

Fifty Days of Grey: well, that was fast; also, the reconciliation bill and a swan song for NATO

Here's the interesting thing about the stock market: it cannot be indicted, arrested or deported¹; it cannot be intimidated, threatened or bullied; it has no gender, ethnicity or religion; it cannot be fired, furloughed or defunded²; it cannot be primaried before the next midterm elections³; and it cannot be seized, nationalized or invaded⁴. It's the ultimate voting machine, reflecting prospects for earnings growth, stability, liquidity, inflation, taxation and predictable rule of law.

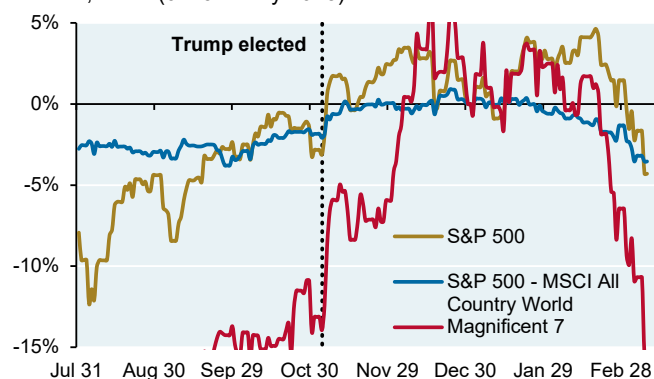
While market consensus assumed the administration would carefully balance inflationary, anti-growth policies with pro-growth policies, it has come storming out of the gate in the first fifty days with more of the former than the latter⁵. Equity investors do not like Trump's current policy mix, as I had anticipated in the 2025 Outlook:

"The Alchemists aim to break something, whether it's globalization, the Federal bureaucracy, the IRS, the FBI, Medicare, US vaccine policy, lax US border policies, its Deep State opponents or something else⁶. Whatever the goals, I take the Alchemists at their word: they are going to break something, I just don't know what. For investors, there's little room for error with valuations this high and since valuations are now driving markets just as much as earnings growth. While US equity markets should end the year higher than they began, I expect a 10%-15% correction at some point in 2025 as the Alchemists apply their elixirs to the US economy".

Eye on the Market 2025 Outlook Executive Summary

US vs global equity total returns

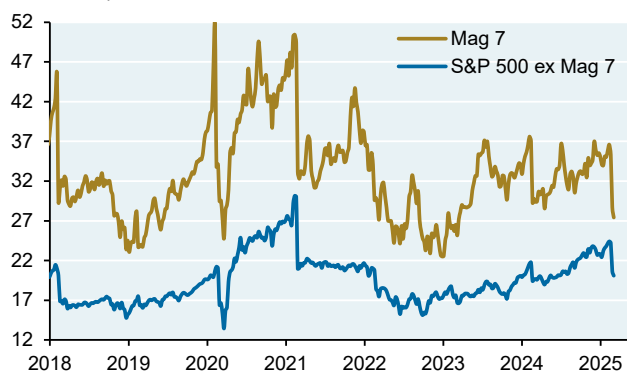
Percent, index (0 = January 2025)



Source: Bloomberg, JPMAM, March 11, 2025

US equity valuations

Forward P/E ratio



Source: Bloomberg, JPMAM, March 7, 2025

¹ **Illegal border crossings** have hit a 60-year low; 85% of those deported have criminal records or pending criminal charges; Trump pace of deportations lags administration targets, is roughly equal to Biden 2024 levels

² The now crippled **National Institutes of Health** supported 99% of the drugs approved in the US from 2010 to 2019, and had a hand in nearly all major medical breakthroughs of the past few decades. Starting in late January, the NIH stopped issuing new awards and began withholding funds from grants that had already been awarded

³ *"GOP senators terrified of crossing Trump, facing Musk-funded challengers"*, The Hill.com, February 10, 2025

⁴ Trump intends to "retake" the **Panama Canal**, somehow. For context, China accumulated a lot of influence in the canal zone through infrastructure contracts in logistics, electricity and construction. Such projects are part of China's Belt and Road vision, onto which Panama was the first Latin American country to sign in 2018. In 2016, the China-based Landbridge Group acquired control of Panama's largest megaship port. Construction was carried out by the China Communications Construction Company (CCCC, also active in China's island-building in the South China Sea) and the China Harbor Engineering Company (CHEC). Then in 2018, a Chinese consortium led by CHEC and CCCC was awarded a \$1.4 billion contract for the Canal's fourth bridge. Source: CSIS.

