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INVESTMENT SERVICES

Weekly Relative Value

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Market Strategist

WEEK OF APRIL 21, 2025

The Big Elephant in the Room

I was hoping to discuss something other than the trade war and tariffs this week, but unfortunately it remains the big elephant in the room with regard to the markets and the economy. So, without further ado, let's discuss.

First, here's a humorous take of the Trade War of 2025.

A big kid walks into the playground and suddenly throws sand in the little kids' faces and demands they pay him money.

The little kids are crying, "Why are you so mean to us all of a sudden? You used to be our friend."

Then the big kid runs into a kid of his size. Also throws sand in his face.

But the other big kid punches back. Repeatedly. Both get bloodied but won't stop.

The big kid says, "If you don't stop punching, I'll get the little kids to help me."

The little kids say, "Why should we help you; you've been so mean to us?"

So the big kids keep punching each other.

"You stop it."

"No, you stop it."

"Not until you show some respect."

— Penned by Sven Henrick, Northman Trader

THIS WEEK

- EVERYONE WANTS THE AMERICAN CONSUMER
- BRING BACK JOBS TO AMERICA
- KEEP YOUR EYE ON THE DOLLAR
- PANIC BUYING
- GDPNOW TRACKER RISES
- HARD LANDING?
- WHAT IF?
- WILL "TOO LATE" POWELL BE FIRED?
- MARKET OUTLOOK AND PORTFOLIO STRATEGY

EVERYONE WANTS THE AMERICAN CONSUMER

"There's no difference between China and any other country except they are much larger, and China wants what we have, what every country wants, what we have — the American consumer."
— President Donald J. Trump, April 15, 2025

While the above quote by President Trump is true, it is also inherently inconsistent and at odds with our economic objective of being a consumer-driven economy. Indeed, because U.S. economic growth is driven by Americans who are wired to spend, and who have insatiable tastes for foreign-made goods (German cars, Italian cheese, Belgian chocolates and French wine, you name it), it is not surprising that America has had trade deficits for 50 years.

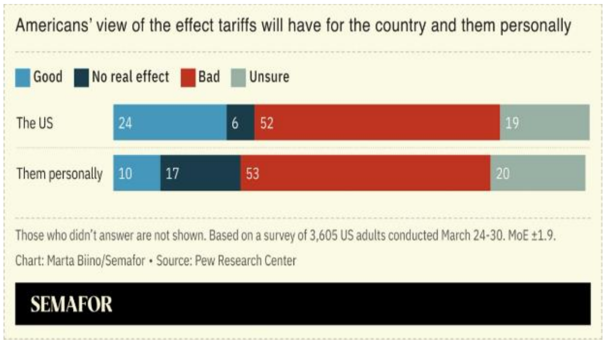
And unlike the U.S., the reality is that the rest of the world does not run "consumption-based" economies. They have higher tax rates and much higher personal savings rates. Does it not make sense that our country, which has among the lowest taxes (with no national sales tax) and a 70% spending-to-gross domestic product (GDP) ratio, would be running trade deficits with other countries? So, to a great extent, the trade gap reflects the differential between consumer spending to satisfy our wants and needs for now at the expense of savings for the future. Are there no economists at the White House to explain this to the President?

The view from China is a bit different. They argue that the U.S. is not getting "ripped off" by anybody. The problem is the U.S. has been living beyond its means for decades. We're able to consume more than we produce, and we pay for it by printing money. And so, the world gets our dollars, and we get their stuff. And they then use our dollars to buy our financial assets — stocks, bonds, and real estate. In essence we're indulging in our present to have a higher standard of living than we're entitled to. This is how the U.S. has benefited from globalization.

This is by no means an attempt to justify China's trade practices, which have not been justifiable since being allowed to join the World Trade Organization (WTO) nearly a quarter-century ago. This is an attempt to grasp the situation and do what I always do, which is to block out the noise, rhetoric and bullish biases that dominate Wall Street research and, most of all, to keep investors out of trouble.

