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

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Stocks at New Highs as Trump Turns the Fed – and Our Hot Take on This Morning's Supreme Court Ruling

Friday, June 27, 2025

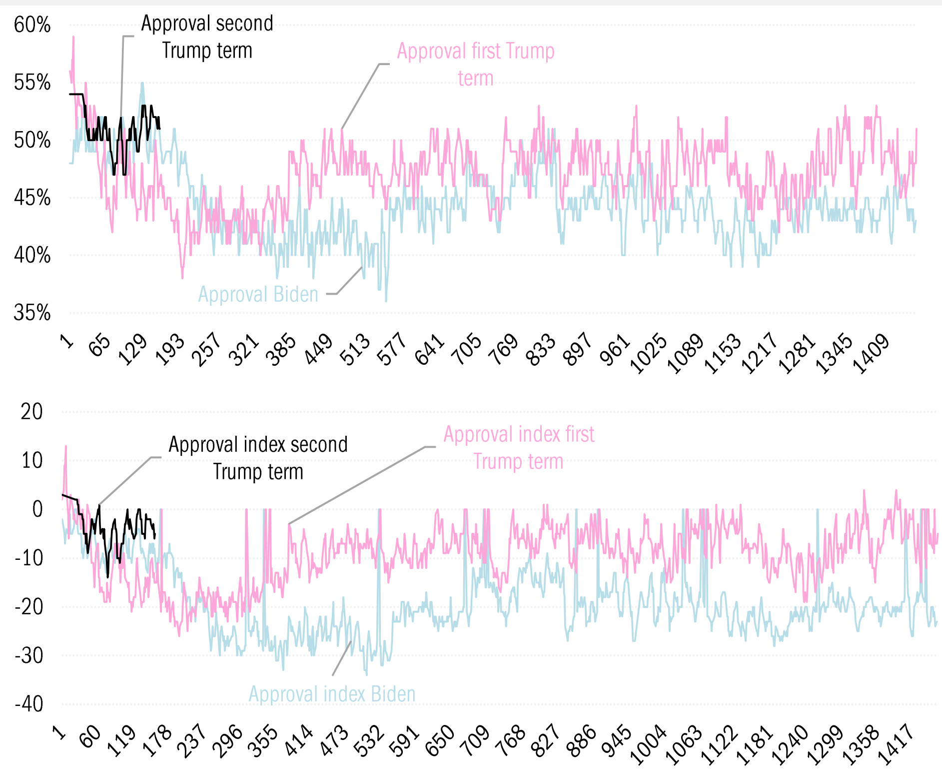
Donald Luskin

The case against the tariffs will proceed. Meanwhile, dovishness is breaking out all over.

FIRST, A QUICK WORD ON THIS MORNING'S SUPREME COURT RULING: This morning the US Supreme Court issued an opinion in *Trump v. Casa Inc.* *This effectively neuters the power of Federal district judges to issue universal and nationwide injunctions halting implementation of executive orders* – only with respect to individual plaintiffs. We fully expected this (see "Video: TrendMacro conversation with Judge Gregg Costa on nationwide judicial injunctions -- are tariffs next?" May 2, 2025).

This has no effect whatsoever on the litigation against President Donald J. Trump's tariffs imposed under the International Economic Emergency Powers act of 1977 (see "On the Administrative Stay against Trump's Tariff Ruling"

President approval, and Approval Index (strongly approve – strongly disapprove) by day in office



Source: Rasmussen, TrendMacro calculations

Update to strategic view

US MACRO, US STOCKS, FEDERAL RESERVE: Today's SCOTUS ruling neutering federal district judges' issuance of universal injunctions does not apply to the litigation against Trump's IEEPA tariffs. They will be struck down by the appellate court, and again by the Supreme Court. Stocks are making new all-time highs, with or without the Magnificent 7, which itself is considerably off its December peak. 365 days-ahead forward earnings estimates have been restored to all-time highs, for the S&P 500 overall, the Mag 7, and the S&P 493. Despite a bear market and a negative GDP quarter, Trump's approval has remained strong. With triumphs in Iran and with NATO, Trump has set off an influence cascade at the Fed. Markets now expect deeper rate cuts, and sooner, than they did at the worst of the tariff panic in April. Then the cuts signaled recession fear. Now they signal optimism that tariffs won't unleash inflation. We don't rule out a cut at the July FOMC.

