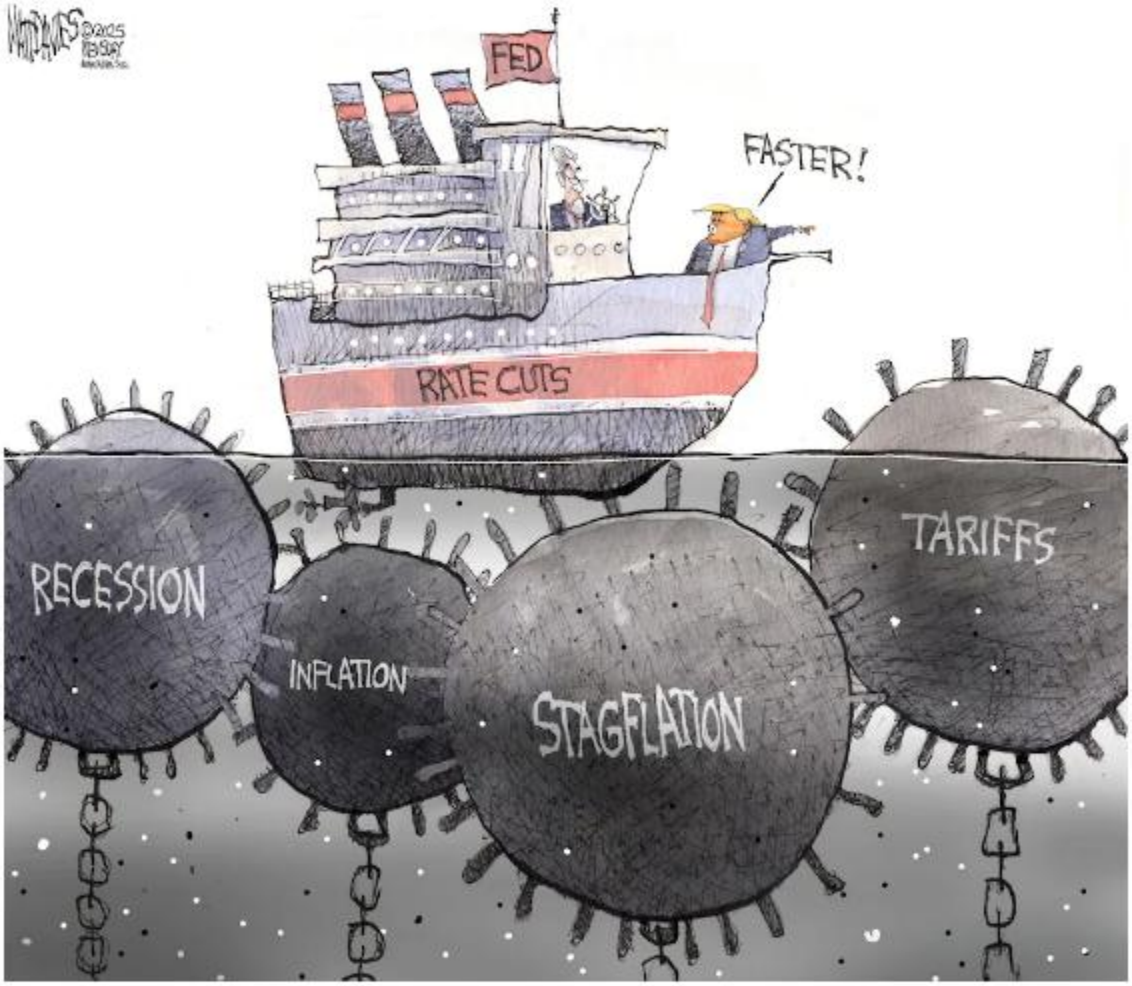
April 2025



ALL THE KING'S HORSES AND ALL THE KING'S MEN...

Trump posts Powell’s "termination cannot come fast enough!” on Thursday the 17th. Markets plunge again, resulting in Trump's claim on Tuesday "no intention of firing", and so the chaos continues.

From the front page of Thursday’s WSJ:

Economy Shrinks as Tariffs Take Toll

GDP declines 0.3% on rush to snap up imports as spending by consumers slows

BY HARRIET TORRY

The U.S. economy contracted in the first three months of 2025, as businesses rushed to stock up on imports ahead of the Trump administration’s tariffs and consumer spending slowed.

The Commerce Department said gross domestic product— the value of all goods and services produced across the U.S. economy—fell at a seasonally and inflation adjusted 0.3% annual rate in the first quarter. That was the first contraction since the first three months of 2022.

Consumer spending, the economy’s main engine, rose at a 1.8% pace in the first quarter, the smallest increase since mid-2023. Spending by the federal government fell as the Department of Government Efficiency cut jobs and contracts.

But the main driver of the first-quarter contraction was President Trump’s trade war. Net exports, the difference between what the U.S. imports and exports, subtracted nearly five percentage points from headline GDP. That was the biggest quarterly drag from net exports on record dating back to 1947.

Imports subtract from the Commerce Department’s calculation of GDP because they represent spending on foreign made goods and services. …

The GDP reading fell short of the 0.4% growth that economists surveyed by The Wall Street Journal expected.

Stock prices staged a late rally Wednesday, overcoming early declines that followed the GDP report. The Dow Jones Industrial Average rose nearly 142 points, or 0.3%, while the S&P 500 edged up 0.2%. The tech-heavy Nasdaq Composite fell around 0.1%.

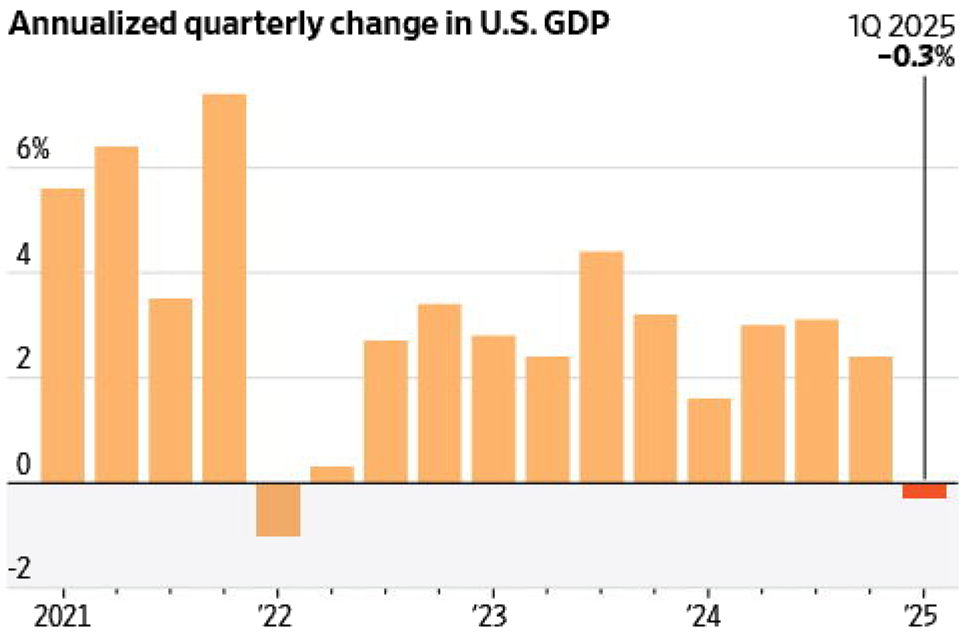
Businesses during the quarter rushed to get ahead of tariffs that began to come into effect during the first three months of the year and were dramatically increased in the current quarter. Imports rose at the fastest pace since the third quarter of 2020, when the economy was reopening from pandemic lockdowns. …

Still, the report is backward-looking, and turmoil from on-off tariff announcements and financial-market volatility has continued in the current quarter.

