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MACROCOSM

Uncertainty Has Become a Cliché

Monday, March 17, 2025

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After a 10.5% correction in stocks, it's hard to profit further from an in-consensus idea.

Update to strategic view

US MACRO, US STOCKS, US BONDS, US POLITICS, FX, OIL, FEDERAL RESERVE: Since our call for a correction three weeks ago shortly after all-time highs for stocks, our diagnosis of unbearable uncertainty has become in-consensus to the point of cliché. A 10.5% correction in stocks builds in a comfortable risk premium from which we can "wait and see." Likely the worst is over. Trump has threatened more tariffs than he has implemented, suggesting they are…

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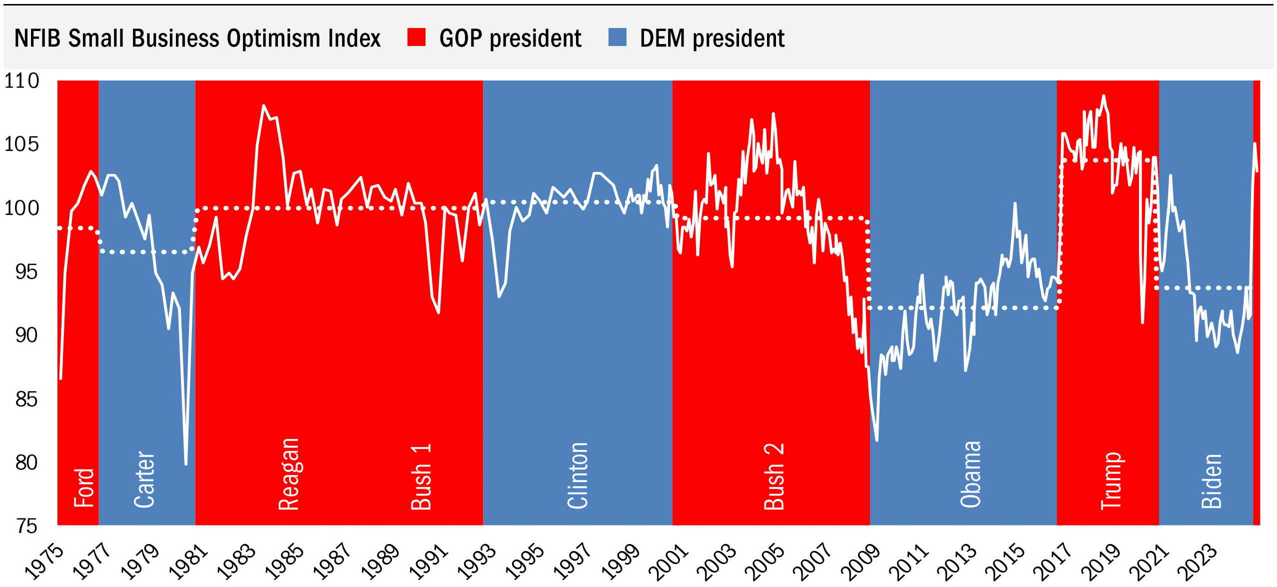
We're happy with our call for caution and a stock market correction, made four market days after the all-time high for the S&P 500 on February 19 (see "The Other Trump Effect: Uncertainty" February 25, 2025). In just the 15 market days from the peak to the worst so far last Thursday, stocks fell as much as 10.5%. Our call was based on data, but also on a sense that economic policy uncertainty was reaching insupportable levels with President Donald J. Trump's rapid-fire and ever-changing tariff threats (see, among many, "Tariffs are Taxes. This is a Tax Hike." March 4, 2025).

So far, at least, this is looking about like the correction that ensued in Trump's first term when he imposed tariffs on steel and aluminum imports, his first in what would turn out to be five rounds of various tariffs. But better, actually – that correction cost 11.8% in the S&P 500, and was even more violent, taking just 10 market days.