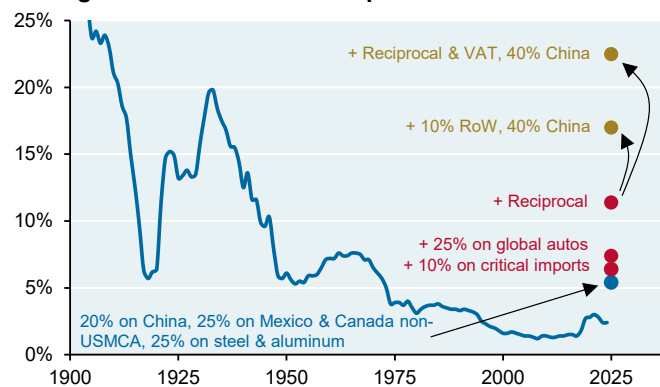
⁵ How do people who were generally against large tariff increases their entire professional lives all of a sudden switch to supporting them as Administration Cabinet members? The only comparable thing I have seen is what happens to Katherine Ross at the end of **The Stepford Wives**

⁶ More to come but the 133-page Trump DoJ filing arguing for **Google divestitures and bans on default search engine payments and future AI/search acquisitions** may be negatively affecting sentiment as well

It will take time before the benefits from pro-market policies of the administration materialize (deregulation, infrastructure permitting, more inbound FDI, DOGE spending cuts⁷, etc). In the meantime, I expect Trump to proceed with some kind of reciprocal tariff announcement in March or April [see the Appendix for a discussion on auto sector sensitivity to new tariffs and evidence from the 2018 steel tariffs]. When/if 12%-15% correction levels are hit on the S&P 500, I would look at deploying some of a portfolio's excess liquidity.

I could be convinced that the US needs painful short-term adjustments (a "detox period" as Treasury Secretary Bessent describes it) to reduce chronic deficits in traded goods. But it's hard to trust economic management by an administration that (a) spends time/energy on a "strategic crypto reserve", something that only materialized after the crypto sector's generous political contributions during the 2024 election; and (b) is now attacking the CHIPS bill⁸, despite massive US reliance on Asian semiconductor exports. Chip company executives are reportedly already calling lawyers to assess whether the administration can terminate signed contracts; the Commerce Department has now laid off 40 CHIPS office employees, nearly a third of the team.

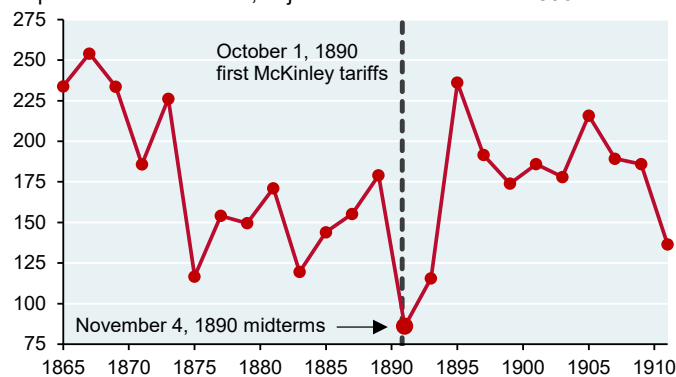
Average tariff rate on all US imports



Time capsule: McKinley tariffs were very popular at the time they were enacted (he championed them as House Ways and Means Committee Chair), but they caused an almost immediate inflation spike. Voters were very unhappy: a few months later, the GOP lost 100 seats in the 1890 midterm elections. The GOP loss in 1890 is the third largest in the history of the House going back to the Civil War.

McKinley tariff aftermath: 1890 midterms

Republican House seats, adjusted for House size in 1890



⁷ While DOGE claims \$105 bn in savings, these figures are reportedly riddled with errors. Here's a [debunking](#) of Musk's "Social Security payments to dead people" nonsense from the BC Center for Retirement Research

⁸ "Trump's Call to Scrap 'Horrible' Chip Program Spreads Panic", NYT, March 11, 2025