President Trump … blamed … Joe Biden, for the state of the stock market, and urged patience. “This is Biden’s Stock Market, not Trump’s,” the president wrote on social media. “I didn’t take over until January 20th.” …

“The stock market was doing much better under Biden than it’s been doing under Trump,” said Jared Bernstein, who was Biden’s chair of the White House Council of Economic Advisers. “Trump’s trade war and his tariffs are all over these data,” he said, noting the record drag on GDP from net exports.

Trump has made tariffs a cornerstone of his economic agenda, saying that they will in the long term make the U.S. richer and bring back manufacturing jobs. In March, the trade deficit in goods hit a record as businesses stocked up to get ahead of tariffs.



Note: Adjusted for inflation and seasonality
Source: Commerce Department

A separate report from the Commerce Department on Wednesday, just for the month of March, showed consumer spending rose at the strongest pace this year, with a big jump in vehicle sales as households sought to get ahead of tariffs.

Wednesday’s GDP report “probably overstates the economy’s weakness, but the economy’s weak,” said Mark Zandi, chief economist at Moody’s, pointing to the slower consumer spending and the decline in federal government spending in the first quarter. A fall in consumer sentiment in April “doesn’t lend confidence that they’re going to hang tough here,” he said.

“If the administration can’t find an off-ramp on the tariffs soon…then I think we’re going to see a lot more negative GDP numbers dead ahead, and ultimately job losses,” Zandi said.

The GDP report is the first major economic scorecard for the January-to-March quarter. January … was hit by wildfires in Los Angeles and disruptive winter storms in many parts of the country.

The U.S. economy entered the year on a strong footing: It grew at a steady pace in 2024 and inflation continued to ease. The labor market has continued to hold up in 2025, so far.

Still, businesses and consumers are saying they are worried about the economy, due to uncertainty around tariffs and worries they will bring higher prices.

After Trump took office in January, the new administration quickly announced levies on Mexico and Canada, which it later paused, as well as tariffs on Chinese imports. The “Liberation Day” announcement of far broader tariffs came on April 2, at the beginning of the second quarter.

The CEOs of major companies including American Airlines, PepsiCo and Procter & Gamble have warned that stop-start tariff announcements are complicating their planning efforts and spooking consumers. Others are slashing costs. General Motors pulled its 2025 profit guidance Tuesday, citing auto tariffs. …

Annual inflation cooled in March, Commerce Department data showed. Still, economists expect that tariffs will eventually feed into higher prices.

The potential for a pickup in inflation from tariffs combined with weaker economic momentum puts the Federal Reserve in a bind. The central bank seeks to balance dual goals of keeping inflation mild and the labor market strong.

Fed Chair Jerome Powell said in mid-April he saw a "strong likelihood" that consumers would face higher prices and that the economy would see higher unemployment as a result of tariffs in the short run.

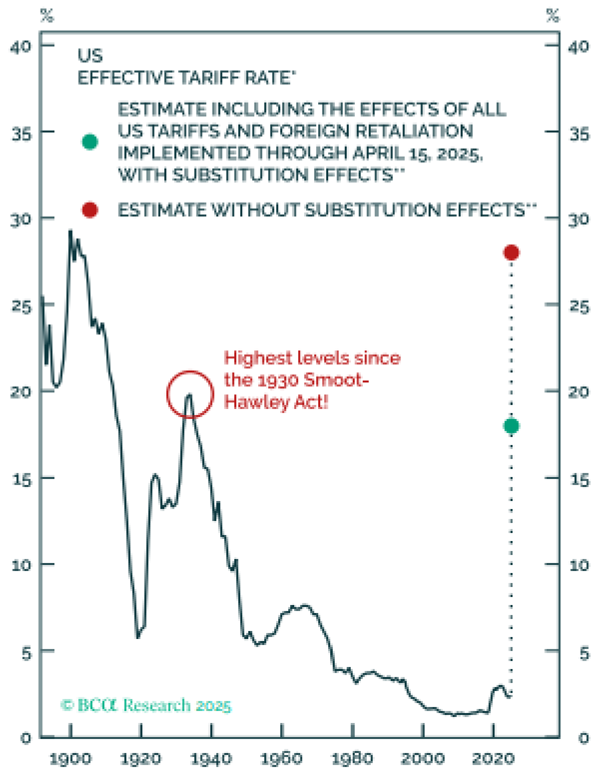
From April 24th's Global Investment Strategy:

The End Of US Economic Exceptionalism: Catching Up Or Catching Down?

Recession Remains Our Base Case

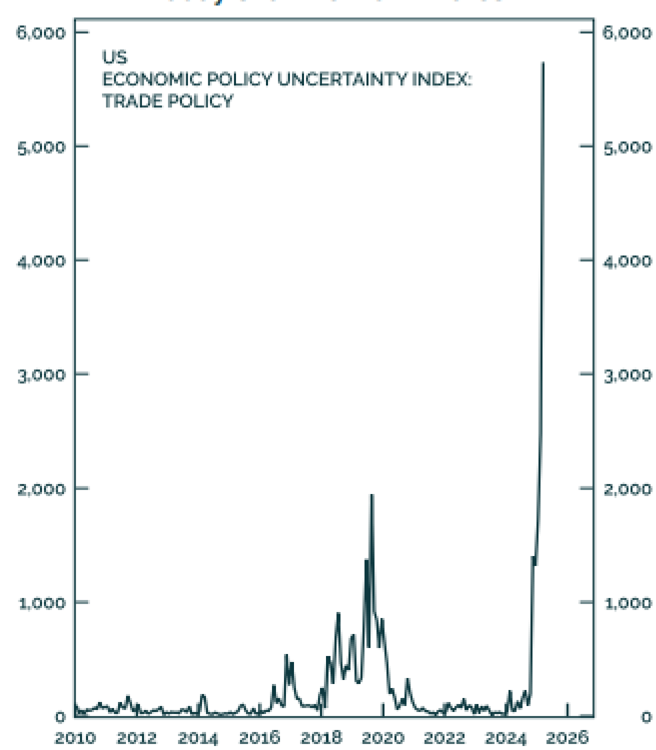
President Trump's continued backpedaling on his "Liberation Day" tariffs has reduced the odds of a very deep recession. Nevertheless, we continue to see a US recession in 2025 as our base case, with a subjective probability of 75%.

CHART 1
Still The Bigliest Tariffs Since The 1930s



* DUTIES COLLECTED AS A PERCENT OF IMPORTS. CALCULATED USING 12-MONTH MOVING TOTALS. SOURCE: UN INTERNATIONAL TRADE COMMISSION.
** SOURCE: "STATE OF U.S. TARIFFS: APRIL 15, 2025," THE BUDGET

CHART 2
It Does Not Help That We Now Need An Intraday Chart For Tariff Rates

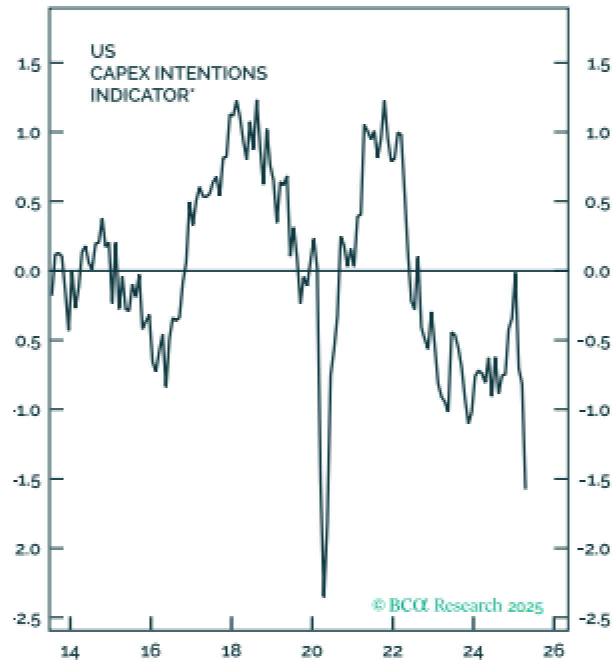


SOURCE: ECONOMIC POLICY UNCERTAINTY. © BCA Research 2025

The current effective US tariff rate is still the highest since at least the 1930s (**Chart 1**). Trade uncertainty remains exceptionally elevated (**Chart 2**). This is weighing on business sentiment. Capex intentions have cratered, which bodes poorly for business spending over the remainder of the year (**Chart 3**). …