- 10.5% in this correction is a lot. Now, it's easier to bear uncertainty when stocks are 10.5% cheaper. And it's hard to remember that three weeks ago our characterization of uncertainty as a market driver was fairly original. Now *it's become a cliché in market and economic discourse*. Substantially discounted, how much more



Source, NFIB, TrendMacro calculations

power can it have? You can't profit from an in-consensus idea.

- *Based on this, and importantly, on a surprising and wonderful turnaround in some of the fundamentals that had warned of recession-risk, we are willing to venture that the worst is over.*
- *At the end of this report, we'll talk briefly about what this might mean for the FOMC on Wednesday*.

To be sure, there's been no wholesale relief in policy uncertainty, especially concerning tariffs. But the reality is that Trump has delayed more of the threatened tariffs than he has actually implemented. Perhaps this means the threats are just threats, designed to achieve some diplomatic or trade concession from other countries (see "Tariff the World. Save the World." February 14, 2025). After all, if they were just tariffs for tariffs' sake, they'd all be in force already.

- But that's inference, not certainty. Another credible line of inference is that all the over-the-top tariff talk, especially that aimed at our neighbors and largest trading partners – Canada and Mexico, with whom Trump himself negotiated a free trade agreement in 2020 – is is just a form of conditioning the battlefield. It's a signal to other nations that they'd better get in line with Trump's agenda (something like, "this is how we treat our closest friends – you don't want to find out how we treat our enemies").
- If the idea is to get other nations to lower their trade barriers against the US (again, see "Tariff the World. Save the World."), that wouldn't be a bad thing, and there are some early signs it's working. Germany, under its new conservative chancellor, has signaled interest in lowering its tariffs (as has India). Canada and Mexico have both signaled interest in raising trade barriers against Chinese dumping, through which China hijacks the US Mexico Canada Trade Agreement to get goods into the US with lower tariffs. If one believes in the concept of "dumping" in the first place, opposing it would not be a bad thing (remarkably, the *New York Times* was very even-handed in a story about this strategy yesterday on its front page). And Germany has begun strong steps to take more economic responsibility for defense. Probably a good thing, but surely a departure from 80 years of post-war geopolitical norms.
- But once one starts thinking of these possibilities, one can't help but think about all the possibilities. We have written about Trump's appointment of Stephen Miran to chair of the White House Council of Economic Advisors. He is the author of a radical manifesto on "restructuring the global trading system," calling for weakening the dollar (perhaps by selling all the gold in Fort Knox), taxing capital flows and universal tariffs – and surrendering the US dollar's role as the world's reserve currency (see "Video: TrendMacro conversation with Michael Pettis on the risk to the US dollar losing reserve currency status" August 27, 2024). *Talk about departing from post-war norms!*
- Miran speaks favorably of a seemingly fringe proposal for a "Mar-a-Lago Accord" under which the US would forcibly exchange foreign holdings of Treasury securities for 100-year zero-coupons – which,

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… ploys in a larger agenda. With Miran confirmed now at CEA, we may be about to see what that is. Consumer confidence has fallen sharply and small business confidence has dipped a little. But Trump's approval ratings remain strong, perhaps the key public confidence indicator. This has driven Schumer to concede on the GOP continuing resolution to prevent a shutdown, and points the way to GOP unity in quickly extending, or even deepening, the expiring 2017 tax cuts. S&P 500 365 days-ahead forward earnings have recovered from their slump and have moved to all-time highs, with or without the Magnificent Seven. Jobs and inflation data are constructive. Consumer inflation expectations have jumped, but it is due to the least-sophisticated demographics. The FOMC will do nothing with rates on Wednesday, but will likely lower its "dot" for year-end 2025 by 25 bp, building in one more rate cut for the year.

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to be sure, would make US debt vastly more sustainable, a good thing, but it would also be a default event, a bad thing (again, see "The Other Trump Effect: Uncertainty").

