2Q 2025
Market Commentary

As we reach the mid-year point, certain realities have become abundantly clear about our administration. Donald Trump has established himself as the leading force in increasingly large concentric circles of influence. The first circle of influence was tied to statements the likes of which include “the Republican Party is now the Donald Trump Party.” To wit, there used to be factions within the Republican Party until the vast majority within the GOP quickly fell in line with our commander in chief or left the administration. Second, the US economy became Donald Trump’s economy. Specifically, the US president nearly single-handedly slowed economic growth, weakening the US dollar and putting previously unimaginable pressure on the Fed to lower rates. Third, as a result of the president’s recent actions, deferential in Russia, imperialist in Greenland and Panama and interventionist in the Middle East, it seems like broad continental swaths are now living by Donald Trump’s geo-politics.

Given this shift, it seems as though someday soon we may have to bid farewell to Pax Americana, an environment led by the US to forge global alliances and make use of diplomacy for the better part of a century. The fireworks and drama we referenced earlier this year are nowhere near reaching their end or their zenith.

Some of the administration’s intentions are not as well discussed for their lack of headline appeal. They are nevertheless very impactful economically speaking and can potentially be positive offsets to recent conduct towards tariffs and isolationism. The president leads fiscal policy along with the Treasury Department and the Council of Economic Advisors (CEA) and it is no secret that Scott Bessent, Treasury Secretary, desires weaker oil prices and a weaker dollar in order to achieve lower inflation and promote domestic growth. While one might not think the Treasury Secretary would have the ability to set such prices, it intrigues us that both oil and the dollar have in fact weakened, perhaps all the more so given the heightened geo-political tensions. Flight to safety in times of uncertainty tends to lead to strength in the US dollar and in US Treasuries, yet the exact opposite has taken place which is highly unusual. Might these unusual effects be a harbinger of shifts in economic power or simply a temporary reaction tied to regime change? As far as informational value goes, we place slightly higher weight on currency and fixed income markets than we do on equity markets. As such, we view the latter signals with caution and skepticism, particularly following one of the swiftest stock market rallies in recent history which was still in progress as we went to print.

As it relates to foreign exchange, it was only one earnings quarter ago that many global companies lamented the strong dollar for their earnings shortfalls. One could then logically deduce that management might now inform investors of earnings surprises due to the weak dollar. However, due to the chaos enacted on supply chains caused by the back and forth tariff threats, we are likely to hear and read about the difficulties of managing costs and supply chains given all of the forces outside their control which will more than likely offset any benefit from a weak dollar.

As far as interest rates are concerned, the Fed is under increasing pressure to lower the Fed Funds rate between now and the end of the year. It is a near certainty that Fed Chairman Powell will be replaced once his term ends in May of 2026 by someone much more "dovish". There is indeed evidence suggesting that rates should be lower at this point in time. Not very long ago, the Fed was faulted for being behind the curve in raising rates. Inflationary pressures were clearly present long before the Fed finally acted. Today, we believe the Fed is again behind the curve in lowering rates. Should the economy weaken further, lowering rates will take precedence over inflationary pressures, which, in our opinion are more structurally deep-seated.

Three months ago global uncertainty reigned, inflicting mild panic on equity markets, US stocks in particular, after President Trump's so called "liberation day". Today, the situation appears completely reversed. While little progress has actually been made since April, the expectation—at least as far as equity markets are concerned—is that we are out of the woods. We begged to differ with consensus in April and we beg to differ again today. So far, two trade deals have been signed with the UK and Vietnam with perhaps another few to come shortly, possibly including one with India. Having ninety trade deals signed over the next forty-five days or so seems ambitious and the devil, as usual, will be in the details.

At risk of being accused of stating the obvious, the level of political theatre is greater than most of us alive today have ever witnessed. Yet behind these curtains are structural shifts in alliances, some very powerful, that do not bode well for a return to some greater global détente. Re-shoring is an imperative that dates to prior administrations and which will likely continue as global supply chains will continue to be artificially constrained. While the current administration is accelerating the shift, much of this has been years in the making. Whether it be technology (semiconductors), basic materials (rare and even not-so-rare earths), pharmaceuticals or the industrial economy, supply chains will potentially be hampered dramatically in the next few years unless significant actions are taken. The necessity to do so is being obscured by the methods employed to attempt such a feat.

In the book *The Fourth Turning*, Neil Howe contends we are now at a turning point, a predictable turning point which is underscored by a crisis. While this position might sound trite in 2025, the book was written in 1997! As we look around the domestic and international climate, we cannot easily refute the author's point of view.

Irrespective of the environment we find ourselves in, we have always attempted to preserve capital and incorporate the possibility of various outcomes into our investment decision making. Having managed investment strategies for over 35 years for our clients and shareholders, we have navigated treacherous waters many times in the past and have found opportunities among wreckage when they have been presented. We expect the next time will be no different.