O, Canada!**This is a real message from the President of the United States⁹:**

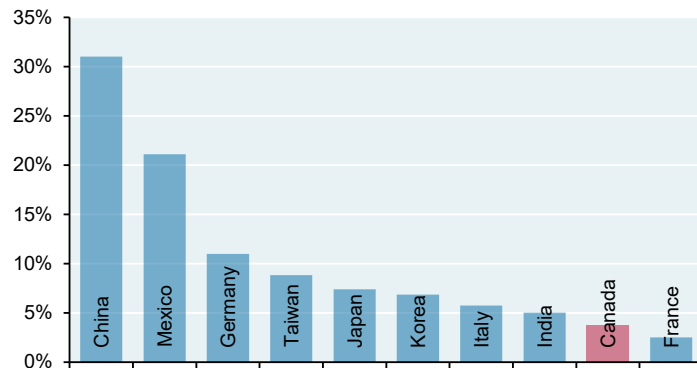
“Based on Ontario, Canada, placing a 25% Tariff on “Electricity” coming into the United States, I have instructed my Secretary of Commerce to add an ADDITIONAL 25% Tariff, to 50%, on all STEEL and ALUMINUM COMING INTO THE UNITED STATES FROM CANADA, ONE OF THE HIGHEST TARIFFING NATIONS ANYWHERE IN THE WORLD. This will go into effect TOMORROW MORNING, March 12th. Also, Canada must immediately drop their Anti-American Farmer Tariff of 250% to 390% on various US dairy products, which has long been considered outrageous. I will shortly be declaring a National Emergency on Electricity within the threatened area. This will allow the US to quickly do what has to be done to alleviate this abusive threat from Canada. If other egregious, long time Tariffs are not likewise dropped by Canada, I will substantially increase, on April 2nd, the Tariffs on Cars coming into the US which will, essentially, permanently shut down the automobile manufacturing business in Canada. Those cars can easily be made in the USA! Also, Canada pays very little for National Security, relying on the United States for military protection. We are subsidizing Canada to the tune of more than 200 Billion Dollars a year. WHY??? **This cannot continue. The only thing that makes sense is for Canada to become our cherished Fifty First State.** This would make all Tariffs, and everything else, totally disappear. Canadians’ taxes will be very substantially reduced, they will be more secure, militarily and otherwise, than ever before, there would no longer be a Northern Border problem, and the greatest and most powerful nation in the World will be bigger, better and stronger than ever — And Canada will be a big part of that. The artificial line of separation drawn many years ago will finally disappear, and we will have the safest and most beautiful Nation anywhere in the World — And your brilliant anthem, “O Canada,” will continue to play, but now representing a GREAT and POWERFUL STATE within the greatest Nation that the World has ever seen!” President Trump, Truth Social, March 11, 2025

When I regained consciousness after reading this message, I looked for justification for the \$200 bn figure Trump cited as annual US subsidies of Canada. What I found:

- Canada ranks as one of the smallest components of the US trade deficit despite being the second largest trading partner of the US (i.e., bilateral trade terms are “fair”)
- The US runs a trade *surplus* with Canada once energy is excluded, including in autos
- Canada supplies the US with 50%-80% of its zinc, tellurium, nickel and vanadium consumption
- **As a reminder, energy and critical minerals sold by Canada to the US are byproducts of explicit US efforts to reduce reliance on the Middle East and China. The notion that bilateral energy deficits with Canada are “subsidies” is economically, politically and geologically illiterate**
- Even if you take the entire bilateral deficit including energy, and add in ~\$45 bn per year to raise Canada defense spending to 3% of GDP, you still don’t get anywhere near Trump’s \$200 bn figure
- The 51st state issue is a bizarre fever dream related to Trump’s resurrection of Polk’s Manifest Destiny policies from the 1840’s