- These ideas are now being written about in the mainstream financial press with rather astounding equanimity. There were no fireworks in Miran's perfunctory confirmation hearings before the Senate Banking Committee; no one asked him about his manifesto. His nomination was confirmed by the Senate on Wednesday in a straight party-line vote. He's now the top economic advisor to the federal government of the United States of America, for better or worse. Trump must have chosen him for a reason – but what?

The evidence for shaken confidence is abundant. Friday's University of Michigan index of consumer sentiment showed it with a sharp drop. This morning's February retail sales numbers were tepid (see "Data Insights: Retail Sales and Supply Chain Stress Monitor" March 17, 2025), but hardly indicative of a consumer cave-in.

Our favorite confidence metric, the National Federation of Independent Business Optimism Index, showed it last week too, with a second sequential monthly downtick after the moon-shot following Trump's election (please see the chart on the first page).

But there are *other confidence indices that are telling a brighter story*. The key element in our call for caution three weeks ago was the drop in 365 days-ahead S&P 500 forward earnings (please see the chart on the following page and, again, "The Other Trump Effect: Uncertainty"). Any decline lasting more than a day or two is an extremely unusual and troubling phenomenon, and when it happens at a larger scale, a recession follows. When it happens a little, a meaningful stock market correction follows. It happened a little, and a meaningful correction followed. But *now, 365 days-ahead forward earnings have completely recovered, across most industry sectors, with and without the Magnificent Seven, and have been making new all-time highs every day for the last week* (again, please see the chart on the following page).

And while all this is playing out – while a crisis of confidence has driven a big stock market correction, which itself reflexively reduces confidence – *Trump's approval ratings remain above 50%, as they have been every single day since his inauguration*, according to the Rasmussen daily tracking poll. *In some sense, this may be the most important confidence indicator of all – and perhaps it's saying that confidence isn't as shaken as a 10% correction in stocks might make you think.* If people were really losing so much confidence in Trump's policies, wouldn't they lose confidence in Trump himself?

Friday's strong day for stocks might confirm this. After a potential bottom on Thursday, it took place against the news backdrop of the costly decision by Senate Minority Leader Charles Schumer (D-NY) to round up sufficient Democratic votes in the Senate to pass the House continuing resolution to fund the government, and avoid a shutdown. It's not that having a shutdown or avoiding one makes any difference to the economy – it

