The White House meets Wall Street

What do the White House and Wall Street have in common? Other than the current situation of the White House tariff actions blowing up Wall Street, they are both metonyms. While "blowing up" Wall Street is a metaphor, Wall Street itself is a metonym for the U.S. financial markets and not a physical place to be blown up. The White House as a building cannot blow up the markets, but the Administration that is currently associated with the White House can. That is a metonym, a type of figurative language in which an object or concept is referred to not by its own name, but instead by the name of something closely associated with it.

Okay, English grammar lessons are over, and Econ 101 begins…

The White House's tariff plan that was released yesterday has spooked Wall Street (see what I did there?) and investors are in a tizzy. A veritable "Tariff Tantrum." But this was the most telegraphed economic policy move in my lifetime and believe it or not I think that the markets are prepared for it. This is not like when President Nixon unexpectedly took the U.S. off the gold standard in 1973 nor when the Federal Reserve and US Treasury flooded the bond markets with liquidity through quantitative easing and emergency measures during the Global Financial Crisis in 2008. The current markets, and more importantly global corporations, have been expecting tariffs and so have our international trading partners. Corporate executives should have seen this coming although the rollout of the tariffs was more chaotic than expected.

But that doesn't mean we knew the markets would react so violently to the actual announcement of tariffs. There is an old Wall Street adage "Buy the rumor, Sell the news." As traders back in the day, we would hear rumblings of a corporate takeover, maybe leaks of some economic statistics like the monthly unemployment numbers, or possible impending lawsuit, and markets would anticipate the direction that the rumor would imply. Good rumors would cause traders to buy or sell in advance of the news being confirmed, then take their profits upon confirmation.

The market's reaction to the tariff "news" was odd in such that we had known tariffs were coming and therefore the selling should have begun two months ago, not this week. This time something is different. The markets (and investors) are coming around to the same understanding that I believe the White House came to in recent months, that the stock market is not the barometer of economic success, but rather the BOND markets and long-term interest rates.

You will recall that under Trump 45, all he wanted to boast about (almost daily) was the performance of the US stock market under his Administration. He hasn't done that at all as Trump 47. This made me wonder why, why would he be pushing tariffs when they would hurt the performance of his "big, beautiful stock market?"

Because his new administration has some really smart Wall Street executives in his Cabinet, namely Treasury Secretary Scott Bessent and Secretary of Commerce Howard Lutnick. These gentlemen each have 30+ years of experience in the bond markets and understand the importance of long-term interest rates on the economy and the Federal budget. Bessent is a billionaire hedge fund manager and Lutnick is the CEO of Cantor Fitzgerald, the largest bond broker in the world. Through these men, Trump 47 now realizes that our country needs lower ten-year interest rates to not only grow the housing sector through affordable mortgage rates, but to actually prevent a possible default on the U.S. Treasury debt because of the unsustainably high annual interest costs to the Government's budget to finance our deficit.

The Government's $37 trillion in debt costs an astounding $1.1 trillion per year in interest expense alone, more than we spend on our national defense, Medicare, or Social Security. We also add another $2 trillion per year to the debt load through deficit spending, causing the problem to get exponentially worse. We are literally borrowing money to pay the interest on money we already borrowed. If a household or a business managed their finances in such a manner, they would be bankrupt in no time. For more detailed information on this topic, please visit The Default Clock committee that I am a member of, as we monitor this quite closely.

The market's reactions of late are pointing to such a scenario, clearly seen by the recent movements in gold, interest rates and the Magnificent Seven. As discussed in an investor letter published a year ago, gold continues its rally because most foreign central banks have been shifting away from owning US Treasury bonds and preferring to own physical gold instead. When I wrote that previous letter, gold had just crossed above $2000/oz and today it is well above $3000/oz. Foreign Central Banks were always steady buyers of our Treasury Bonds in the past, but their purchases of Treasuries have declined in recent years despite persistent trade surpluses with the US leaving them with excess dollars to invest. In 2020, foreign Central Banks owned 34% of our US Treasury debt, but they currently are closer to only 20% owners of our debt. This is a signal that something big has occurred, that is they would rather own gold than our IOUs.

Interest rates come down for several reasons:

- Increased investor demand
- Lower expected inflation rates in the future
- Anticipation of an economic recession that would force the Fed to lower short-term rates to stimulate the economy

In order to stimulate the economy and the housing market, as well as significantly lower the Government's interest costs, Trump 47 needs the ten-year rate to come down and stay lower for longer, preferably below 4%. But how to accomplish this when the Federal Reserve can only manipulate overnight interest rates via the Fed Funds rate? He can't increase investor demand;

the foreign central banks are already cutting back on buying our debt. He has tried to get the inflation problem that he inherited under control, but it is more than just lowering the price of eggs and will take some time. But he could cause a global recession through tariff policy, a recession that would be met with lower interest rates to combat the economic slowdown, with the added benefit of lowering the Government's interest costs and helping to reduce the deficit and maybe balance the budget.

Tariffs are more like using a sledgehammer to drive a nail instead of a hammer, and this week's tariff news was meant to shake things up globally. While the newly announced tariffs may represent peak levels, the key questions now are how long these tariffs will remain, at what levels, and what negotiations can ensue? Those nations that call Trump the earliest will see the better outcomes. The longer these tariffs remain in place and the higher the levels, the more potential economic disruption we may see, and that is an unknown unknown.

I continue to advise my clients to stay underweight the Magnificent Seven and let our D.I.C.E. diversification work for you. While our portfolios felt the pain of this week, on average we were only down about half as much as the overall market. That may be of little consolation, but please remember that investing is a long-term endeavor. Patience is not the ability to wait for your financial goals to be reached, but the ability to keep a good attitude while waiting.

As always, please feel free to call me if you have any comments, questions or concerns.

-Jim Claire

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