As we move forward in the Trade War of 2025, the question is who suffers most politically from a total and violent economic decoupling — President Xi's tightly controlled China or President Trump's restless America, where 100 million consumers live on maxed-out credit cards and zero savings, vulnerable to a price spike in day-to-day goods, with no safety margin if they lose their jobs?

Moreover, it is important to remember that Trump was reelected primarily on the promise to lower prices. Trade and tariff issues were not on the voter's radar! And, as shown below, according to a new Pew survey, the majority of U.S. adults believe that tariffs on China will be bad for the U.S. and them personally. Actually, it's pretty insane that essentially zero Americans think the tariffs will be good for them personally.



Yes, reshoring American factories can happen in time, but it's not going to happen in six months. It would take 10 years at least. How many Americans are willing to suffer the consequences of reindustrialization for the next three to five years? That's why I don't understand this short-term pain, long-term gain stuff. American voters are not going to wait a decade to see whatever potential benefits come from this strategy. We are the immediate gratification country. China thinks in millenniums. Also, please understand that it took China 50 years to industrialize, and now U.S. policymakers think they can reverse that with blunt tariffs. Think about that the next time somebody says, "Just shift it to America."

To be clear, this is not to say that the better trade deals cannot be negotiated with China and elsewhere, but that will not eliminate the trade deficit, which is what Donald Trump wants. That is simply unattainable unless other countries change to a similar consumerism culture that exists in this country.

"Everybody wants to make a deal and if they don't want to make a deal, we'll make the deal for them. We're the one that really sets the deal, and that's what we'll be doing."
— President Donald J. Trump, April 17, 2025

How's that for instilling confidence? If you don't make a deal with us, we'll make a deal for you.

Moreover, the White House has taken a shotgun approach rather than targeting individual countries. Everybody with a trade surplus with the U.S. has become an economic enemy. But not every bilateral trade gap is due to unfair trade practices.

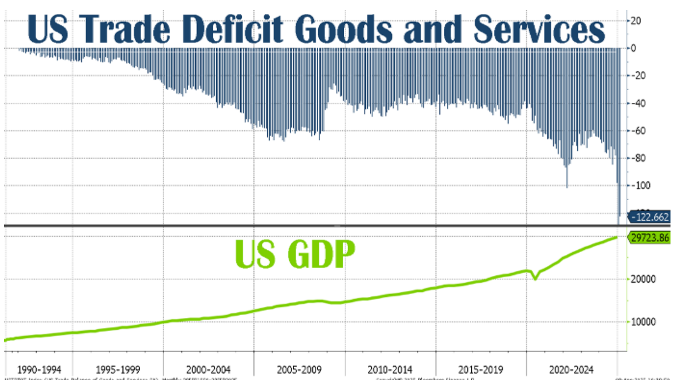
And surely even if you support the tariff strategy, everyone can agree that the roll out of the tariff strategy has been chaotic to say the least. On again, off again, reciprocal one day, reprieve the next day. All of these flip flops with no visible understanding of why each individual country runs trade surpluses.

And we should all look in our own backyard. The U.S. trade deficit is also closely tied to the massive U.S. fiscal deficit. Strip out both interest and military spending, and total federal program outlays since 2015, including both the Trump and Biden eras, have expanded at a near +6.5% average annual rate. We are running huge fiscal deficits even after defense and debt interest.

As we continue to spend with reckless abandon, the public debt to GDP is now at the same level as experienced during World War II. It's truly amazing we're still hung up on the trade deficit with a debt/GDP ratio like that. It's like worrying about a leaky faucet when the economic house is on fire. Address the real issues.

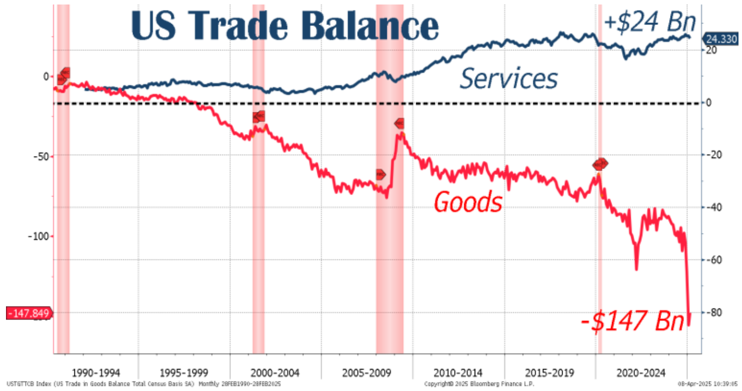
I also find it quite bizarre and somewhat perplexing that in a few months we have moved from the narrative of "American Exceptionalism" to the narrative that somehow the U.S. has been "ripped off" by the rest of the world. That is simply not true. Have a look at the next graph, which plots U.S. GDP versus U.S. trade deficits. There is no correlation between trade deficits/surpluses and economic growth. Zilch, nada.