Contribution to the US trade deficit by country

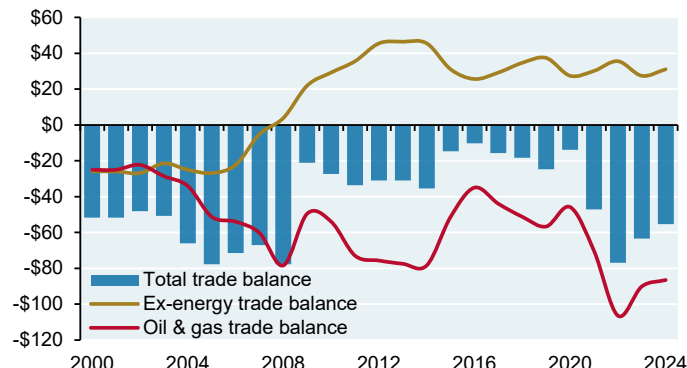
Share of 2024 total US deficit, percent



Source: Census Bureau, TD Economics, January 2025

US trade balance with Canada

US\$ billions



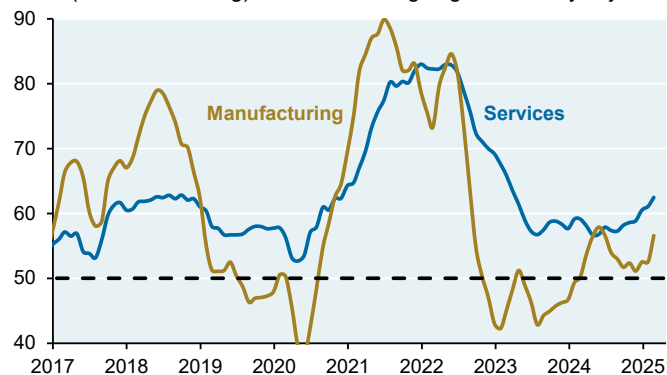
Source: Census Bureau, TD Economics, January 2025

⁹ Trump threatened to double tariffs on Canadian steel and aluminum exports to 50% after Ontario applied a 25% export tax on electricity transfers to northern US states. However, Trump backed down when Ontario suspended its electricity tax after only 1 day. Canada is the largest exporter of both aluminum and steel to the US. Imports account for ~25% of US steel consumption and ~50% of US consumption of aluminum.

Here are some other trends we're following, from the Trump Tracker linked above: rising inflation and inflation expectations, a decline in new orders less inventories (my favorite leading indicator) and a rollover in small business capital spending plans, a trend that may continue given the surge in policy uncertainty and the barrage of economic gibberish coming out of the White House¹⁰.

ISM surveys: prices paid

Index (50+ = increasing), 3 month moving avg, seasonally adjusted



Source: Bloomberg, JPMAM, February 2025

ISM new orders less inventories

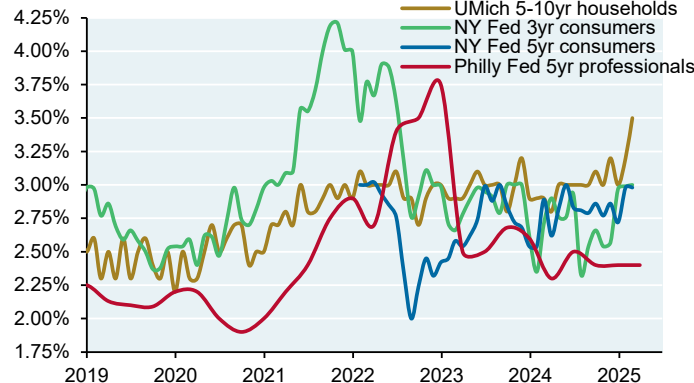
Index



Source: Bloomberg, JPMAM, February 28, 2025

US medium and long term inflation expectation surveys

Percent



Source: Bloomberg, JPMAM, February 2025

Small business capex plans, % of NFIB Survey respondents planning any capex in next 3-6 months, seasonally adjusted



Source: Bloomberg, JPMAM, February 28, 2025

¹⁰ Trump stated this week that a Tesla boycott by “radical left lunatics” is illegal. The Supreme Court has held that calls to engage in peaceful boycotts, particularly outside the context of labor relations and when the boycott is intended to convey a political message, generally trigger constitutional protection under the First Amendment. One example of a constitutionally protected boycott was the campaign against Bud Light in 2023. Boycotts may be restricted or trigger liability in certain circumstances, however, particularly in the labor relations context, when they are based on defamatory or otherwise false claims, or when they seek to induce illegal conduct. There does not appear to be any basis upon which the federal government generally could prevent private actors from urging consumers to boycott Tesla as a means of protesting Elon Musk's role in the Trump Administration.