CHART 3

Capex Intentions Have Plummeted As US Businesses Are Opting To Sit On Their Hands



* AVERAGE OF STANDARDIZED CAPITAL EXPENDITURE EXPECTATIONS FOR THE NFIB SURVEY (3-TO-6 MONTHS), DALLAS, KANSAS CITY, NEW YORK EMPIRE, PHILADELPHIA, AND RICHMOND FED REGIONAL SURVEYS (6 MONTHS). LATEST DATA POINT IS AN ESTIMATE.

Ironically, Trump's hints that tariffs will come down could hurt economic activity in the near term if consumers and businesses decide to postpone spending until the tariffs actually fall. In other words, tariff front-running could be replaced by tariff front-waiting.

Financial markets are not pricing in a meaningful deterioration in economic growth, let alone a full-blown recession. The forward P/E ratio for the S&P 500 stands at 19.9, which is well above what is normally seen during even mild recessions (**Chart 5**). Forward 12-month earnings estimates are no longer rising, but they are not falling either. Typically, earnings estimates decline by around 20% during mild recessions (**Chart 6**). Today's forward P/E ratio assumes 11% EPS growth over the next 12 months, off peak profit margins no less.

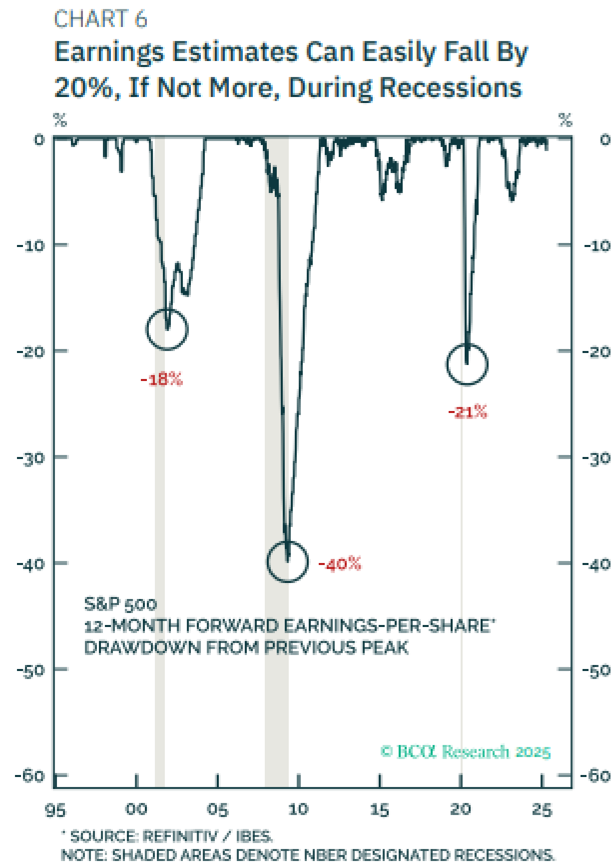
Likewise, despite the fact that corporate defaults have already risen sharply, the current level of junk bond spreads is less than half of what one would normally expect to see during mild recessions.

CHART 5

S&P 500 Forward P/E Still Well Above What Is Generally Seen During Even Mild Recessions

* THE FORWARD P/E TROUGH IN OCTOBER 2002 OCCURRED AFTER THE 2001 RECESSION, DURING WHICH UNEMPLOYMENT WAS STILL RISING.
SOURCE: REFINITIV / IBES.
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

We are maintaining our end-2025 S&P 500 target of 4450 and would suggest that investors underweight equities. …



Non-US stocks have outperformed US stocks by 12.9% year-to-date in dollar terms, partly due to the weakening in the greenback (in local-currency terms, ex-US stocks have outperformed by a more modest 6.8%) (**Chart 10**).

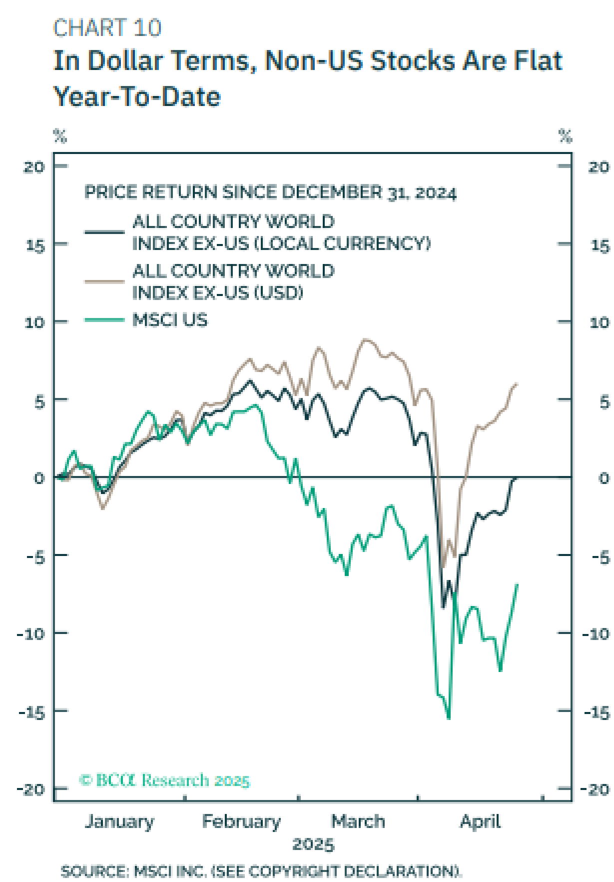
Our suspicion is that the relative outperformance of non-US stocks will stall or partly reverse over the coming months. Non-US stocks are more cyclical than US stocks and will struggle if the global economy enters a recession. … non-US earnings tend to fall more significantly during economic downturns than US earnings.

As discussed in the remainder of this report, looking beyond the coming recession, non-US stocks will resume their recent outperformance, as the glow from US economic exceptionalism continues to fade.

Exceptional No More?

US real GDP rose by 27% between 2014 and 2024, easily eclipsing growth in most other major developed economies. US stocks soared by 186% during this period, compared to 29% in the rest of the world. The US dollar also gained altitude, climbing against all other major currencies.

The underperformance of US equities since the start of 2025, alongside a weakening in the greenback, has undermined confidence in the idea of US exceptionalism.