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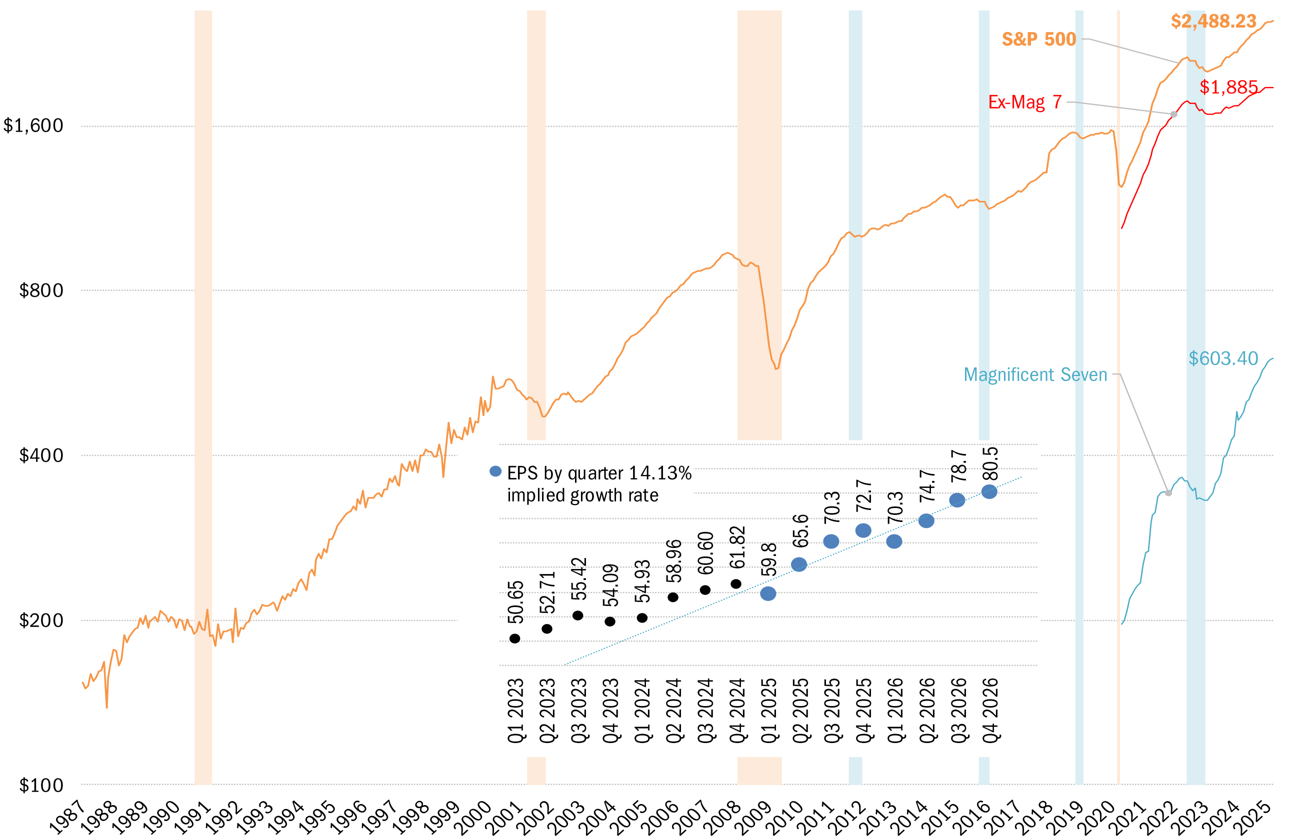
[About us]

S&P 500 365 days-ahead forward earnings (USD billions) Recession Undocumented recession



Source, Various, TrendMacro calculations

doesn't and never has. It's that Schumer's decision reflects his judgement that, for the first time in our memory, Democrats would not been able to rely on the axiom that a shutdown could always be blamed on Republicans. *This savvy and self-interested operative has acknowledged that the Trump agenda enjoys the confidence of voters.*