[Strategy dashboard]

May 29, 2025, and "You Heard It Here First: Court Strikes Down Trump's Tariffs" May 28, 2025).

Neither the US Court of International Trade nor the appellate court for the Federal Circuit issued an injunction, so today's ruling is irrelevant from the get-go. But even if one or both courts had done so, neither is a mere district court – both have complete federal jurisdiction by statute.

So the cases against the tariffs proceed as before. We continue to believe they will be struck down as unlawful by the appellate court as they were by the lower court, and then will be again by a unanimous ruling of the Supreme Court when the case is inevitably heard there.

NOW: STOCKS AT NEW HIGHS, AND THE FED TURNING As of this writing, the S&P 500 is making new all-time highs, and it's doing so with the Magnificent Seven still 5% off its December peak. 365 days-ahead forward earnings estimates are at all-time highs too, as of earlier this week (with or without the Mag 7).

- To be sure, *along the way this year we have endured a true bear market* with the S&P 500 losing 21.4% from the top in February to the bottom in April. *We endured a quarter of GDP contraction*. And *we endured not one, but two, dips in forward earnings estimates* (bad and prolonged dips always point to recession, little ones always point to significant stock market corrections, and at least one quarter of GDP contraction).
- But for all that, public approval of Trump – optimism about whom propelled stocks to their February highs and then tariff terror from whom propelled stocks to their April lows – has never really wavered. Trump's raw approval, and his Approval Index (strongly approve minus strongly disapprove) are above their respective levels in his first term, and Joseph R. Biden's at the same point in his term (please see the charts on the previous page). It may be irrational, but animal spirits are irrational – so this is, for us, a key economic confidence indicator, and it helped us stay constructive through the difficulties several months ago (see "Uncertainty Has Become a Cliché" March 17, 2025).
- Trump is riding high, having pulled off the decapitation of Iran's nuclear program with apparently (and as we predicted) no blowback in terms of either extended fighting or oil market disruptions (see "Israel and Iran: Is the Fix In?" June 16, 2025, and "Video: Iran hot take, and... What you're not hearing about Fed Governor Christopher Waller's job application to replace Jay Powell" June 23, 2025). He has also apparently brought NATO to heel in terms of European commitments for burden-sharing in defense costs, for which he was mocked in his first term.
- *And now he may have also managed to change the center of gravity at the Fed in terms of willingness to cut interest rates sooner rather than later*. In fact, that expression, "sooner rather than later," was spoken by Chair Jerome Powell himself on Tuesday during his House Financial Services Committee testimony:

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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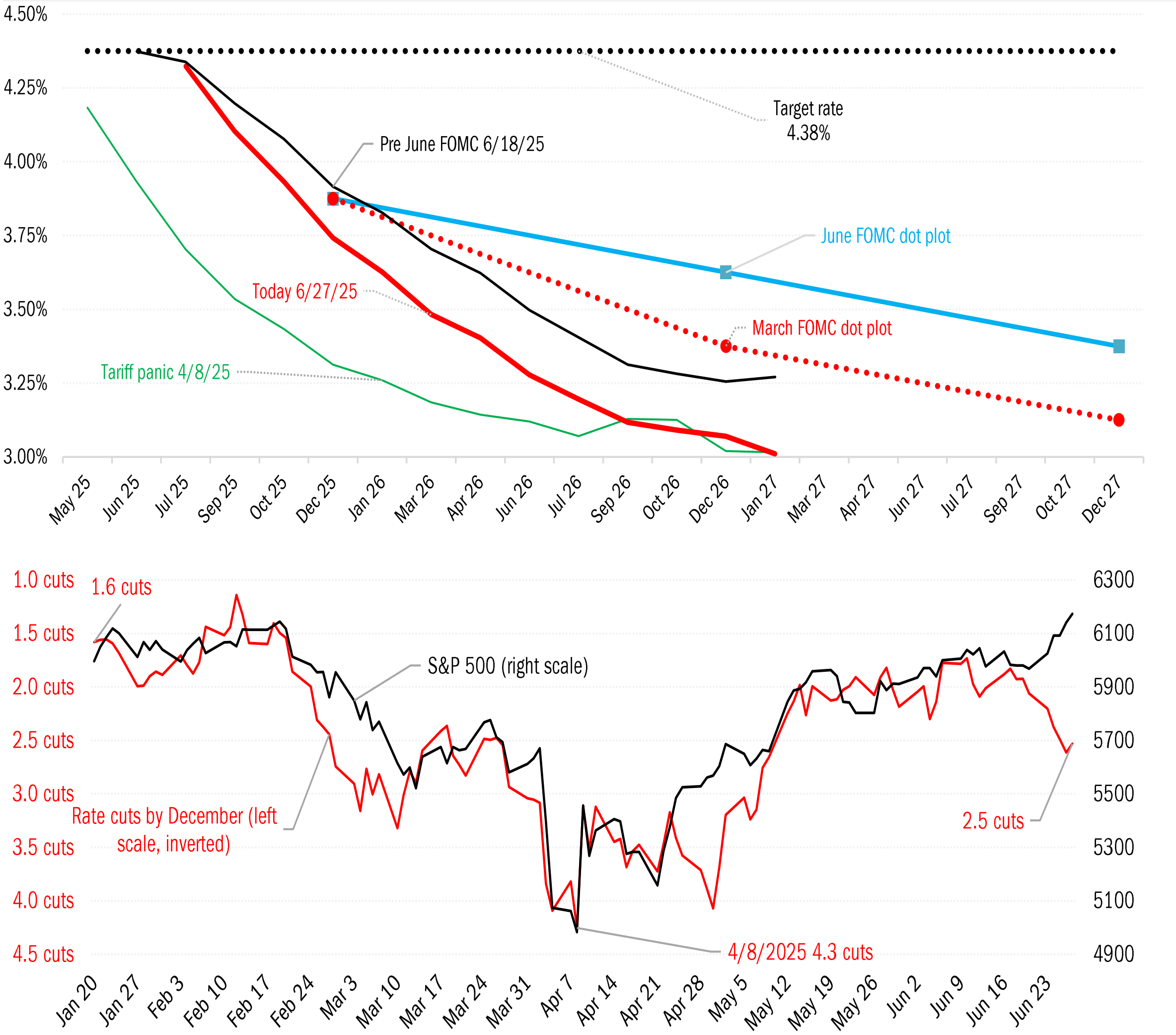
Futures implied funds rate: by FOMC meeting (top chart) and a December 2025 (bottom chart)



Source: Bloomberg, TrendMacro calculations

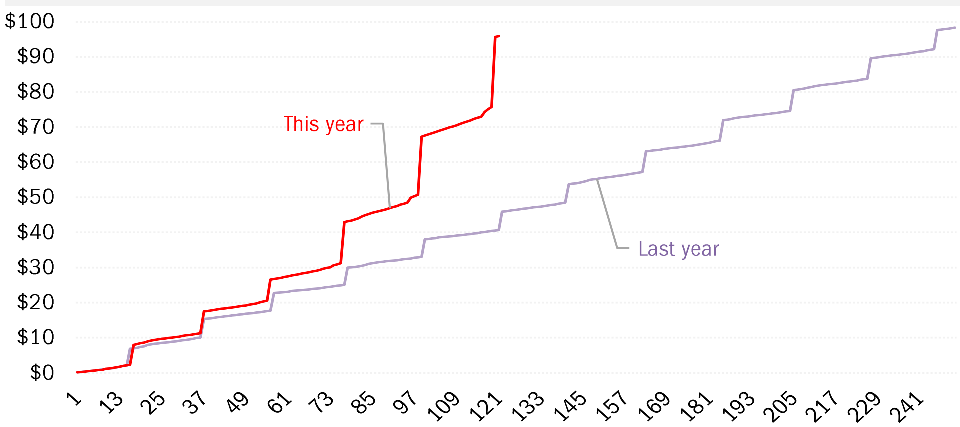
> "So, I would say this, I think if -- if it turns out that inflation pressures remain contained, then we will get to a place where we cut rates, sooner rather than later."