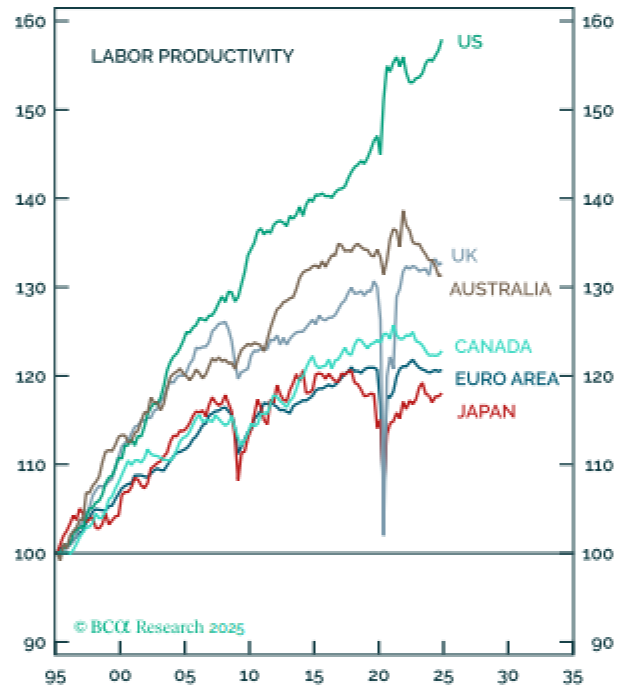
For investors, this raises two critical questions: One, is the "US exceptionalism trade" over? And two, if it is, will equity performance in the rest of the world catch up with the US; or will performance in the US catch down with the rest of the world?

Our answer to the first question is "Yes, US exceptionalism is over." With regards to the second question, although there is a lot of uncertainty – especially with regards to the trajectory of the trade war and the impact of AI – we expect the end of US exceptionalism to be largely defined by the US catching down with the rest of the world rather than the rest of the world catching up to the US.

The Drivers Behind US Growth Outperformance

GDP growth can be expressed as the sum of growth in the number of employees, hours worked-per-employee, and growth in productivity (i.e., output-per-hour worked). … the vast majority of America's GDP growth superiority can be attributed to faster productivity growth.

CHART 17
The US Has Enjoyed Stronger Labor Productivity Growth Than Its Developed Market Peers



SOURCE: OECD.
NOTE: ALL SERIES REBASED TO Q1 1995 = 100.

Employment Growth Likely To Slow

The growth in the working-age population decelerated sharply in most developed economies over the past two decades in response to the lagged effect of lower fertility rates. In Japan and Europe, the impact on the labor market was disguised by rising participation rates. With little scope for labor force participation rates to rise much further in many countries, it is likely that employment growth will slow, putting downward pressure on overall GDP growth.

A key wildcard in these projections surrounds immigration. Foreign-born workers have been responsible for slightly more than half of the growth in the US labor force since January 2021. Irregular crossings along the Mexican border began to fall from extremely high levels in 2024 and have plummeted to close to zero since President Trump's inauguration.

The Global Productivity Outlook

The most distinctive feature of recent global productivity growth is not how strong it has been in the US but how weak it has been in many other developed economies. … productivity grew only slightly more quickly in the US between 2020 and 2024 than it did between 2005 and 2019, and nowhere close to the heyday period of productivity growth between 1995 and 2005. Despite America's recent lackluster productivity performance, productivity growth in the major developed economies has lagged far behind the US (**Chart 17**).

The weakness in non-US productivity growth reflects a variety of factors. The euro area crisis ushered in an extended period of fiscal austerity and corporate deleveraging in parts of the common-currency bloc, impairing investment spending in the process. Brexit weakened trade ties between the UK and the EU. Immigration policy across much of Europe has been dysfunctional.

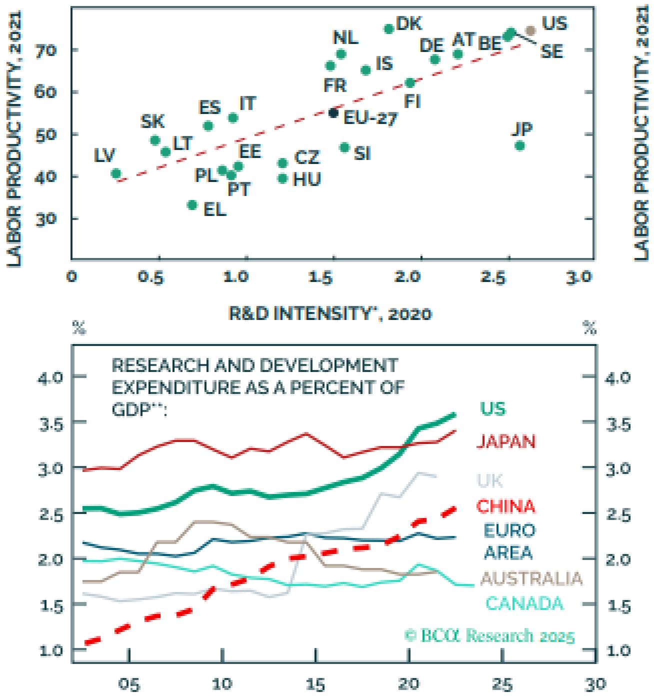
As my colleague Mathieu Savary has pointed out, spending on R&D is highly correlated with productivity growth (**Chart 19**). Whereas the US and China have excelled on that front, most other major economies have lagged behind. Most recently, the US has led the way in AI development, with China once again offering the only serious competition.

Europe and many other developed economies lack the deep capital markets that the US possesses. Venture capital, in particular, has been sorely lacking outside the US, which has hampered entrepreneurship (**Chart 20**).

Furthermore, the US has a much more dynamic labor market than most other developed economies. While firms in Europe and Japan clung on to their workers during the pandemic, workers in the US were happy to switch

CHART 19

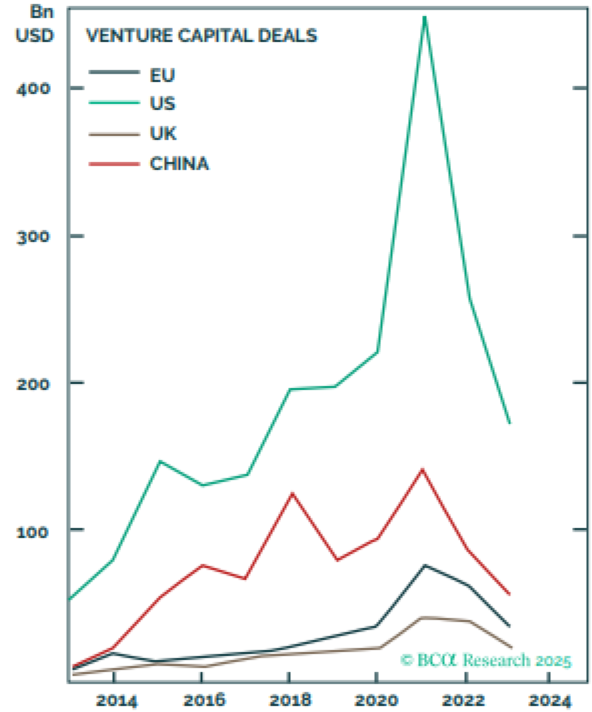
The US Leads The Pack In R&D



* SOURCE: EUROPEAN COMMISSION.
** SOURCE: WORLD BANK.

CHART 20

Venture Capital Is MIA Outside The US



SOURCE: EUROPEAN INVESTMENT BANK (EIB).

jobs, in many cases moving to ones where they could fully harness their skills. Dao and Platzer have provided evidence that this boosted US productivity.

Looking ahead, the productivity outlook should improve somewhat in Europe. European banks are much better capitalized than a decade ago. The ratio of financial assets-to-debt has increased for both households and businesses in Europe.

The rollout of AI services could benefit Europe, similar to what happened in the early 2000s when Europe went from being an internet laggard to being one of the first regions to offer mass broadband to its citizens. Increased infrastructure spending in Germany should also bolster productivity, although high government debt levels in other major European economies will limit the ability of other countries to loosen fiscal policy.

On the flipside, if the tariffs remain in place, US productivity will suffer. Standard economic theory says that the efficiency loss from tariffs increases with the square of the tariff rate. This means that a 6% tariff rate is 36-times more costly than a 1% tariff rate.

