Trump, Uncertainty, and Markets

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George L. Smith III, CFA®

Managing Director
Chairman, Investment Policy Committee

(804) 780-2155
gsmith@investdavenport.com

Markets have been challenging recently. As of this writing, the S&P 500® Index is down about 9% from its 52-week high reached in February, putting it close to "correction" territory (down 10%). This isn't that significant in a historical context nor reason to panic, but many stocks are down much more. According to CNBC, 203 stocks in the S&P were down more than 20% from their highs as of Monday, March 10th.

Even the much-loved technology behemoths are down sharply. Suddenly, the "Magnificent 7"* aren't so magnificent. Whether you want to call it a correction, pullback or a drawdown… it hasn't felt good recently. Perhaps this rough patch was overdue after a couple really good years, but this is cold comfort when stock prices quickly decline.

Why is this happening? Like him or not, the Trump administration has brought uncertainty to markets. He was elected in part under pretense of providing a boost to the economy. Markets initially rallied, but are now down since the election. Every day seems to bring a new surprise and the resultant policy uncertainty has begun to take a toll on the economic outlook. Put simply, uncertainty = higher risk = lower stock prices.

The biggest issues are tariffs and DOGE (Department of Government Efficiency). Whether one believes in the long-term benefits of these agendas or not, they may come at a near-term cost to the economy. Tariffs may or may not be necessary, but will clearly lift inflation and could weigh on economic growth. DOGE and chainsaw-wielding Elon Musk may bring efficiency and reduce waste, but it also means reduced government spending and massive layoffs.

Historically, President Trump has been very aware of stock prices and has viewed market action as a running report card on his progress. Recently, however, Trump himself has cautioned of a transition period and has not dismissed the possibility of a recession. Treasury Secretary Scott Bessent has warned of a "detox period" as we migrate from government spending to private spending.

Some early cracks in the economy have already emerged. Employment data has weakened a smidge, manufacturing data has slackened and both retail sales and consumer confidence have softened. It's not that bad yet and earnings estimates for 2025 still imply stout growth. However, many stocks are looking around the corner and seem to be telling us things will get worse. While weakness has been broad based, shares of cyclical and consumer-oriented stocks have been hit particularly hard.

What now? It seems to us markets have already discounted significant duress. We aren't saying investors should ignore the risks presented by rapid-fire policy changes. However, prices have quickly adjusted to at least partly reflect potential threats. We also think the Trump agenda could moderate if economic and/or market weakness becomes more pronounced (we think he is still sensitive to market action). Finally, bear in mind the Federal Reserve has more than ample room to lower interest rates and stands ready to move if economic data weakens. "Easier" monetary policy should provide support to stocks if economic weakness is manageable (i.e. not a total meltdown).

We are carefully monitoring the landscape and selectively leaning into some areas that have been hit hard. We can't promise we won't be early in doing so, but we can say we are getting better prices than just a few weeks ago. Recognizing things could get worse before they get better, we are doing our best to tread carefully. We look forward to reporting back to you at quarter end. In the meantime, do your best not to let CNBC, CNN or Fox News get the best of you!

*The Magnificent Seven ("Mag 7"), stocks are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

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