In fact, the U.S. has been running trade deficits almost every year for a half-century, during which the economy grew, became the wealthiest country on the planet Earth and the envy of the world. Of course we have problems. Trade deficits didn't cause them. Yet many people (including the President) accept a fundamentally wrong idea that trade deficits are bad.



We can all agree that China is a menace (and the sucking sound to Mexico is exactly what Ross Perot predicted) yet Trump and his team are spending far less time going after Mexico. And why are they attacking our longstanding and closest neighbor to the North even though trade — net of cheap oil that its exports to us — is in balance?

It's also important to stress that the U.S. is a high-value-add service sector economy and runs enormous trade surpluses on services with the rest of the world. We'd rather sell you mergers and acquisitions consulting at 40% net profit than Nike's at 4% net profit. It's called comparative advantage. Yet this is never discussed…anywhere. It's all about the goods sector, which has been decimated in "all" advanced countries, and it is not just because of China and other Asian countries taking market share.



Let me end by throwing this positive thought out there.

Consider the following quote from the *Art of the Deal*:

"My style of deal-making is quite simple and straightforward. I aim very high, and then I just keep pushing and pushing and pushing to get what I'm after. Sometimes I settle for less than I sought, but in most cases I still end up with what I want. The final key to the way I ***promote is bravado****. It's an* ***innocent form of exaggeration, and a very effective form of promotion****."— President Donald J. Trump*

Despite the ongoing trade war, could it be that the President doesn't really want a trade war but a bunch of "deals" (which is supposedly happening)? After all, Trump, when all is said and done, is purely "transactional." Maybe all the negative trade announcements will be rescinded when the President can showcase his "wins" to the public.

As for "winning," Nvidia did say that it would start producing AI supercomputers that will be manufactured entirely in the U.S. (a day after the administration said tariffs are coming for semiconductor imports). This comes barely more than a month after Apple stated it would invest $500 billion in the U.S. over the next four years. These are the "wins."

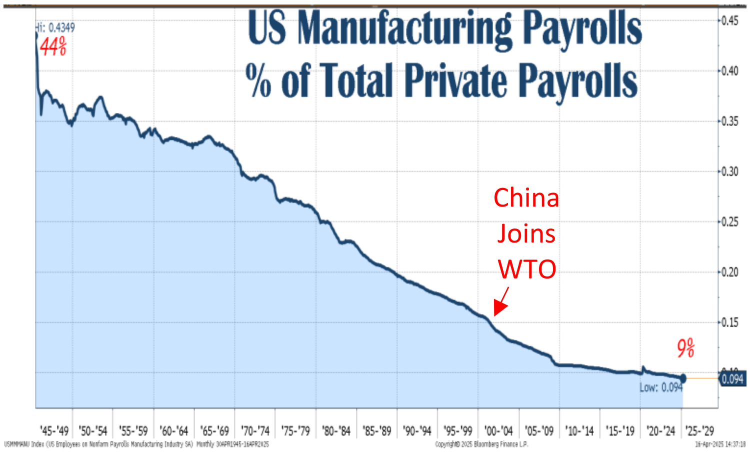
Bottom line: Nobody really knows what happens next, but I think it's safe to say that there won't be a quick end to this trade war. Possibly this ends up with a bunch of side deals. Perhaps the bigger risk is how the world view of America has undergone a profound shift and what the future holds with the U.S. adopting a much more isolationist role. When this has happened in the past, let's just say that things did not turn out that well for the world writ large.