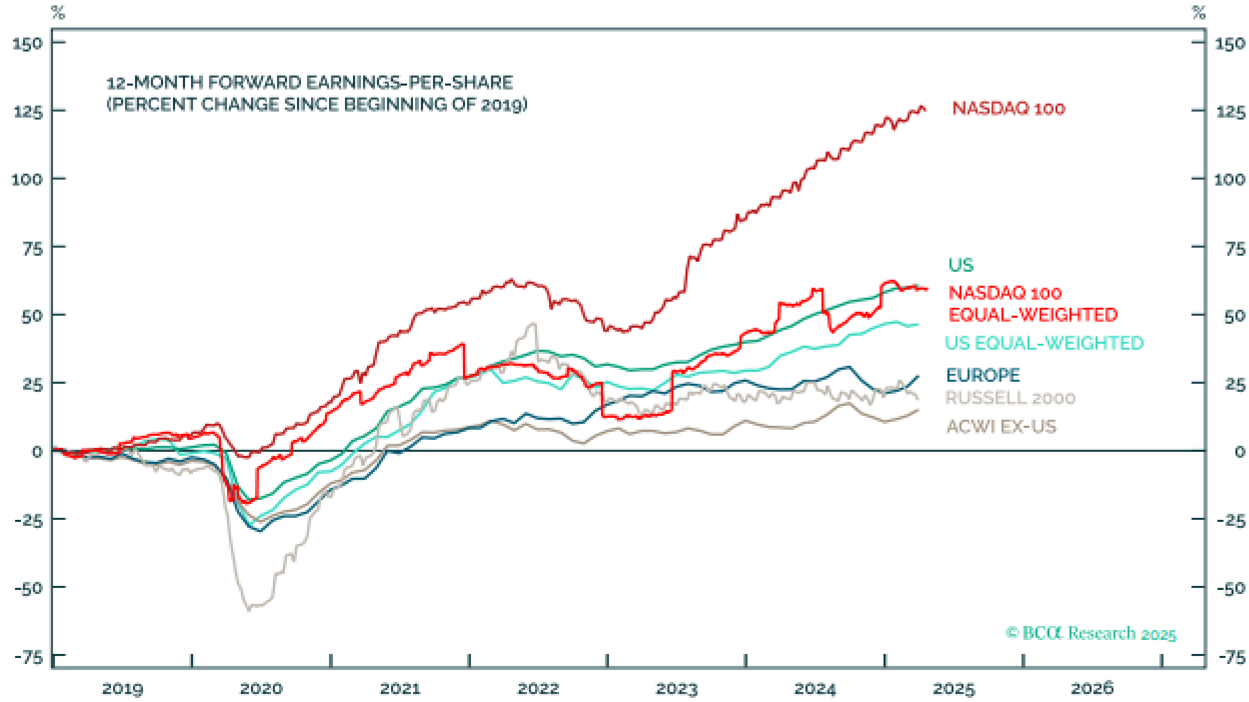
In many ways, this standard theory understates the productivity loss from increased protectionism because it does not account for other productivity-enhancing benefits such as greater specialization and increased economies of scale. The standard theory also does not account for the drag on growth from increased uncertainty over tariff policy.

The damage from protectionism is a key reason why the IMF downgraded its growth projection for the US more than that of other major economies in its most recent World Economic Outlook.

The Drivers Behind US Equity Outperformance

Although it would be easy to attribute US equity outperformance until the start of this year to the relative strength of the US economy, that would be too simple an explanation. **Chart 24** shows that earnings growth for

CHART 24
Mega-Cap Tech Stocks Account For A Large Share Of US Equity Outperformance



SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION), REFINITV / IBES, BLOOMBERG FINANCE L.P.

the S&P 500 equal-weighted index has lagged behind earnings growth for the market cap-weighted index over the past six years. Earnings growth for the small cap Russell 2000 index has been on par with earnings growth in developed economies outside of the US. Even the equal-weighted Nasdaq has delivered subpar earnings growth compared to the market cap-weighted Nasdaq.

The true reason US stocks have done so well is “monopoly power.” Many tech firms benefit from so-called network effects: People use Meta’s platforms or Microsoft’s business software largely because most others use it. This creates a deep moat around these tech companies.

It is far from clear that AI will lend itself to such monopoly power. People who use ChatGPT do not benefit from the fact that others use it. Moreover, because they use similar neural net-based transformer architectures and rely on largely the same training sets, today’s Large Language Models (LLMs) can often seem indistinguishable. In that regard, today’s AI companies bear a passing resemblance to airlines and shale producers. Both are highly capital-intensive industries with high depreciation rates, producing commoditized output. Not exactly a recipe for monumental profits.

If today’s large cap US tech companies end up having to play defense by investing billions of dollars in AI platforms with highly uncertain future payoffs, this could erode their structural profitability, leading to slower earnings growth and a downward re-rating of their valuations.

The End of Dollar Hegemony

Despite weakening this year, the real tradeweighted US dollar index remains 16% above its 20-year average. The greenback trades at a similarly large premium to its Purchasing Power Parity (PPP) exchange rate – the exchange rate which equalizes the price of a basket of goods and services across countries (think of it as the Big Mac index but applied to all goods and services, not just hamburgers).

Economic theory says that the degree to which a country's currency ought to trade above or below its long-term fair value should be influenced by the difference in expected returns with its trading partners. If a country offers a higher risk-adjusted expected return than another country, the currency of the country with the higher return should trade at a premium relative to its long-term fair value. In general, the larger the expected return differential, and the longer it is expected to persist, the greater should be the premium. …

The discussion above suggests that the depreciation of the US dollar over the past few months can be partly explained by a decline in the expected return on US assets.

US stocks typically underperform their global peers when the US dollar is weakening, and this time has been no different (**Chart 27**). If US growth decelerates on the back of slower immigration inflows – especially of skilled workers – and the Trump administration continues to pursue unfunded tax cuts and protectionist policies, the US dollar could weaken significantly further.

CHART 27
US Stocks Underperform When The Dollar Is Weakening

* BROAD, NOMINAL. SOURCE: FEDERAL RESERVE.
** IN US DOLLARS, REBASED TO JAN. 1995 = 0%. SOURCE: MSCI INC.

From GZERO DAILY on 4/23:

"We're heading toward a substantial US recession," said **Robert Kahn**, Eurasia Group's Managing Director of Global Macro, on Tuesday. "We may even be in one now."

That notion challenges the official economic outlook released this week by the International Monetary Fund, which was more cautious in its assessment, but it more closely mirrors what experts are saying in the halls at the IMF-World Bank Spring Meetings currently underway in Washington, DC.

In a conversation with GZERO's **Tony Maciulis**, Kahn explained the state of the global economy before President **Donald Trump's** April 2 "Liberation Day" and where things stand now. Unlike past crises triggered by external shocks, this one, he argues, is driven by the US administration's abrupt and sweeping trade policy changes, alongside tension between the White House and the Federal Reserve. These factors make the downturn both unpredictable and unprecedented.

"We don't have a model for this," Kahn said. "There's no course I took in school that's directly relevant to what we're living with."

Watch the complete conversation about the road ahead for the global economy here.

From the WSJ's Markets A.M. on 4/16:

What Kind of Bear Lies in Wait?

