

CORE Comments

ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

May 13, 2025

Uncertainties and Confidence

There is an interplay in financial markets now between uncertainties about our government's policies, on the one hand, and the seeming confidence demonstrated by investors, on the other. (Bear with me for a couple of paragraphs as I explain a way to evaluate confidence.) Investor confidence may be measured by the beta of investors' holdings. Beta measures the risk or volatility of assets as compared to the stock market as a whole, generally deemed to be the S&P 500 index. A beta of one indicates that the asset's price moves with the S&P. A beta greater than one indicates that the asset is more volatile and fluctuates more than the S&P. A beta less than one indicates that the asset fluctuates less than the market as a whole.

When the so-called Great Financial Crisis of 2007 to 2009 was coming to an end, investors were extremely risk averse and the beta of assets held by private clients at Merrill Lynch was 0.75. People were scared. By 2023, confidence had grown and the beta of such accounts was 1.25 or so. Investors had become confident and were willing to take on risk. Then the beta went higher to 1.4 somewhat later. By the end of 2024, the beta of Merrill's private clients was at the astounding level of 1.7, a level that suggested extraordinary confidence in favorable asset returns and a willingness to take investment risk.

Then, come January 20th, Mr. Trump became the president and issued a blizzard of executive orders, some of which turned America's government upside down. In early April, came "Liberation Day," when Mr. Trump announced his intended tariffs on the various countries around that world that had been 'ripping off' the United States. Stock prices, which had been rather weak since January 20th, then collapsed. Mr. Trump, clearly unnerved by the response of the stock market (and by sentient beings), announced a 'pause' of ninety days before such extreme tariffs would take effect. (Tariffs on goods from China, a very important trading partner with America and a rather important country, were not paused and were set to be 145%, a level that would essentially stop trade between China and America. Store shelves at Walmart would be bare; container ships from China to the Port of Los Angeles would not appear.

Mr. Trump's beloved tariffs brought down the stock market, but also the beta of Merrill's private clients, which fell to 1.3. The interplay of uncertainty and confidence was on display in Monday's trading session. Secretary of the Treasury, Scott Bessent, was dispatched to Geneva over the weekend to discuss trade matters with his Chinese counterpart. It was announced overnight that the discussions had resulted in a ninety-day reduction in tariff levels to 30% on goods from China to America and 10% on goods from America to China. This news gave rise to a huge rally in stocks.

Can the apparent confidence of investors be squared with the extraordinary uncertainty engendered by our capricious and unpredictable president?

If it makes sense to you, kindly inform me. I don't get it.

By

Jack Mayberry

*Perhaps the uncertainty and
the equivocation are intended.*

*Does Mr. Trump believe that
unpredictability enhances his effort
to make America great...again?*

Have the uncertainties that characterize this administration gone away? Doubtful. The ‘deal’ with China is good for ninety days. And the level of tariffs agreed to, although lower than the absurd 145%, is still far higher than the tariff levels that existed before Mr. Trump was sworn in on January 20th. Similarly, before the weekend, the British prime minister, Keir Starmer, came to the White House and entered into a similar trade/tariff deal, one largely aspirational and short on details. A few weeks ago, Japanese officials sought to settle trade and tariff matters and went home empty handed. The shoot-first, think-later approach that Mr. Trump employs suggests to me that the story with tariffs is not over.

In normal circumstances, a complex matter like tariff discussions between China and America is the result of months of careful and quite negotiations between representatives of the countries, followed by an announcement and ratification by the heads of government. In this administration, the approach is to declare that, after a few hours of discussion in Geneva between the American and Chinese officials, a ‘deal’ has been made—but one that last for ninety days only.

This is a very unusual period to be investing. Normally, one considers broad moves in the economy and the likely actions of the Federal Reserve to make investment decisions. These remain fundamentally important, but the overlay of political uncertainty adds a new and quite problematic dimension to my work. As for these other matters—the economy and the Fed—tariff matters have loomed very large. The Fed, having cut interest rates in 2024, is pausing because of the uncertainties, despite the fact that US interest rates are quite high as compared to rates in Europe, Canada, Japan and China. The US economy is in a strange state, in that, because of the looming and confiscatory tariffs, many businesses and people bought things early, stock piling stuff before it became much more expensive. The result has been rather strong economic reports now, with the expectation that weak ones will follow.

This quote from today’s Financial Times sums up this interplay of uncertainty and confidence quite well: “Lingering economic uncertainty and the nonbinding nature of America’s latest trade deals should be enough of a reason for caution. Add in a mercurial president and market bullishness is hard to comprehend.”

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