Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

TRENDMACRO LIVE!

On March Jobs, a Powell Put, and a Recession Call

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Donald Luskin

There's no hard evidence of it, but it's tough not to call for a recession from the tariff shock.

We've said it over and over. *The first contraction in payrolls is a sure-fire indicator that the business cycle expansion has topped*, and recession will begin immediately. It's essentially the definition of recession, based on past cycle-timing calls of the National Bureau of Economic Research. *We didn't get that today* in the March 2025 Employment Situation Report with 228,000 net payrolls gained, versus a consensus for 140,000. Much of the beat was because the bar got lowered with downward revisions of 34,000 and 14,000 for February and March, respectively.

- But *it was nevertheless a perfectly sturdy jobs report*, despite what is shaping up to be a negative GDP quarter according to the Atlanta Fed's GDPNow tracker.
- Payrolls growth was confirmed by a 201,000 gain in employment according to the "household survey". The labor force grew by 232,000, almost all of whom found work. As reported with rounding, the unemployment rate ticked up from 4.1% to 4.2%. But unrounded, it in fact grew by a single basis point, from 4.14% to 4.15%.
- Immigration was robust with a 390,000 gain in the adult foreign-born population, more than all of whom found jobs with a jump of 538,000. So much for sealing off the southern border.
- *There is no recession visible here*.

And there is no recession visible in our other most-respected business cycle indicator – 365 days-ahead S&P 500 forward earnings. They peaked in late January, and entered a period of decline that drove us to call the top in stocks just a few days after the February all-time highs (see "The Other Trump Effect: Uncertainty" February 25, 2025). After a 10% drop in the S&P 500, forward earnings completely recovered and we revoked our call right at the bottom (see "Uncertainty Has Become a Cliché" March 17, 2025). We felt pretty smart. But, of course, the problem is that bottom didn't hold. Be that as it may, forward earnings are, in fact, at all-time highs, with an implied compound annual growth rate of an astonishing 16% for the coming eight quarters.

As to the stock market itself, obviously it's been a terrible couple of days, and you don't need us to tell you that. So let us take the counterpoint, for what it's worth.

Update to strategic view

US MACRO, US STOCKS, FEDERAL RESERVE: No recession visible in 228,000 net payrolls, beating the consensus and confirmed by other surveys. Immigration and immigration employment was strong. And no recession in S&P 500 forward earnings, which are at all-time highs and showing a 16% CAGR out eight quarters. Even the swooning stock market has only, as of yesterday, experienced anything more than a speculative correction. Without the Mag7, the S&P 493 only went negative YTD yesterday. Yet Wednesday we got a horrible tariff shock, effectively a large tax increase, which could upend all that. The scope and seeming arbitrariness of the tariffs make them all the worse, and so far there are more signs of retaliation than bargaining. Powell warned of both inflation and growth risks from tariffs, emphasizing inflation. Yet markets now fully expect four rate cuts this year, starting with certainty at the June FOMC.

[Strategy dashboard]

- Year-to-date, the S&P 500 is down 8.2% as of last night's close. But until yesterday, *it was entirely a speculative correction* in the sense that the YTD decline was due more than entirely to a correction in the Magnificent Seven, the most speculative sector. The S&P 493 has been up for the year – until yesterday. Now it's not – but as of last night's close, without the Mag7 the S&P 493 is down less than 3%.
- We'll see how much worse it gets – it's worse already, by a lot, as of this writing. Today the VIX volatility index traded above 45, as it has done only 19 times in 35 years. Typically it does so at bottoms.
- Not trying to be a hero here, nor a Pollyanna. But just saying… if you are looking for statistical or market-based recession indicators, you need to really look at them.

So our two favorite business cycle forecast tools are telling us everything is fine. The stock market isn't the basket case it might seem. Yet there is the reality of the horrifying tariff shock on "Liberation Day" (see "Are We Feeling Liberated Yet?" April 2, 2025).