By Spencer Jakab

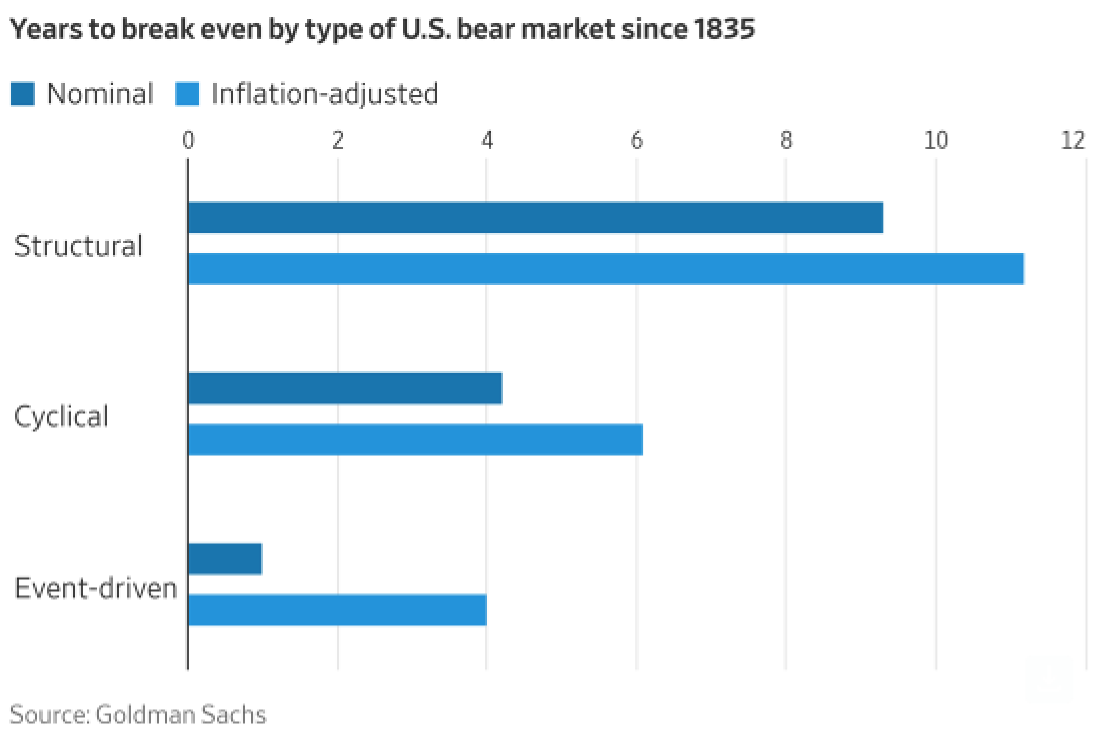
A bit of hiking wisdom can come in handy for investors about now: “If it’s black, fight back. If it’s brown, lie down. If it’s white, say goodnight.”

Coming across a bear—whether a living, breathing one or the financial market version—is never good. But a bit of ursine taxonomy will let you know if you’ll wind up scared, mauled or as dinner.

The S&P 500 twice turned back from the very cusp of a bear market this month and the small-company Russell 2000 as well as the tech-heavy Nasdaq 100 hit that unofficial 20% threshold. The bad news is that the odds of the benchmark large-company index slipping into one are decent.

The good news is that the way this one started—a specific catalyst—means it has the hallmarks of an event-driven selloff. That’s the equivalent of a black bear encounter: scary, even dangerous, but one that’ll probably make for a good story by the campfire that evening.

Or is it a fiercer brown bear? Strategists at Goldman Sachs went through dozens of U.S. bear markets as far back as the early 19th century and broke them into three categories: event-driven, cyclical or structural. The first two have similar severity, about a 30% average fall in value, but the latter are more painful because they tend to last more than three times as long—27 months compared with just eight.



An example of an event-driven bear was the Covid-induced plunge in stocks five years ago. It was sharp, with the S&P falling 34%, but very short. Shallower and slightly longer, the bear set off by Fed interest-rate hikes meant to tame inflation in 2022 also was event-driven.

But we didn’t really know what species those were at first: Either event could have hurt consumer spending or business investment enough to make them cyclical. That probably would have been the case if the government hadn’t emptied a gigantic can of fiscal and monetary bear spray on the pandemic recession.

Today's White House brain trust keeps spraying itself in the face. While it's hard to keep track, the current tariffs, not including those that have been postponed, amount to the largest consumer tax hike in decades. And if we can't keep track then companies can't either. That makes deciding on investments, hiring or even ordering inventory precarious—the stuff of cyclical slowdowns.

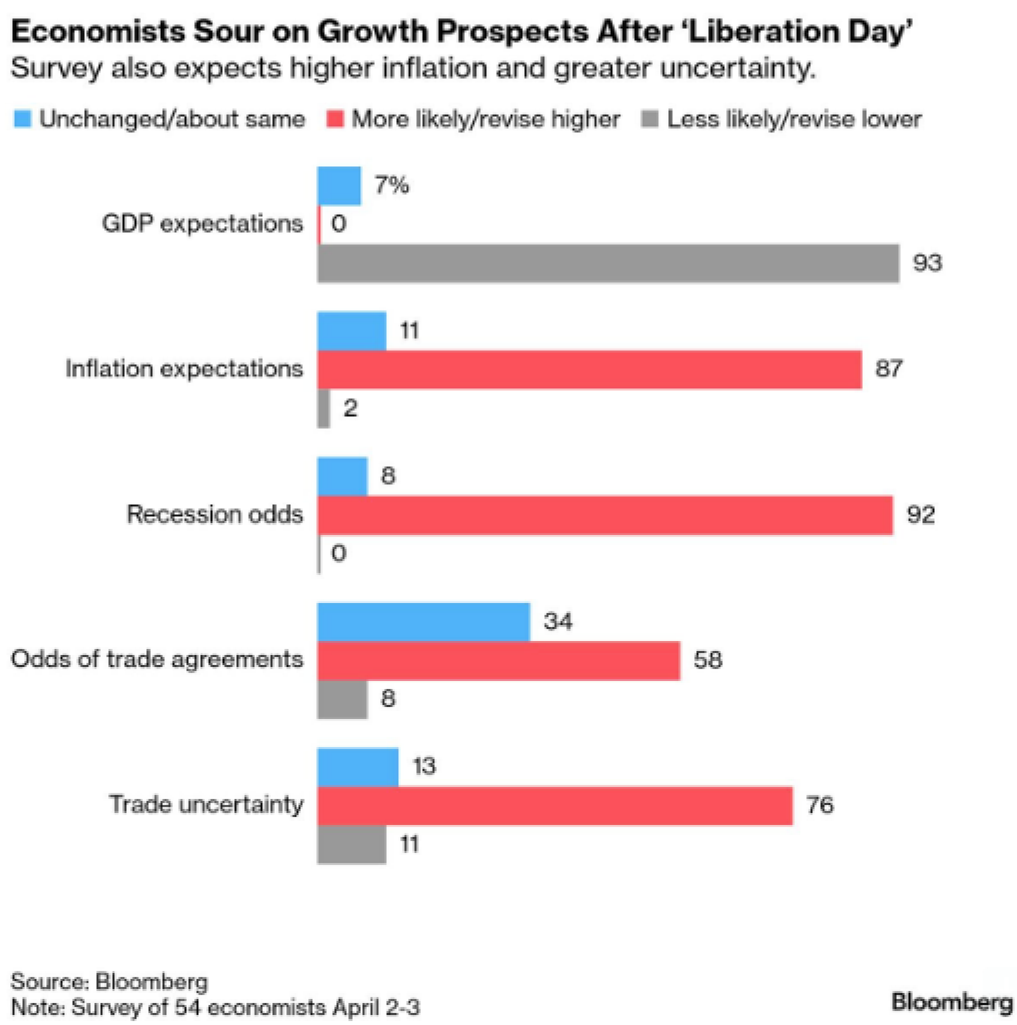
What about the ferocious polar bear of stock selloffs? Structural ones come after asset bubbles and financial crises and thankfully are rare—the only three since the Great Depression were in 1973, 2000 and 2007. Average losses have been 57% and it has taken more than nine years to break even compared with a year for an event-driven market.