BRING JOBS BACK TO AMERICA

*"You realize trillions of dollars of factories are going to be built in America. That's huge GDP. The factories being built in America are huge."****— Howard Lutnick, Commerce Secretary***

"That takes years, and you said that robots are going to fill those jobs. So those aren't union worker jobs…"
— Margaret Brennan, Host of Face the Nation

As to the claim that the tariffs will force manufacturing companies to reshore in America and hire tens of thousands of American workers, I would say don't bank on it. Have a look at the following graph.



The loss of manufacturing jobs did not start when China joined the WTO in 2001. The decline of manufacturing jobs started in 1945, at the end of World War II. At that time, all of Europe, Japan and the Soviet Union were ruined. The U.S. was the only country with manufacturing capacity to produce the world's stuff. And we became the manufacturer of the world!

And then, as the world rebuilt, we slowly and consistently began losing that advantage. The truth is, we were always destined to lose our disproportionate control of global manufacturing.

That's the cold hard truth.

While trade deficits have been blamed for the loss of manufacturing jobs, the bigger driver of lost manufacturing jobs has been technology and productivity. That secular trend is unlikely to be reversed anytime soon.

Yet the administration does not want to hear this. To wit: Commerce Secretary Howard Lutnick's commented on CBS News that an "army of millions and millions of human beings screwing in little, little screws to make iPhones, that kind of thing is going to come to America."

If that kind of automation came to the U.S., then it would be without the "army of millions and millions of human beings screwing in little, little screws."

In reality, "millions and millions [thousands] of human beings screwing in little, little screws" is a requirement because no one has figured out how to automate this.

Otherwise, this would be automated already.

And we should not attempt to claw back most of this manufacturing because low level manufacturing is the most inefficient form of modern economic activity. Let's face it, do we really want to invest in textile companies making T-shirts and yoga pants that cost 50% more than what we can source from Asia?

Bottom line: This trade war is unlikely to materially change the industrial landscape in the U.S.

The bigger risk is that the Trump Trade War could lead to a lasting breach of trust with America and an exodus from dollar assets. Markets will watch for signs of it in the days and weeks ahead. It will be hard for risk assets to stage a sustained rally until this risk has been clearly averted. Until then, uncertainty leaves everyone in a state of suspended animation.

KEEP YOUR EYE ON THE DOLLAR

I urge readers to keep an eye on the U.S. dollar, which is breaking down. The world's reserve currency, normally the oasis in chaotic times , has sunk more than -7% over the past sixty days and is at the lowest level since 2022!

Even with the European Central Bank cutting rates by a quarter point last Thursday as expected, citing tariffs and a declining global growth picture, the U.S. dollar continues to plumb new lows. Given that U.S. interest rates are so much higher than most other parts the world, the U.S. dollar should be appreciating, not depreciating. Historically, the country slapping on tariffs is not the one with the depreciating currency. So what gives?

The only conclusion seems to be a growing loss of confidence in U.S. policy, and this is precisely why the gold price has continued to make record-breaking highs all year long.

The problem right now is not the trade war (even though the 10% blanket duties and 145% tariff on China are still intact). That issue has now been displaced from the front pages of the morning papers by Donald Trump's threats to fire Fed Chairman Jay Powell.

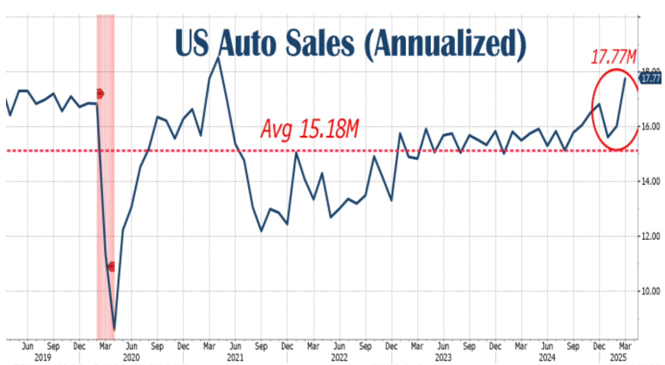
PANIC BUYING

"It's hard to feel good about Americans panic buying cars as consumer confidence craters…The economic outlook is in flux with large changes to trade policy nearly every day. Businesses selling cars, appliances and electronics are likely to see less demand in the next month or two as panic buying ends."
— Bill Adams, Chief Economist, Comerica Bank

