Trump's "little disturbance"

"**We call a tariff a protective measure. It does protect . . . It protects the consumer against low prices**." - economist Milton Friedman

BCA Research's Chief Global Investment Strategist Peter Berezin appeared on Bloomberg TV Friday: https://www.youtube.com/watch?v=G7BPKe5w7mU (5 min.)

From front page of this weekend's WSJ:

Market Carnage Worsens

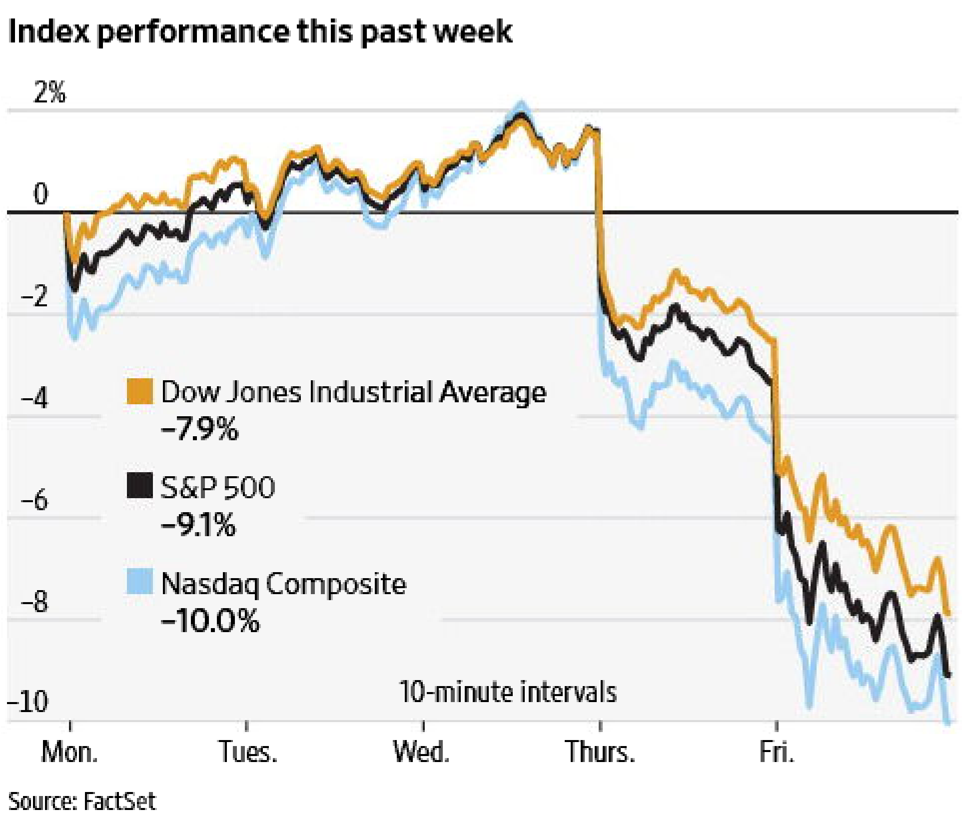
Dow plunges 2,200, Nasdaq enters bear territory after China counters U. S. tariffs

By Vicky Ge Huang, Krystal Hur and Gunjan Banerji

The Dow Jones Industrial Average plunged 2,200 points and the S&P 500 fell nearly 6% on Friday to close Wall Street's worst week since 2020, as President Trump's trade war escalated, with China declaring it would impose sweeping tariffs on all U.S. goods.

The Nasdaq Composite Index entered bear market territory on Friday (joining the Russell 2000 which entered on Thursday) with its decline of 5.8%, denoting a 20% drop from its peak. ... The marketwide toll from the two-day tariff rout was a record $6.6 trillion. (WSJ: "The biggest two-day pullback before this week was during the Covid-19 market, when $4.4 trillion of stock-market value evaporated in the two days ending March 12, 2020.")

... This past week's selloff was triggered not by a virus circling the globe, but by tariffs. Trump's across-the-board levies on goods imported from virtually every U.S. trading partner, announced Wednesday afternoon, has left investors shaken and fearful of a recession. Stocks tumbled Thursday, then they fell further on Friday after China's retaliation dashed hopes for a speedy resolution to the trade war. ...