Do bubbly Magnificent Seven valuations at the outset and worries about the federal government's finances make that part of the conversation? Goldman doesn't list it as a current scenario, but the woods are deep and dark.

From Bloomberg's Weekend Edition on 4/6:

Predictions

The chance of a US recession is higher than a week ago due to Trump's tariff plan, according to 92% of the economists Bloomberg surveyed.



From the WSJ:

Your Money-Market Fund Is Ripping You Off

If you're taking comfort in cash these days, don't feel too complacent. Your broker may be charging an arm and a leg for the privilege.

By *Jason Zweig*
May 2, 2025

Cash is king.

If only you didn't have to pay a king's ransom to hold it.

Ever since President Trump's tariff bombshells went off on April 2, cash has reasserted itself as a valuable shelter for investors. Money-market mutual funds—the most convenient form of cash for most investors—have stayed stable while providing steady income that has cushioned the damage in other markets.

Yet money-market funds are surprisingly expensive, and a recent attempt to make them cheaper has been stymied. If you're like most investors, you probably pay close attention to your stock and bond funds, and little if any to your cash.

But you're probably getting ripped off on your money-market funds—and it's one of the biggest heists on Wall Street.

Over the past couple of decades, the costs of investing have collapsed. Commissions on stocks and mutual funds have all but disappeared. The costs of holding stock and bond funds have shrunk to near-zero.

In the 1990s, the annual expenses on stock mutual funds often ran between 1% and 2% of your investment. Today, more than 50 exchange-traded stock funds charge 0.05% or less.

That's a cost reduction of more than 95%, a blessing for investors. It's often called "the Vanguard effect," driven by the ferocious competition set off by Vanguard Group and its late founder, Jack Bogle.

That stunning decline in costs has barely touched money-market funds.

Since 2015, taxable and tax-free money-market mutual funds have grown by more than 150%, to $6.91 trillion from $2.75 trillion, according to the Investment Company Institute. Over the same period, stock mutual funds (including international and balanced portfolios) grew less than 70%, to $16 trillion from $9.48 trillion.

Yet the average expense ratio at U.S. stock mutual funds fell to 0.33% annually from 0.54%, according to Morningstar—a 39% decline.

Meanwhile, annual expenses at money funds rose slightly to 0.21% from 0.19%—even though their assets boomed. (All these figures are weighted by the size of the funds.)

Fund investors are supposed to benefit from economies of scale, since fixed costs get spread over much larger pools of assets.

Why hasn't that happened with money-market funds?

Cashing In

Over the past 20 years, costs have come down drastically at stock and bond funds, while barely budging at money-market funds.

Average annual expenses at mutual funds

Note: Annual data for Dec. 31 each year; 2025 through March 31. Expenses weighted by assets. Stock and bond funds include index funds but exclude ETFs.
Source: Morningstar

Blame big brokers that are gouging you on cash.

For most of the period between 2008 and 2021, the Federal Reserve kept short-term interest rates so low that money funds would have yielded less than zero after expenses. So the managers waived more than $50 billion in fees.

With short-term rates back above 4%, $1 trillion has poured into money funds over the past year and fund companies can charge full freight again.

The managers are "rolling in money now," says Peter Crane, president of Crane Data, a firm that tracks cash accounts, "but they don't want to hear about cutting expenses because they just spent 10 years waiving fees."

Also, nobody had tried running a money-market fund as an ETF. So the mutual funds faced no competition from dirt-cheap ETFs.

Only last September did Dallas-based Texas Capital Bank Private Wealth Advisors succeed in launching the first money-market ETF. It quickly grew to $40 million, thanks to low fees and high yields. BlackRock's iShares followed this February with two money-market ETFs of its own.

Texas Capital Government Money Market and the iShares ETFs, Prime Money Market and Government Money Market, all charge annual fees of only 0.2%; Texas Capital yields 4.29% and the iShares funds 4.31% and 4.16%, respectively.

Meanwhile, the average money-market mutual fund available to individual investors charges 0.51% in fees and yields 3.89%, according to Crane Data.

In January, Schwab booted Texas Capital's money-market ETF; in March, Fidelity pushed it and the two iShares ETFs off its platform.

Money-market mutual funds have traditionally been extremely safe and liquid, making them work well as a cash-management account for individual investors. They offer check-writing, electronic transfers in and out, and hardly ever generate capital gains or losses.

Money-market ETFs, however, can't be used as cash-management accounts, since they trade like a stock, with slight fluctuations in value.

Across account types, Fidelity offers four default options for cash. Its Government Money Market and Fidelity Treasury mutual funds charge annual fees of 0.42% and yield 3.97% and 3.96%, respectively. Its two non-mutual-fund cash vehicles yield 2.19%.

Schwab's bank sweep, the default option for cash in taxable accounts, yields a measly 0.05%. Schwab's biggest money-market mutual fund, Prime Advantage, charges 0.34% in fees for its Investor shares and yields 4.17%. But to get that yield, you have to move your cash manually out of the bank sweep.

Fidelity says it is committed to "offering the widest range of cost-effective products," including ETFs. In this case, though, it isn't offering these cheap ETFs; it is banishing them.

"The new money-market ETFs are not only untested but potentially misunderstood by investors, as they do not deliver the same kind of experience as a money-market fund" because their prices fluctuate, says a Fidelity spokesperson.

Schwab is "not making money-market ETFs from third-party providers available to its retail and [adviser] clients," says a spokesperson, adding that "this decision is consistent with Schwab's longstanding approach of only making available Schwab-affiliated money-market mutual funds as part of its cash-management solutions."

In mid-March, Schwab filed a preliminary prospectus to launch its own money-market ETF. That shows the firm regards the concept as a positive innovation—so long as the fees flow to Schwab rather than to a competing ETF manager.

In plain English, what both firms are saying is that they want to control your cash—at fees and yields that are better for them than for you.

Follow-ups

From the WSJ:

A Reckoning for the Magnificent Seven Tests the Market

Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla are collectively off to their worst start since the 2022 slide, worrying investors