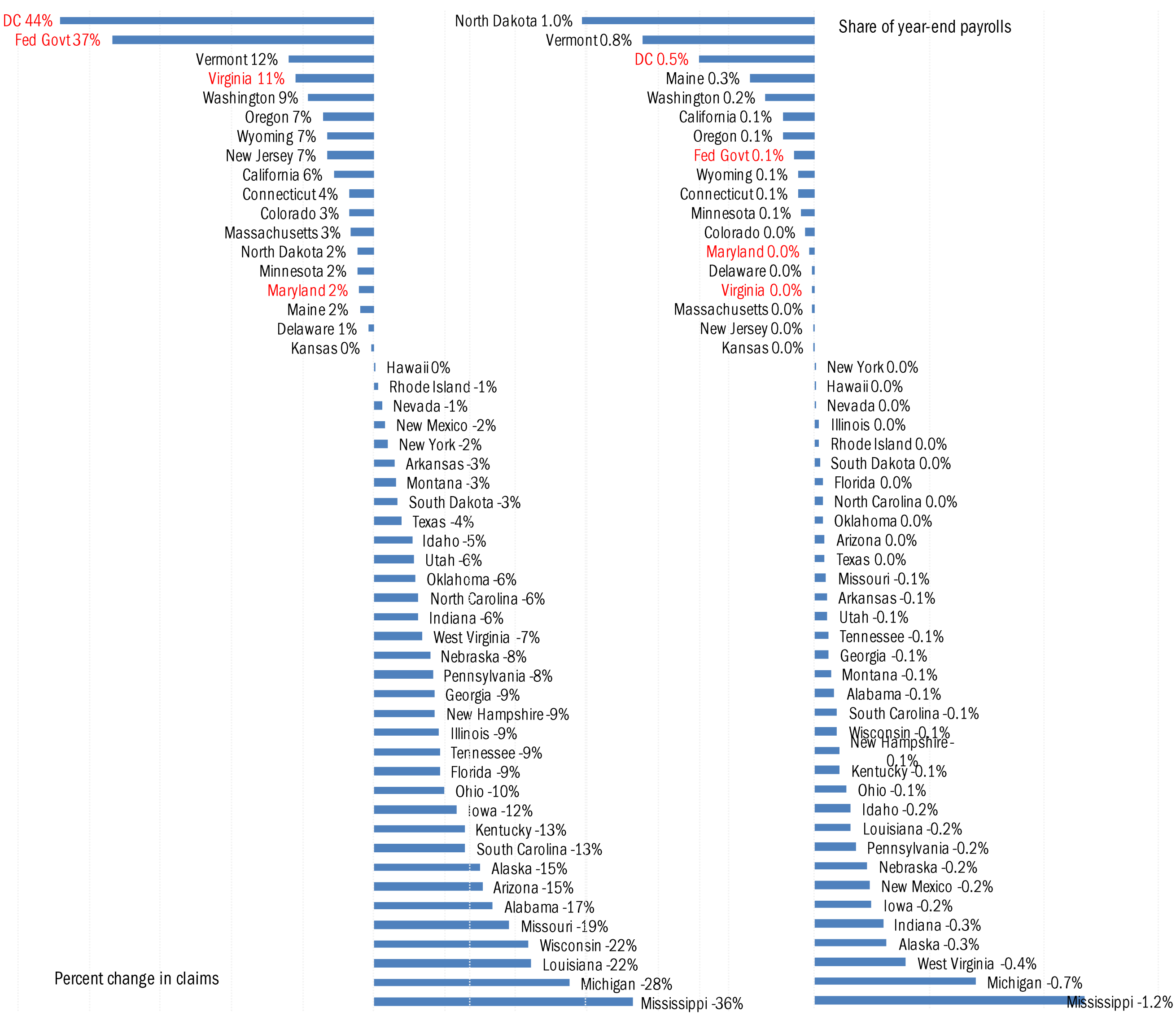
- *This legislative development has further implications that point to reducing policy uncertainty. If the Republicans can stick together like this and jam the Democrats, despite the GOP's razor-thin House majority, then surely they can extend the expiring provisions of the 2017 Tax Cuts and Jobs Act, and probably add some new tax cuts to boot*.
- We think it's certain that the GOP will raise the cap on the deductibility of state and local taxes as part of their extension bill. Unless Democrats wants to make the perfect the enemy of the good by arguing that they can accept only total elimination of the cap, it will be hard for them to oppose a bill so valuable to their base. One Democratic "aye" in the narrowly divided House could make the difference.
- *And within this atmosphere of public support, the Trump administration is steaming ahead on profoundly consequential deregulation initiatives, especially in energy*. As we predicted (see "Trump's TrendMacro Cabinet" November 25, 2024), Lee Zeldin at

the Environmental Protection Agency is leading the way in liberating the energy supply-and-demand ecosystem with [18 major reversals of Barak Obama and Joseph Biden-era regulations](#) – including the mother of them all: "reconsideration" of the 2009 ["endangerment finding"](#) that labeled carbon dioxide a threat to public health, to be regulated by the EPA as though it were mercury in the water supply. We note that as of the close Friday, the energy sector of the S&P 500 is up 4% year-to-date, as much as the broader index is down (even with crude oil down 6%).

Bolstering the improvement in our outlook versus three weeks ago when we called for a correction, *incoming data has been good*.