The Dow industrials this past week lost more than 3,000 points, or 7.9%, sending the blue-chip index into a correction. The S&P 500 lost 9.1%. ... In the past two days alone, the Magnificent Seven group of large tech stocks (MAGS, their equal weight ETF, is now down 29% from its record closing high on 12/19) erased $1.5 trillion of market value, according to Dow Jones Market Data.

The benchmarks fell further on Friday even after the Labor Department delivered a surprisingly good jobs report for March. The U.S. added 228,000 jobs last month, well above the Wall Street consensus estimate of 140,000, suggesting the economy entered the latest salvo of the trade war on solid footing.

Nevertheless, all eyes were on China, which in response to Trump's tariff hike said it would impose an additional 34% levy on all imported U.S. goods. The extra tariff is set to take effect Thursday. ...

No negotiations have taken place yet between Trump and Chinese leader Xi Jinping since the U.S. president took office in January. ...

Beijing also put controls on more than two dozen U.S. companies, curbed access to rareearth minerals and launched a probe into U.S. chemicals giant DuPont.

Friday's action marked the first time China imposed tariffs on all U.S. goods with no exceptions.

Investors, meanwhile, continued to search for safety in government bonds amid the market turmoil. The yield on the 10-year Treasury, a leading barometer of economic conditions, fell below 4% for the first time since October, suggesting heightened recession fears.

Friday's declines were broad-based. Gold futures slid 2.7% to $3,012 per troy ounce after climbing to record levels earlier in the week. Benchmark U.S. oil prices fell nearly 14% over two trading days to $61.99 a barrel, their lowest level since April 2021.

On Thursday, U.S. markets suffered their steepest one day declines since 2020, with investors fearing that Trump's new tariff plans would trigger a global trade war and drag the U.S. economy into recession.

Economists at global banks are taking a gloomier outlook on the economy, with many upping their recession forecasts. A team of JPMorgan Chase economists raised the odds of a recession in a global economy to 60% from 40%.

Traders have increased their bets on interest-rate cuts this year, wagering that the Federal Reserve will take action at the first signs of a faltering economy. ...

Wall Street's fear gauge flashed warning signs. The Cboe Volatility Index, or VIX, surged to 45.31 on Friday, its highest closing level since April 2020, according to Dow Jones Market Data. ...

Overseas, Japan's Nikkei 225 Index fell 9% for the week, while the Stoxx Europe 600 Index declined 8%—for each, the largest one-week percentage decline since March 2020.

Also from the WSJ:

Trump Owns the Economy Now

He can try to blame the Fed, but the tariff blunder is his alone.

By The Editorial Board
April 4, 2025 5:48 pm ET

Markets continued to tumble on Friday, but hey, not to worry, at least the March jobs numbers were good. That's the view from the White House, where press secretary Karoline Leavitt crowed Friday that "the economy is starting to roar" and "the President's push to onshore jobs here in the United States is working."

Ms. Leavitt needs to please her boss, but yikes. Someone should tell her the March jobs estimate was made before Mr. Trump's tariff barrage. Markets for their part are making a bet on the future. The 228,000 job gain did beat expectations, but the manufacturing jobs boom still hasn't arrived, with only 1,000 net new jobs in the month.

The real message from the jobs report is that the labor market and economy were in good shape in March. That's not necessarily good news for Mr. Trump if both now hit the skids after the President launched his trade war with the world. The President may try to blame Joe Biden or someone else, but the public knows it's the Trump economy now.

That's a mixed blessing for Federal Reserve Chair Jerome Powell, who knows he now has an excuse for a slowing economy or a bump in inflation. On the other hand, he has to steer policy through the tariff rapids.

"While uncertainty remains elevated, it is now becoming clear that the tariff increases will be significantly larger than expected," Mr. Powell told a conference in Virginia on Friday. "The same is likely to be true of the economic effects, which will include higher inflation and slower growth."

Mr. Powell implied that the Fed may not ride to Mr. Trump's rescue if the tariffs lead to economic stagflation. He said the Fed will continue with a cautious approach on interest rates, which makes sense given the two-sided risks of rising prices and slowing growth.