Following two disappointing months, retail sales were expected to rebound strongly in March. Indeed, they did with a +1.4% month-over-month spurt. Retail sales have risen +4.6% year to date — the highest since December 2023**.**

The key "control" group, which feeds directly into the consumer spending segment of the GDP report (headline excluding autos, gas and building materials), came in light against expectations at +0.4% but there were hefty upward revision to February to +1.3% from +1.0%.

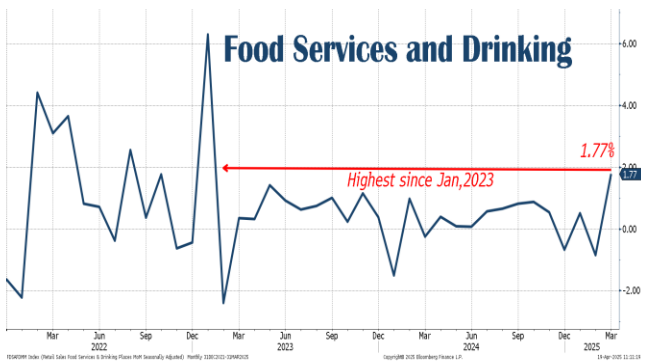
In real inflation adjusted terms (volume), sales rose an impressive +1.5% month, though this followed a flat February and a -1.5% slide in January. But for the entire quarter, inflation-adjusted retail sales declined at a -2.5% annual rate. It is going to be very tough for the real GDP to have escaped contraction in the first quarter.



There was a dramatic front-running impact in auto buying (ahead of Donald Trump's 25% auto tariffs).The motor vehicle segment surged +5.3% after two months of decline in the sharpest increase since January 2023.This is not surprising at all. A report by Anderson Economic Group estimated that the tariffs could add at least $2,500 in new costs per vehicle at the lower end of the market to as much as $20,000 for luxury imports.

It was the same for building materials, (possibly ahead of Canadian tariffs) which had posted falloffs in each of the prior five months. They bounced +3.3% month over month in March — the biggest bulge in four years. A clear outlier. Ditto for sporting goods (often imported from China), which jumped +2.4% after having dropped in four of the prior five months.

One positive thing that transcended the tariff file was the restaurant sector. After sputtering from November to February, restaurant sales experienced a huge +1.8% recovery in March (the best performance since January 2023). So, while you can shrug off the auto and recreation spending surge, it's hard to suggest that people piled into restaurants to beat tariffs.

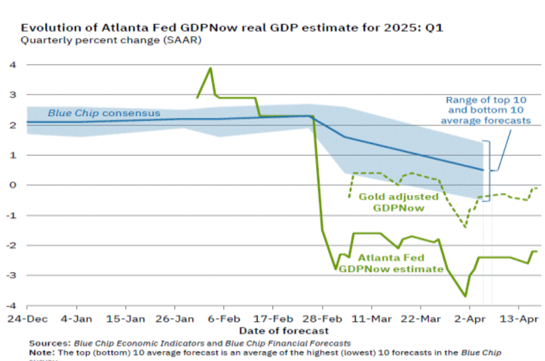


Bottom line: The March data capture spending before the turmoil of Trump's reciprocal tariffs and before he hiked levies on most Chinese goods to 145%. Everyone knows that households were front running the tariffs. Because of the brief spurt of stockpiling to avoid price hikes later from tariffs, one can expect a short-lived bounce in the data that will only serve to cloud the outlook later in Q2 and into Q3.

GDPNOW TRACKER RISES

The Atlanta GDPNow tracker estimate for Q1 2025 real GDP growth is **-**2.2% as of April 17. The alternative model tracker, which adjusts for imports and exports of gold is -0.1%.

The important number is Real Final Sales (RFS), which is tracking at -0.4% . The difference between the Atlanta GDP Nowcast and RFS is inventory adjustment that nets to zero over time. However, I wonder about inventories looking ahead because of all the tariff front-running of parts and general merchandise from highly tariffed nations.