- *The February jobs report was perfectly solid, confounding a terribly*

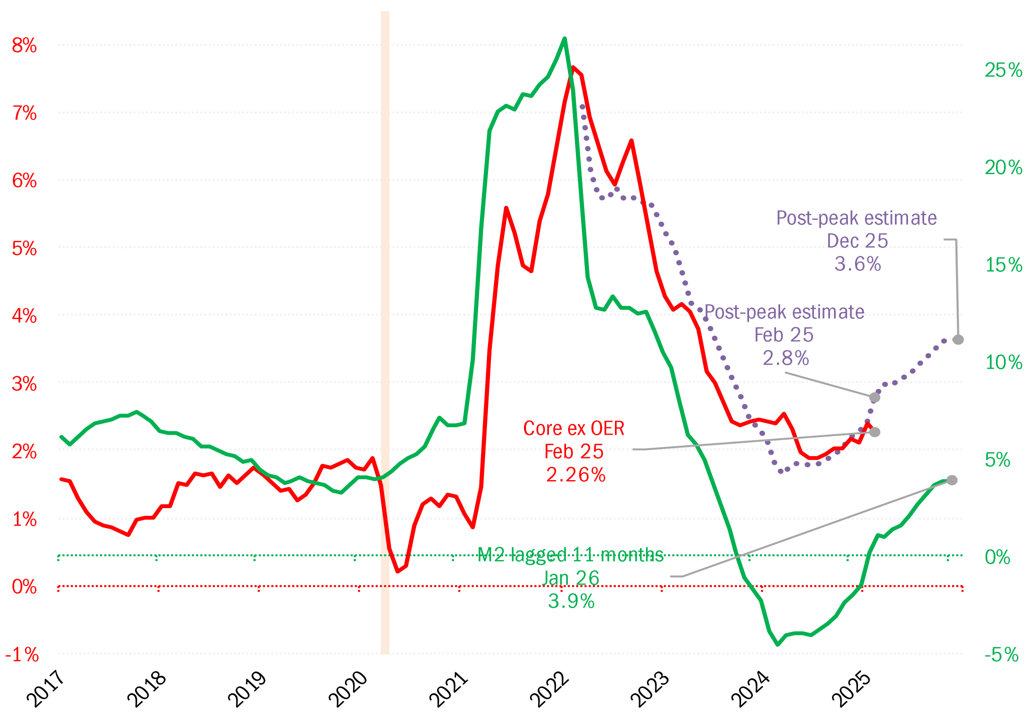
Cumulative change in unemployment claims since Trump inauguration (Fed Govt not double-counted in states)



Source: DOL, BLS, TrendMacro calculations *pessimistic whisper-number* (see [“On the February Jobs Report and the DOGE Effect”](#) March 7, 2025). We continue to worry about the drag on growth that would arise if immigration across the southern border were to be significantly reduced, and maybe we’re seeing some signs of that. But in some sense such signs make the strong headline number all the stronger.