That appears to have set off Mr. Trump, who posted a broadside on Truth Social after Mr. Powell's remarks: "This would be a PERFECT time for Fed Chairman Jerome Powell to cut Interest Rates. He is always 'late,' but he could now change his image, and quickly," Mr. Trump wrote. "CUT INTEREST RATES, JEROME, AND STOP PLAYING POLITICS!"

Mr. Trump always favors lower interest rates no matter the economic facts. But his post suggests that he may be more worried than he admits about the impact of his tariffs on growth. He purports not to care about the markets these days, but you can bet he's paying attention to them. The two-day decline of 10.5% in the S&P 500 since his Wednesday afternoon announcement isn't a vote of confidence in Mr. Trump's tariffs or policy judgment.

Friday's plunge was spurred by China's decision to retaliate with a 34% tariff of its own on U.S. exports, along with new restrictions on U.S. access to critical minerals. Mr. Trump responded by saying that CHINA PLAYED IT WRONG, THEY PANICKED."

But what did he expect? China's Xi Jinping has his own domestic constituencies to think about, and he wants Mr. Trump and the U.S. to feel the pain too. Treasury Secretary Scott Bessent urged countries not to retaliate lest they face even higher tariffs. But after China's retaliation, that may be exactly what investors now fear as each leader beats his chest.

Trade wars are easy to start, but they can be hard to stop once the retaliation gets rolling. Mr. Trump started this war, and he owns whatever happens next to prices, jobs and economic growth.

From Heather Cox Richardson, a Harvard educated, Boston College History Professor with 2.5M+ followers:

April 4, 2025

The stock market rout continued today. As expected, China announced retaliatory tariffs in response to those President Donald Trump announced on Wednesday. Chinese leaders say they will impose a 34% tariff on all U.S. goods imported into China next Thursday. Apparently, Trump did not think China would respond to his tariffs, and tried to sound as if he was still in control of the situation.

Trump is spending a long weekend in Florida, where he is attending the LIV golf tournament at his Doral club. But at 8:25 this morning, he reposted on his social media channel a video in which the narrator claimed that Trump is crashing the markets on purpose. The video claimed that legendary investor Warren Buffet "just said Trump is making the best economic moves he's seen in over fifty years." It went on to explain how "the secret game he's playing" "could make you rich." Buffett's conglomerate Berkshire Hathaway quickly denied Buffett had said any such thing as the video claimed. "All such reports are false," it said. In March, Buffett called tariffs "an act of war, to some degree."

Then, about an hour before the U.S. markets opened, Trump posted on his social media channel: "CHINA PLAYED IT WRONG, THEY PANICKED—THE ONE THING THEY CANNOT AFFORD TO DO!" About twenty minutes later, he posted: "TO THE MANY INVESTORS COMING INTO THE UNITED STATES AND INVESTING MASSIVE AMOUNTS OF MONEY, MY POLICIES WILL NEVER CHANGE. THIS IS A GREAT TIME TO GET RICH, RICHER THAN EVER BEFORE!!!" ...

Twenty-five minutes before the market closed, Trump posted: "ONLY THE WEAK WILL FAIL!"

After-market trading continued downward. ...

Natalie Allison, Jeff Stein, Cat Zakrzewski, and Michael Birnbaum of the Washington Post reported how Trump came to impose the tariffs. After aides from a number of different government agencies came up with options for Trump to review, he decided instead on a different option, one that has drawn ridicule because it is crude and has nothing to do with tariffs at all. He reached the ~~amounts~~ percentage of reciprocal tariff levies by dividing ~~the trade deficit~~ exports - imports of each nation (not including services) by the value of its imports and then dividing the final number by 2. with a 10% minimum tariff. (Highly recommended: https://www.youtube.com/watch?v=nVZ1lcw2bVU&t=1650s (110 min.)

The reporters note that Trump didn't land on a plan until less than three hours before he announced it, and made his choice with little input from business or foreign leaders. Neither Republican lawmakers nor the president's team knew what Trump would do. "He's at the peak of just not giving a f*ck anymore," a White House official told the reporters. "Bad news stories? Doesn't give a f*ck. He's going to do what he's going to do. He's going to do what he promised to do on the campaign trail."