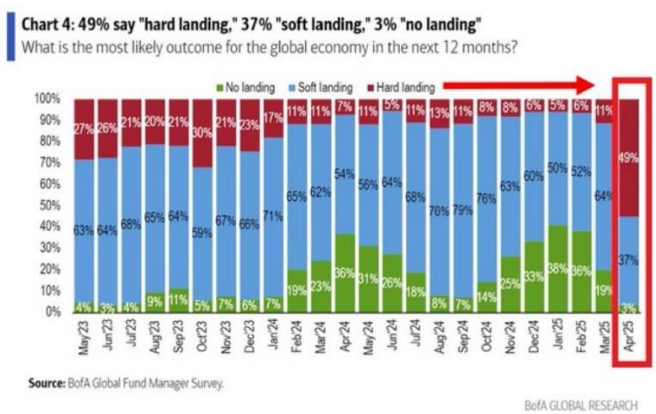


Bottom line: The quarter is over, but we still have about two weeks of data coming in. Unless there are some significant positive surprises, the GDP in Q1 is likely to be flat to negative.

HARD LANDING?

According to the BofA survey of professional money managers, a net 49% of investors believe a HARD LANDING is the most likely outcome for the world economy.

This is a MASSIVE shift in sentiment as 83% expected “no” recession in March.

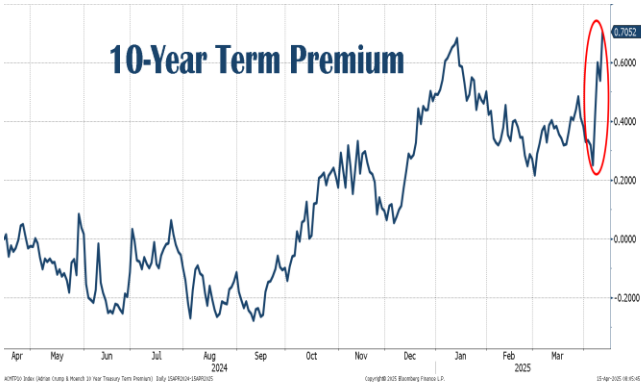


The typical Wall Street economist is a tad cagey on this — an ever-expanding share is calling for 0% real GDP growth for the U.S. this year, but few are above a 50% probability for an outright recession.

Additionally, the Bank of America Global Fund Manager Survey showed that a record share of global portfolio managers intend to cut their holdings of U.S. stocks. Foreign investors hold around $20 trillion of U.S. equities. This is consistent with their macro views since investors think the potential for a recession spurred by the Trump Administration’s trade war is increasingly becoming a base-case scenario.

At least 73% say that “American exceptionalism” has peaked (which begs the question as to why so many foreign leaders are lining up to do “deals”), and the outlook for both the stock market and the U.S. dollar has been dialed back to levels last seen in 2006-2007.

Fund managers are taking advantage of the backup in bond yields to increase their allocation to fixed income at an unprecedented pace. The backup in yields was entirely due to the rapid increase in the term premium — the heartbeat of investor uncertainty and government policy unpredictability — which has risen to 0.71%, the highest since September 2014.



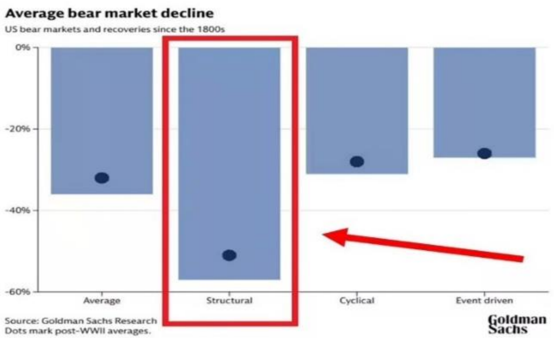
WHAT IF?

We have never before seen a recession take hold without an outright bear market in equities. At the worst point of this latest correction, we were barely past the halfway mark in terms of pricing one in.

What happens to the stock market, if the dreaded "recession" word comes to fruition?