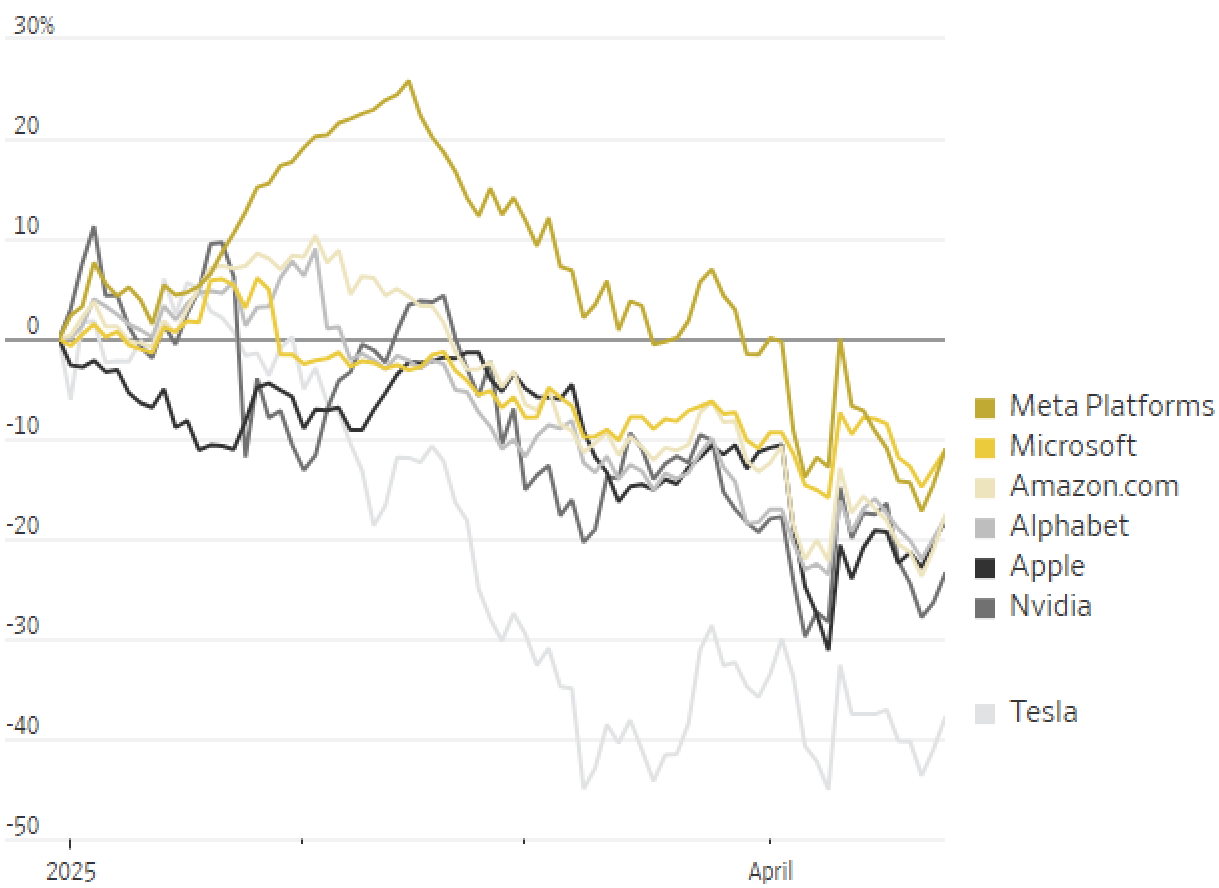
By Krystal Hur
April 26, 2025

The Magnificent Seven drove the stock market's bull run. Now, their bruising losses pose a new test for markets.

For the past two years, the group of megasize tech companies—Alphabet, Apple, Meta Platforms, Microsoft, Nvidia and Tesla—helped fuel a gangbusters rally that lifted stocks out of the 2022 bear market and toward dozens of all-time highs. Investors powered their shares to eye-popping levels, heralding them for their fortress like balance sheets and their lead in the artificial intelligence race.

Now, even after a rally this past week, the Magnificent Seven are off to their worst start to a year since the 2022 slide, according to Dow Jones Market Data. Each stock has fallen more than 6.5%, and they have collectively lost $2.5 trillion in market value. The Roundhill Magnificent Seven exchange-traded fund just posted its best four-day run ever, notching a 13% climb—that still left it down about 15% this year.

Share-price performance



Source: FactSet

The stumble comes after the emergence of DeepSeek's AI model in January dented confidence in U.S. tech companies' AI leadership. President Trump's global trade war has threatened the so-called "American exceptionalism" trade, which was rooted in strong U.S. growth prospects and cutting-edge technological advancements. And some members of the group face their own challenges that are weighing on shares as well.

“From Magnificent to Maleficent, it’s just become a massive challenge,” said Matt Orton, head of market strategy at Raymond James Investment Management, referencing the villain in the “Sleeping Beauty” fairy tale. “Some of the shine has been lost with respect to the story. It was only a matter of time.” ...

Traders fretted during the AI-fueled stock rally that the U.S. market was becoming overly dependent on the performance of a relatively small handful of companies. Many warned their boost could just as quickly turn into a major drag. The group represented about 36% of the S&P 500’s market value at its peak in December, according to Dow Jones Market Data.

Magnificent Seven’s share of S&P 500 market value

Source: FactSet

The S&P 500’s total return, which includes dividends, is down 5.7% this year. Without the Magnificent Seven, returns would be down just 1.2%, according to S&P Dow Jones Indices data. The tech-heavy Nasdaq Composite Index is in a bear market, having fallen 20% from its recent high, and is still down 10% on the year.

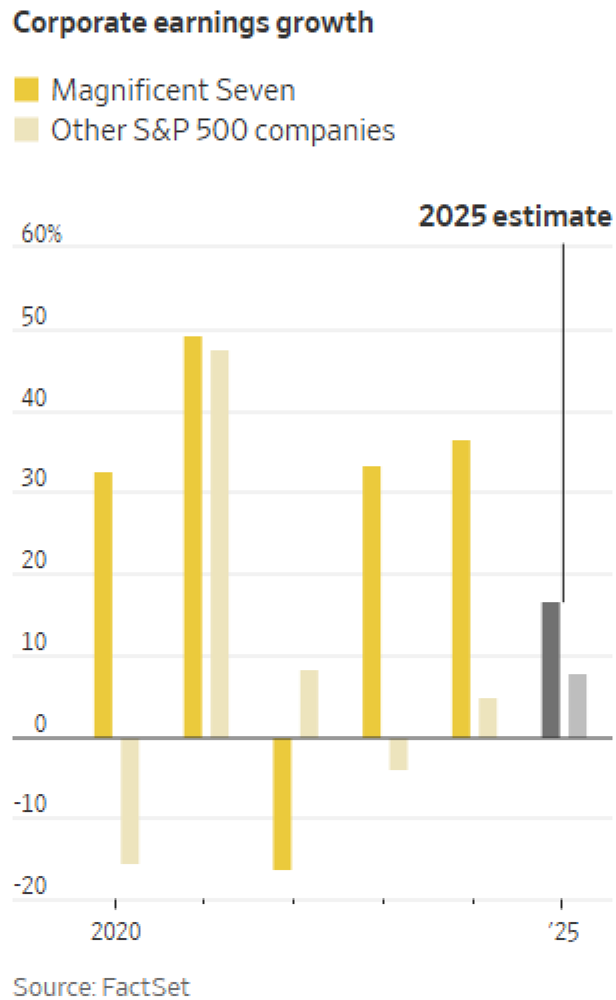
Some investors are concerned that the Magnificent Seven’s slump will weigh on major indexes’ nascent recovery from the tariff rout. ...

For one, the group’s earnings dominance is expected to diminish. The Magnificent Seven are expected to report a 16% climb in profits in the 2025 calendar year, down from about 37% in 2024, according to analysts polled by FactSet. They project a 7.8% jump in earnings for the other companies in the benchmark index, up from about 5% last year.

The recent turbulence has also sharpened Wall Street's focus on the unique problems each company faces. Tesla said Tuesday that net income dropped 71% in the first quarter, following a slump in automotive sales. The electric-vehicle maker has faced mounting competition and criticism over Chief Executive Elon Musk's role in the Trump administration.

Nvidia's stock tumbled earlier this month after the company warned it would take a $5.5 billion charge due to new China export curbs. Apple is grappling with weak iPhone sales and delays in its rollout of AI enhancements to its Siri voice assistant. Alphabet forecast some pressure on Google's advertising business from changes to the de minimis rule that exempted some goods from tariffs.

Some analysts say the Magnificent Seven's stock valuations still look stretched. Nvidia is trading at 23 times its projected earnings over the next 12 months, below its 31 multiple at the beginning of this year. Meta is trading at a multiple of 21, down from 23 in January. The S&P 500 is trading at 20 times.



Those worries date to when the group was known as FAANG—Facebook, Amazon, Apple, Netflix and Google. Tech shares plunged in 2022 after the Federal Reserve began raising interest rates, with investors fearful that higher borrowing costs would hamper their ability to generate windfall profits.

Those stocks bounced back in 2023, though the era of FAANG came to an end after Bank of America's Michael Hartnett coined the Magnificent Seven that same year. (The renaming of Facebook-parent Meta and Google-owner Alphabet had also posed problems for the acronym.)

Hartnett, who named the Magnificent Seven after the 1960 film he watched every Christmas as a child, declared them "Lagnificent" in a January note. ...