continues to loom.
- 70% of the University of Waterloo software engineering graduates two years ago took jobs in the U.S. I have to believe that is changing.
- Is the Trump meme coin even a legal thing?
- Banning books in Grade 3 is one thing, now Trump wants to ban certain books at the U.S. Naval Academy.
- No filter: Trump said, "Jimmy Carter died a happy man because he wasn't the worst President, Joe Biden was."

Sigh….I tried to be nice.

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