While right-wing media and Republican lawmakers have worked hard to spin the economic crisis sparked by Trump's tariffs, Financial Times chief data reporter John Burn-Murdoch used charts on social media to show that Americans are not happy. Consumers give Trump's economic plan the worst ratings of any administration's economic policy since records began. He has had the same impact on economic uncertainty as the global coronavirus pandemic did. Almost 60% of Americans expect the economy to deteriorate over the next year, and they are very worried about job losses.

Burn-Murdoch noted that despite the attempt of right-wing media to hide the crisis, more than half of Americans have heard unfavorable business news coverage of the government's policies. While MAGA continues to approve of Trump, he's rapidly losing support among the rest of the coalition that put him into office. ...

From NYT:

I Watch the Markets for a Living. This Week, Everything Changed.

April 5, 2025

By **Steven Rattner**
Mr. Rattner, a contributing Opinion writer, was counselor to the Treasury secretary in the Obama administration.

In the past, the one constituency President Trump has sometimes listened to has been our stock market. Well, it has spoken, falling 10.5 percent in one of the largest two-day stock market swoons in decades.

In the 50 years I have been immersed in markets and economic policy, I have never before witnessed a signature economic policy initiative that was met with such unalloyed criticism. What's worse, the damage was entirely self-inflicted.

Why such a reaction? One reason the S&P 500 fell was that the tariffs Mr. Trump rolled out were so much greater than investors anticipated. (Give the White House an F for failing to prepare the market for what to expect.) Then on Friday, China announced its own 34 percent tariff on our goods, making it clear that our trading partners were not going to simply give in to Mr. Trump's demands, as he had suggested they would.

As Mr. Trump was doubling down, asserting that "my policies will never change," the Federal Reserve chairman, Jerome Powell, was delivering his own bombshell: Given the higher-than-predicted tariffs, higher inflation and slower growth were likely to ensue, he said. That's drastically different from just a couple of weeks ago, when Mr. Powell called the potential impact of new tariffs on prices "transitory."

The business community, which by my count heavily supported Mr. Trump in the election five months ago, seems stunned. Few have spoken publicly, but the Business Roundtable, the premier corporate trade association, on Wednesday warned that universal tariffs run "the risk of causing major harm to American manufacturers, workers, families and exporters."

Privately, several chief executives told me that they recognized that imposing the tariffs, as well as Mr. Trump's intractable support of them, was a potentially cataclysmic mistake. "Few of us ever imagined he would go this far," one told me. "He could well bring down the economy and himself."

The Trump-supporting business leaders I've spoken to in the last two days don't yet regret their votes, mostly because of their intense distaste (if not hatred) for the Biden-Harris administration. And they remain broadly supportive of the efforts by the tech billionaire Elon Musk to reform the federal government, even if they acknowledge that his DOGE team may be going too far in its slashing of spending and personnel.

But I wonder how some other major Trump-supporting leaders whose stock prices have been particularly hard hit now feel, like Stephen Schwarzman, chief executive of Blackstone, the investment group (down 15 percent in two days), and Safra Catz, chief executive of Oracle, the database company (down 12 percent).

Mr. Trump's actions aren't the only problem. Almost as important is the lack of clarity as to what policies he is pursuing and why. At times, Mr. Trump implies that the purpose of the tariffs is to bring back manufacturing, which suggests that they will stay in place indefinitely. At other times, he suggests that the goal is to negotiate tariff reductions by other countries (even though much of what Mr. Trump asserts about their tariffs is inaccurate).

The dithering takes a real toll. I see this from my role as a professional investor. How do we evaluate a company that imports goods or engages in international commerce? We seek a lower price, or we grit our teeth, or we pass on the opportunity. As a result, our pace of investing has slowed sharply this year.

And it's not just us. In the year's first quarter, the number of newly announced mergers and acquisitions dropped to its lowest level since the financial crisis. "Folks are looking but not pulling the trigger," one leading investment banker told me. Equity offerings have become similarly challenged; multiple companies planning to go public have postponed their fund-raising since Wednesday.