According to data from Goldman Sachs, if a recession occurs, the historical data shows the S&P 500 saw up to 57% maximum drawdowns in the past.

- The S&P 500 has DROPPED 35% on average since the 1800s.
- Structural bear markets, like during the 2008 Financial Crisis or in the 1970s, have seen nearly 60% average drawdowns.



Bottom line: With valuations still stretched and future earnings susceptible to downward revisions due to the uncertainty around the trade war, any recession would likely lead to additional, if not, significant losses.

WILL "TOO LATE" POWELL BE FIRED?

"President Trump is the chief executive of the executive branch and reserves the right to fire anyone he wants." — Karoline Leavitt, White House Press Secretary

Jerome Powell (a Republican himself) was appointed by Trump in 2018. This is what the President said about Powell in November 2017 when he nominated him to chair the Fed :

“He’s strong, he’s committed, he’s smart. I am confident that with Jay as a wise steward of the Federal Reserve, it will have the leadership it needs in the years to come.”

But this is what the President said last week:

*The ECB is expected to cut interest rates for the seventh time, and yet, "**Too Late” Jerome Powell of the Fed, who is always TOO LATE AND WRONG,** yesterday issued a report which was another, and typical, complete "mess!” Oil prices are down, groceries (even eggs!) are down, and the USA is getting RICH ON TARIFFS. **Too Late should have lowered Interest Rates**, like the ECB, long ago, but he should certainly lower them now. **Powell's termination cannot come fast enough**!*

I guess he changed his mind. What do you think?

According to *The Wall Street Journal*, Trump has been thinking about firing Jay Powell for many months, but hasn’t made a final decision about whether to try to oust him before his term ends in May 2026.

Supposedly, Trump has spoken with former Fed governor Kevin Warsh about potentially firing Powell before his term ends and possibly selecting Warsh to be his replacement. Warsh has supposedly argued that he should let the Fed chair complete his term without interference.

Likewise, Treasury Secretary Scott Bessent has reportedly consistently pushed back against Trump arguing that doing so would provide little benefit relative to the high potential cost. This past week, he referred to the Fed’s independence on monetary policy as a “jewel box” that the U.S. should never compromise**.** Last week, Bessent indicated that the administration’s timeline for considering Powell’s successor was roughly six months away. But replacing Powell is something "we think about...all the time."

Meanwhile, Powell played down the threat to the Fed's independence during an interview at the Economic Club of Chicago:

"Generally speaking, Fed independence is very widely understood and supported in Washington, in Congress, where it really matters.”

Last November Powell was asked whether he would step down if Trump asked him to resign. Powell gave a blunt answer: "No." He later added that the removal or demotion of top Fed officials was "not permitted under the law."

Indeed, it has been widely understood that the President cannot fire the Federal Reserve Chair before the end of their term, except “for cause” (e.g., misconduct, neglect of duty). This does NOT include policy disagreements or political differences. This ensures the Fed’s independence from short-term political pressures and protects the Fed from threats in managing monetary policy.

"The decision of the White House to fire me before the completion of my term is wrong."
— Todd Harper, Former Board Member, National Credit Union Administration (NCUA)

However, Trump’s ability to remove top officials at what had historically been agencies independent from the White House has come into sharp focus in recent months after Trump fired the two Democrats on the three-member board of the NCUA. NCUA board members Tanya Otsuka, a Biden appointee, and Todd Harper, who was appointed by Trump in 2019, were let go last week.

The NCUA is the latest regulator with oversight of banks and businesses to be stripped of Democrats. In fact, there are NO Democrats on the boards for NCUA, the Federal Deposit Insurance Corporation and the Federal Trade Commission even though all three were designed to be bipartisan commissions. At the U.S. Securities and Exchange Commission, Caroline Crenshaw is the only Democrat remaining. Her term ends in December.

These latest firings come on the heels of similar dismissals at other agencies (Federal Trade Commission, the National Labor Relations Board and Merit Systems Protection Board) that were formerly believed to be independent.

Strict partisan financial regulation is not a win for the financial industry and markets. Regulations are better and more likely to be moderate enough to survive elections if they emerge from bipartisan boards.