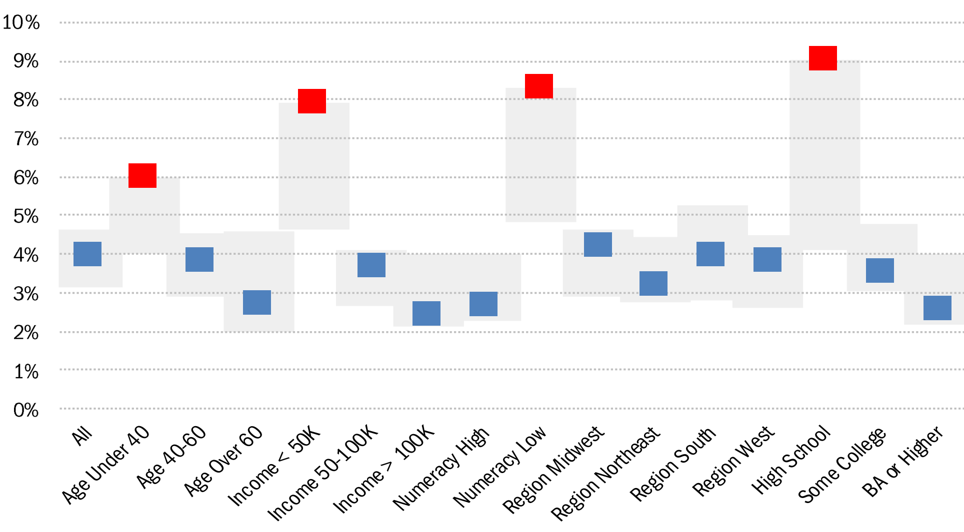
- *We continue to not worry much about a DOGE effect on employment. For all the scare-talk, the reality is that, since Trump’s inauguration, cumulative jobless claims across DC, Virginia and Maryland, plus federal workers (who are not counted in the state totals) is only 0.1% of total payrolls* – (please see the chart on the previous page). If anything, as advocates for economic growth, we’d like to see more – on the belief that, overall, these jobs were counterproductive, and eliminating them frees up workers to do better things in this full-employment economy.
- *The February Consumer Price Index report was good, too* (see “Data Insights: CPI/PPI” March 12, 2025), after a horrible report for January. The February Producer Price Report, showing a little outright deflation in finished goods, was even better. So much for the narrative about pre-emptive pre-tariff buying being inflationary.
- January’s alarming CPI had been precisely in line with the estimate of our monetarist model, which shows year-on-year inflation rising to 3.6% by year-end (please see the chart below, and “Video: What you’re not hearing about where inflation is heading, and what it means” February 21, 2025). For February, inflation ticked down on a year-on-year basis, at the same time as our model estimate

Relation of CPI to M2 growth (year-over-year)



Source: FRB, BLS, TrendMacro calculations

New York Fed consumer survey: 1-year CPI inflation expectations
Three-year range ■ Stupid people ■ Smart people



Source: New York Fed, TrendMacro calculations

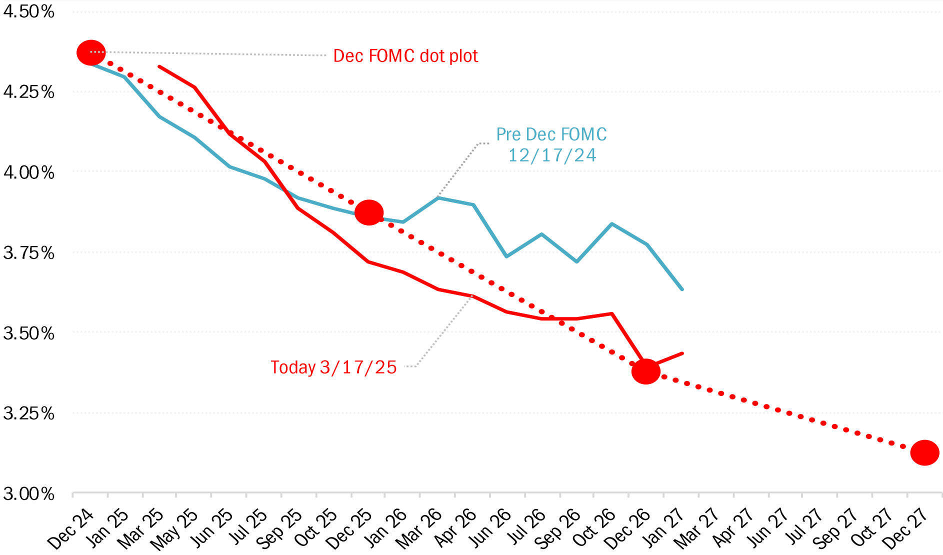
sharply ticked up – opening up a significant prediction error. We love our model, but its estimate of rising inflation against the backdrop of tepid money supply growth feels wrong – and, thankfully, maybe it's beginning to prove to be.