Even experts inside the Trump bubble are flummoxed. In a recent private call with investors, one senior official in the first Trump administration confidently predicted that autos coming from Mexico would get more favorable treatment than those originating in Canada. The following day, Mr. Trump imposed the same duties on vehicles coming from the two countries.

The outlook is bleak. Prediction markets put the odds of a recession at 50 percent or even a bit higher. And while the jobs figures that were released Friday were sound, the Conference Board recently reported that consumer expectations for the economy hit their lowest level in 12 years, while anticipated inflation over the next year (measured before the tariff announcement) has jumped to 6.2 percent. Domestic manufacturing production is now contracting. Stagflation — that particularly painful combination of inflation and economic stagnation — has become the least harm that we are likely to experience.

In a normal world, when an economy falters, eyes turn to the central bank for help, in the form of reductions in interest rates. But progress on inflation has stalled, making it more difficult for the Fed to come to the rescue. And the new tariffs will only make inflation worse.

Many business people and investors are still hoping Mr. Trump will recognize the havoc he is creating and ease off his tariffs. But so far, he doesn't seem concerned. And that may be our biggest worry of all.

From The Economist on April 3rd:

Zanny Minton Beddoes
Editor-in-chief

Watching President Donald Trump's Rose Garden performance yesterday, it was hard to believe what I was seeing: flawed economics, inaccurate history and cockamamie calculations used to justify the most wrong-headed and damaging policy decision in decades. Mr Trump's "Liberation Day" was more like ruination day. Our cover leader in most of the world predicts that these mindless tariffs will cause chaos. Almost everything Mr. Trump said this week—on history, economics and the technicalities of trade—was deluded. He has long glorified the high-tariff era of the late 19th century. In fact, it was the painstaking rounds of trade talks in the 80 years after the second world war that lowered tariffs and led to unprecedented global prosperity, including for America.

The country that created, and has gained mightily from, the global trade system is now trying to destroy it. The question for countries reeling from the president's vandalism is how to limit the damage. We argue that they should focus on increasing trade flows among themselves, especially in the services that power the 21st-century economy. There is no avoiding the havoc Mr. Trump has wrought, but that does not mean his foolishness is destined to triumph.

I wrote the following for our December Newsletter:

"This year marks the tenth in which I've managed client portfolios through Hughes Capital Management. During that time I've earned my CFA Charter, taught Advanced Topics in Investments at OU for 6 years, and witnessed a historic period in financial history featuring bubbles, more bubbles, a pandemic, stuff that shouldn't be possible under any theoretical framework (such as oil briefly having a negative price), a world on fire (both figuratively and literally), and much more.

During this past decade I've held Warren Buffett's advice close to heart: "Be fearful when others are greedy and greedy when others are fearful."

I have never been more fearful (financially speaking).

Also during my time as an investment professional, I've held to the following guidelines:

- Don't mix politics and investing
- Don't try to time the market
- Bonds are "return free risk"

Like most guidelines, there are exceptions, and I believe now is one of those exceptional times. ...

This leads to guideline number two: not trying to time the market. Trying to pick market peaks and bottoms is a fool's errand and/or requires foresight I do not possess. I do not know whether the market will collapse tomorrow, a month from now, a year, two years, or ever. However, the odds of such a downturn have increased to a point where I cannot ignore them for client portfolios. The past year has seen a major dearth of buying opportunities, and everything else points to waiting for valuations to come back to earth. This does NOT mean selling everything and stocking gold in mattresses. (In hindsight that would have been profitable, although not very comfortable.) Far from it. Selling good positions out of fear is a losing proposition, even if riding out a market downturn is painful in the short-term. Missing out on a further market rally or an eventual rebound is as much a risk as a coming bear market. But it does mean moving portfolios to a more defensive position with excess cash invested into funds providing a solid yield and protected from increased inflation and interest rates.

... So what does this mean for clients? For those with individual stocks in their portfolios, we've harvested positions with a loss (for tax purposes), and will be reinvesting those funds in safer, higher yielding funds till the coming storm passes. For those with only funds in their portfolios, there will be some rebalancing to move the portfolio to a more risk averse position, though our core investment philosophy remains unchanged. ..."