- Even those few news stories that quoted him saying that did so under headlines such as "Powell repeats rate cuts can wait as Fed studies tariff impacts."
- This comes after Fed Governor Christopher Waller on Friday, just two days after last week's FOMC meeting (see "On the June FOMC" June 18, 2025), called for a rate cut at the July meeting provided inflation remained contained (again, see "Video: Iran hot take, and... What you're not hearing about Fed Governor Christopher Waller's job application to replace Jay Powell").
- He was likely positioning himself for Powell's job, but *nevertheless he seems to have unleashed an influence-cascade*. He was joined in this view by fellow Trump-appointed Governor Michelle Bowman,

and by Chicago Fed President Austen Goolsbee (a member of Barack Obama's administration who has no interest in pleasing Trump *per se*).

- In merely a week since the FOMC, at which the "dot plots" for the funds rate were raised for 2026 and 2027, market-implied expectations have collapsed, with the path for the funds rate now as dovish with stocks at all-time highs as it was in early April with stocks in literally a bear market (please see the chart on the previous page).
- *The narrative has changed: in April it was about recession risk. That's obviously off the table. Now it's about relief from inflation. So all that has to happen to fulfill all this wonderfulness is that we have to get that relief.*
- This morning's release of Personal Consumption Expenditures inflation data (see "Data Insights: PCE Inflation" June 27, 2025) really only confirmed what we already knew from the Consumer Price Index report two weeks ago (see "Data Insights: CPI/PPI" June 11, 2025). But for what it's worth, *headline PCE inflation, market-based headline and Powell's "supercore" all came in below the 2% target for May, and core and market-based core were just basis points above it*.
- This is remarkable because, even though Trump has pulled back from the highest levels of his "Liberation Day" tariffs, nevertheless the Treasury has already collected almost $100 billion in tariff revenue, about the same as was collected all last year (please see the chart below). *If tariffs feed through into consumer inflation, we've already had plenty of them and plenty of time – so maybe they're not going to feed through.* That was a heretical idea when we proposed it, but it seems to be coming true so far (see "Will the Trump Tariffs Be Inflationary?" April 9, 2025).

Tariff revenues collected (daily, cumulative, USD billions)



Source: Daily Treasury statement, TrendMacro calculations

- The real test comes July 15 when June CPI is published – the last inflation reading before the FOMC meets again on July 30.
- We are expecting a very good June reading. Our "Truflation" real-time CPI model, with just a few days to go in June, is pointing to

headline inflation at a mere 4 bp at an annual rate (see [“High Frequency Data and DOGE Monitor”] June 26, 2025). As of this writing the futures markets are only giving a 21% probability for a July cut (but they’re calling for 2-1/2 cuts by December – again, see the charts on the previous page). ***We don’t at all rule out that July cut***.

Bottom line

Today’s SCOTUS ruling neutering federal district judges’ issuance of universal injunctions does not apply to the litigation against Trump’s IEEPA tariffs. They will be struck down by the appellate court, and again by the Supreme Court. Stocks are making new all-time highs, with or without the Magnificent 7, which itself is considerably off its December peak. 365 days-ahead forward earnings estimates have been restored to all-time highs, for the S&P 500 overall, the Mag 7, and the S&P 493. Despite a bear market and a negative GDP quarter, Trump’s approval has remained strong. With triumphs in Iran and with NATO, Trump has set off an influence cascade at the Fed. Markets now expect deeper rate cuts, and sooner, than they did at the worst of the tariff panic in April. Then the cuts signaled recession fear. Now they signal optimism that tariffs won’t unleash inflation. We don’t rule out a cut at the July FOMC.