- We acknowledge that the University of Michigan's consumer inflation expectations survey released Friday was alarming on the face of it, with 1-year CPI expectations rising sharply to 4.9% (they were 3.3% just two months ago), and long-term to 3.9% (3.2% two months ago). Yes, yes, we know about eggs. But we find such numbers ridiculous.
- The New York Fed's consumer inflation expectations survey directionally confirms this loss of confidence in stable prices – expectations across most demographics are off the lows of the last three years (please see the chart above). However, the sudden radical jump in inflation fears is confined to the youngest, least affluent, least educated and least numerate among the survey population.

Uncertainty is still out there, but it is substantially discounted now. Of the things that we are uncertain about, some are bad but some are good. Objectively, the data is looking good, on balance – with much that was problematic last month now improved. As we've said over and over again this year, "wait and see" (see, first among many, "On Bessent and Tariffs" January 17, 2025). There's a case that the worst is over. With 10.5% off the S&P 500, there's something of a risk premium available now to compensate you for your patience.

WHAT WILL THE FOMC DO ABOUT ALL THIS? Chair Jerome Powell made it real clear in a speech ten days ago. He acknowledged uncertainty not just about tariffs and immigration, as he has in the past, but about "four distinct areas: trade, immigration, fiscal policy, and regulation." *Oddly, he*

“Dot-plot” versus fed funds futures expectations for the effective funds rate, per FOMC meeting



Source: FRB, Bloomberg, TrendMacro calculations

left out a fifth – government jobs policy, that is, DOGE. Strange, since this one impinges unambiguously on the Fed’s maximum employment mandate. Maybe it hits too close to home.

He correctly argued that “It is the net effect of these policy changes that will matter,” and he concluded that *“We do not need to be in a hurry, and are well positioned to wait for greater clarity.” Sounds about like our mantra: “wait and see.”*

- So *what the FOMC will do this Wednesday is nothing*.
- But the committee will have to issue an update to the Summary of Economic Projections – the “dot plots” At the December FOMC, the FOMC took two rate hikes out of its 2025 outlook, raising the year-end funds rate “dot” to 3-7/8% from 3-3/8%. The market was expecting it, based on the Fed funds futures curve at the time (please see the chart above).
- Now the curve is expecting one of those cuts to get put back in – in other words, the “dot” for year-end 2025 would be lowered to 3-5/8% from 3-7/8% (please see the chart above).
- The curve expects no change to the year-end 2026 “dot,” leaving it at 3-3/8%. *We think both those market expectations are right.*
- Since December the inflation news has been, on net, on the good side. Powell’s “super-core” PCE inflation, at 2.92% year-over-year, is at its lowest since February 2021. Market-based PCE is at 2.17% year-over-year, within rounding error of the Fed’s target.
- With uncertainty in “four distinct areas” – five really – all higher, there’s every reason for a small reassuring tweak lower to the December 2025 “dot.”

Bottom line

Since our call for a correction three weeks ago shortly after all-time highs for stocks, our diagnosis of unbearable uncertainty has become in-consensus to the point of cliché. A 10.5% correction in stocks builds in a comfortable risk premium from which we can "wait and see." Likely the worst is over. Trump has threatened more tariffs than he has implemented, suggesting they are ploys in a larger agenda. With Miran confirmed now at CEA, we may be about to see what that is. Consumer confidence has fallen sharply and small business confidence has dipped a little. But Trump's approval ratings remain strong, perhaps the key public confidence indicator. This has driven Schumer to concede on the GOP continuing resolution to prevent a shutdown, and points the way to GOP unity in quickly extending, or even deepening, the expiring 2017 tax cuts. S&P 500 365 days-ahead forward earnings have recovered from their slump and have moved to all-time highs, with or without the Magnificent Seven. Jobs and inflation data are constructive. Consumer inflation expectations have jumped, but it is due to the least-sophisticated demographics. The FOMC will do nothing with rates on Wednesday, but will likely lower its "dot" for year-end 2025 by 25 bp, building in one more rate cut for the year.