Although not historically accurate, "Nero fiddled while Rome burned" came to mind as stocks crashed while Trump played golf. Two quotes to keep in mind as the coming Bear Market unfolds:

“Be assured ...that there is a great deal of ruin in a nation.” Adam Smith, 1777

In 1777, the future looked far from bright for Britain. The country was bleeding itself dry in North American wars, first against the French and then against their own colonists. This is what led John Sinclair to lament to Adam Smith that **“If we go on at this rate, the nation must be ruined,”** which elicited the skeptical reply above from the father of modern economics and capitalism.

Benjamin Graham, the father of value investing and Warren Buffett's mentor, used an imaginary investor called Mr. Market to express his view on market fluctuations. Your partner in a business, Mr. Market, on any given day, will offer to buy your share or sell you his at a specific price. Being a touch manic depressive, his moods can fluctuate anywhere between incredible optimism and overwhelming depression. Mr. Market’s judgment is formed more by mood swings that by rational thought and therein lies "**an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal"**.

For historical context, this from Morningstar's Paul D. Kaplan PhD, CFA:

... To measure the severity of each market crash in a way that takes into account both the degree of the decline and how long it took to get back to the prior level of cumulative value, I calculated a “pain index” for each one.

The pain index for a given episode is the ratio of the area between the cumulative value line and the peak-to-recovery line, compared with that area for the worst market decline of the past 150 years. So, the crash of 1929/first part of the Great Depression has a pain index of 100%, and the other market crashes’ percentages represent how closely they matched that level of severity.

For example, the market suffered a 22.8% drop during the Cuban Missile Crisis. The crash of 1929 led to a 79% drop, which is 3.5 times greater. That’s significant, but the market also took four and a half years to recover after that trough, while it took less than a year to recover after the trough of the Cuban Missile Crisis. So, the pain index, considering this time frame, shows that the first part of the Great Depression was actually 28.2 times worse than the Cuban Missile Crisis downturn.

The chart below lists the bear markets for the past nearly 150 years, sorted by the severity of market decline. It also shows the pain index and pain index ranks. ...

Largest Real Declines in US Stock Market History

Decline Rank	Decline (%)	Peak	Trough	Recovery	Pain Rank	Pain Index (%)	Event(s)
1	79.0	Aug 1929	May 1932	Nov 1936	1	100.0	1929 Crash & Great Depression
2	54.0	Aug 2000	Feb 2009	May 2013	3	85.5	Lost Decade (Dot-Com Bust & Global Financial Crisis)
3	51.9	Dec 1972	Sep 1974	Jun 1983	4	80.4	Inflation, Vietnam, & Watergate
4	51.0	Jun 1911	Dec 1920	Dec 1924	2	89.3	WWI & Influenza
5	49.9	Feb 1937	Mar 1938	Feb 1945	5	59.6	Great Depression & WWII
6	37.2	May 1946	Feb 1948	Oct 1950	6	29.1	Postwar Bear Market
7	35.5	Nov 1968	Jun 1970	Nov 1972	7	14.2	Inflationary Bear Market
8	34.2	Jan 1906	Oct 1907	Aug 1908	9	8.2	Panic of 1907
9	30.4	Apr 1899	Jun 1900	Mar 1901	10	8.2	Cornering of Northern Pacific Stock
10	30.2	Aug 1987	Nov 1987	Jul 1989	11	7.7	Black Monday
11	28.5	Dec 2021	Sep 2022	Mar 2024	8	8.4	Ukraine, Rise of Inflation, & Shortages
12	27.3	Oct 1892	Jul 1893	Mar 1894	17	3.1	Silver Agitation
13	22.8	Dec 1961	Jun 1962	Apr 1963	15	3.6	Height of Cold War & Cuban Missile Crisis
14	22.0	Nov 1886	Mar 1888	May 1889	12	6.3	Depression & Railroad Strikes
15	21.7	Apr 1903	Sep 1903	Nov 1904	13	5.0	Rich Man's Panic
16	21.1	Aug 1897	Mar 1898	Aug 1898	16	3.2	Outbreak of Boer War
17	20.5	Sep 1909	Jul 1910	Feb 1911	18	3.1	Enforcement of Sherman Antitrust Act
18	20.1	May 1890	Jul 1891	Feb 1892	14	4.8	Baring Brothers Crisis