- One more time: tariffs are taxes, new tariffs are tax hikes, and tax hikes are anti-growth.
- Big tax hikes are very anti-growth. This is a big tax hike.
- It seems very casual and haphazard, increasing the sense of uncertainty as to what additional tariffs could be heaped on top.
- The calculation of "reciprocal tariffs" for each counter-party country has come in for universal derision, apparently a simplistic derivative of each country's trade deficit with the US, seemingly without regard to tariff rates at all.
- But this isn't fair, and may be emblematic of a market over-reaction, however understandable. Reciprocity was always said to be based on a holistic appraisal of both tariff and non-tariff trade restrictions such as currency manipulation or bogus phytosanitary complaints. The deficit is just a rough-and-ready "sufficient statistic" that arguably captures all that. Would you rather the US Trade Representative adduce some opaque formula that determines what the fair exchange rate is for each currency, and the right risk-penalty for the risk of mad cow disease?
- And, of course, there is what Richard Nixon used to call the "madman theory," in the context of nuclear deterrence. It is useful for your opponent to think you are just crazy enough to push the red button – so he'll come to you begging for a deal. The problem is, other than Trump's claims today about an overture from Vietnam to eliminate its tariffs entirely, there's been nothing like that – indeed, very much the opposite from France yesterday and China today.

In a speech this morning, Fed chair *Jerome Powell had the chance to assure markets that he was prepared not just for the inflationary potential of the new tariffs* – as he has said already, *ad nauseam* – *but also their recession potential. He barely did so*. While we argued that the Fed

Contact TrendMacro

On the web at
trendmacro.com

Donald Luskin
Dallas TX
214 550 2020
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625

tdemas@trendmacro.com
Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

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already deployed a "Powell put" at the March FOMC by virtually terminating so-called quantitative tightening (see "On the March FOMC: Dots in the Headlights" March 19, 2025), we thought perhaps we'd see more of that this morning, and we didn't really.

- Indeed, he said of tariffs, it is "likely" that "the economic effects…will include higher inflation and slower growth."
- That phrase was it for growth. More emphasis and more detail was put on the inflation part.
- We are slightly surprised because of the recent release of a paper from the Federal Reserve Bank of Minneapolis arguing that the proper central bank response to tariffs would be to cut rates in order to support demand for imported goods.

> "The argument is as follows: When a tariff is imposed, households and firms perceive the cost of importable goods to be higher than the social cost. This discrepancy arises because individual agents fail to internalize that higher imports generate additional tariff revenue, which, in equilibrium, raises household income. As a result, imports decline more than is socially optimal. To counteract the substitution effect of tariffs and mitigate the contraction of imports, the optimal monetary policy stimulates employment and aggregate income."

- In Q-and-A after the speech in a very bizarre setting – the Society for Advancing Business Editing and Writing Annual Conference – with very bizarre people who asked Powell extensively about the Grateful Dead – Powell elaborated that he understood what he called the "tension" between the two sides of the Fed's mandate, should tariffs *both* increase inflation *and* unemployment at the same time. Appealing to the Fed's annual Statement on Longer-Run Goals and Monetary Policy Strategy, he said the Fed would simply point strategy at whichever side of the mandate was furthest from target.
- Okay, fair enough. Except that right now both sides of the mandate are at target.
- Altogether, not much more of a Powell put than we already had. Yet markets see it another way: the money-market curve is calling, as of this writing, for four rate cuts this year, starting with certainty at the June FOMC. Of course we'd rather not need a put at all. But if we need one, good to know it's there.

Bottom line

No recession visible in 228,000 net payrolls, beating the consensus and confirmed by other surveys. Immigration and immigration employment was strong. And no recession in S&P 500 forward earnings, which are at all-time highs and showing a 16% CAGR out eight quarters. Even the swooning stock market has only, as of yesterday, experienced anything more than a speculative correction. Without the Mag7, the S&P 493 only went negative YTD yesterday. Yet Wednesday we got a horrible tariff shock, effectively a large tax increase, which could upend all that. The scope and seeming arbitrariness of the tariffs make them all the worse, and so far there are more signs of retaliation than bargaining. Powell warned of both inflation and growth risks from tariffs, emphasizing inflation. Yet markets now fully expect four rate cuts this year, starting with certainty at the June FOMC.