Even Powell has taken notice:

“There’s a Supreme Court case. People will have read probably…That’s a case that people are talking about a lot. ***I don’t think that decision will apply to the Fed, but I don’t know… It’s a situation that we’re monitoring carefully****.”*

Bottom line: Trump has been knocking down independent financial watchdogs like dominoes and the last one in the line is the Federal Reserve. The last thing the markets need is a “puppet” Fed chair who is controlled by the puppeteer in the Oval Office.

If Powell is fired and the courts uphold the firing, it would imply any successor could also be terminated if the president disagreed with his monetary policy. In that world, it matters less if the individual is "hawkish" or "dovish': POTUS effectively sets policy.

When Powell's term is terminated or expires, Trump would likely nominate the most dovish replacement to ever chair the Fed. His nominee will be a loyal soldier willing to sacrifice the dollar and create as much inflation as needed to monetize exploding debt to keep interest rates artificially low.

Finally, we must also consider whether Trump actually wants Powell “gone” or is setting him up as the scapegoat in the event that the U.S. economy slips into recession.

In the event rates are not cut, Trump can blame him for once again being "too late and slow."

MARKET OUTLOOK AND PORTFOLIO STRATEGY

The following quote aptly summarizes the current environment:

"Uncertainty has defined financial markets this year. It's not going away because the source of the problem is the Trump administration. I think it's time to accept that disruption is here to stay." — Jeff Sommer, "It's Gotten Riskier to Be a Long-Term Investor," The New York Times

These are definitely not normal times, and while they may be a day-trader's dream, they are an investor's nightmare. The volatility across all markets these past two weeks rival what we endured in the 2008 Global Financial Crisis and the 2020 pandemic recession.

As we start the new trading week, the market turbulence continues with U.S. equity futures squarely in the red (Dow down -360 points). The 10-year Treasury note has failed to garner any flight-to-safety bid, with the yield climbing +6 basis points to 4.39%.

The problem right now is not the trade war (even though the 10% blanket duties and 145% tariff on China are still intact). That issue has now been displaced from the front pages of the morning papers by Donald Trump's threats to fire Fed Chairman Jay Powell.

Meanwhile on the monetary policy front, last week, Powell warned that the tariffs could lead to higher inflation and higher unemployment. In a word, "stagflation." Powell's assessment threw cold water on the markets expecting more Fed accommodation. President Trump did not take the news well and threatened to fire the Fed Chair.

We are also finding out in real time that there is no "Fed put." Powell said as much last week. So, you can put that hope to rest. And, unless the President continues to back off, which is difficult since everyone on his team wants these huge tariffs to stay, there really is no "Trump put," either.

All while we are now 11 days into the 90-day reciprocal tariff pause with earnings season in full swing. All signs point to more volatility this week.

Uncertainty is off the charts!

Bottom line: As I stated last week, the economy was slowing before the tariff fiasco and inflation had clearly peaked. In other words, if not for the tariff war, the Fed would very likely be cutting rates at the May meeting.

In this environment of extreme volatility, the only prudent thing to do is to stay on the course. Continue to maintain a risk appropriate ladder strategy while buying bonds on (price) dips.

MORE INFORMATION

For more information about credit union investment strategy, portfolio allocation and security selection, please contact the author at **tom.slefinger@alloyacorp.org** or (630) 276-2753.

As Alloya's Market Strategist, **Tom Slefinger** leverages nearly 40 years of investment strategy expertise to deliver insightful commentary on the economy and market events to optimize balance sheet performance at the credit union level. With thousands of subscribers, Tom's daily and weekly publications are widely read amongst credit union executives.

Prior to becoming the corporate's Market Strategist, Tom served as the Senior Vice President of Institutional Fixed Income Sales at Alloya Investment Services, a division of Alloya Solutions, LLC. In this role, Tom developed and managed operations associated with institutional fixed income sales in addition to developing investment portfolio strategies, identifying appropriate sectors and securities, and optimizing portfolio performance at the credit union level.

Tom holds a B.S. in business administration from the University of Maine. In addition, he holds a Series 7 and 63 through ISI.