Other Day 1-50 projects: a budget reconciliation bill

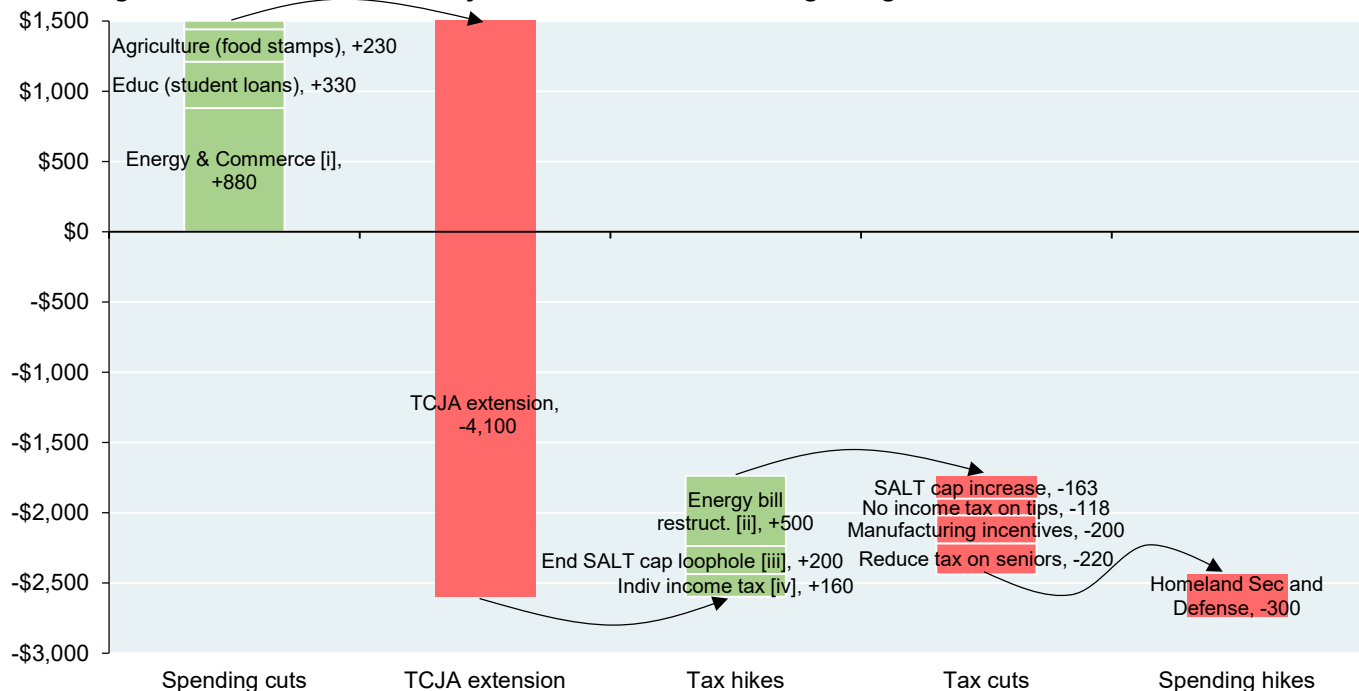
While the tariff saga plays out, the GOP is working on “one big beautiful budget reconciliation bill”. It’s quite a challenge given narrow GOP margins in the House. There are a lot of possible iterations; I have illustrated one of them below so you can see the moving pieces. A few things to notice:

- The general outline to follow, in order: pass spending cuts, extend all tax cuts (which costs \$4.1 trillion), raise some revenues, then do some more tax cuts and finally increase spending on homeland security and defense. At the end of the process, the deficit would expand by ~\$2.7 trillion over the budget window vs the CBO baseline, which would be roughly equal to a 1.5% annual expansion in the deficit. As a reminder, the CBO baseline assumes most TCJA tax cuts sunset to pre-2017 levels; that wasn’t going to happen no matter who won the election (Harris proposed extending all cuts for people with AGI below \$400k)
- The politically most sensitive part: ~\$700 billion in proposed Medicaid cuts which fall under Energy & Commerce committees
- Note the \$500 bn raised by restructuring of Biden’s energy bill. As we described in the energy piece, most of the reductions would come from reduced EV credits and scaled back versions of wind/solar PTC/ITC/45x credits as well
- There are two SALT cap items in here: one to increase the cap as insisted upon by Blue State GOP members, and another to tighten loopholes used by higher income SALT taxpayers
- Unless tariffs are actually legislated by Congress, their projected receipts do not count towards deficit reduction so they are not included in the chart

Budget reconciliation bill: exploring the policy options

Scenario outcome: \$2.7 trillion expansion of budget deficit over 10 year window vs CBO baseline

Assuming \$4 trillion instruction to Ways and Means Committee regarding allowable increase in net deficit



Source: JPMAM, Piper Sandler, 2025. [i] Energy & Commerce includes Medicaid cuts (Disenrollment \$299, State programs \$200, Program cuts \$212). [ii] Mostly EV tax credit reduction plus scaled back PTC/ITC/45x credits. [iii] Applies to higher income taxpayers. [iv] Individual income tax hikes include ending employee retention credits, ACA credit premium recapture and child tax credit SSN requirement. Positives/green = spending cuts & tax hikes; negatives/red = tax cuts & spending hikes.

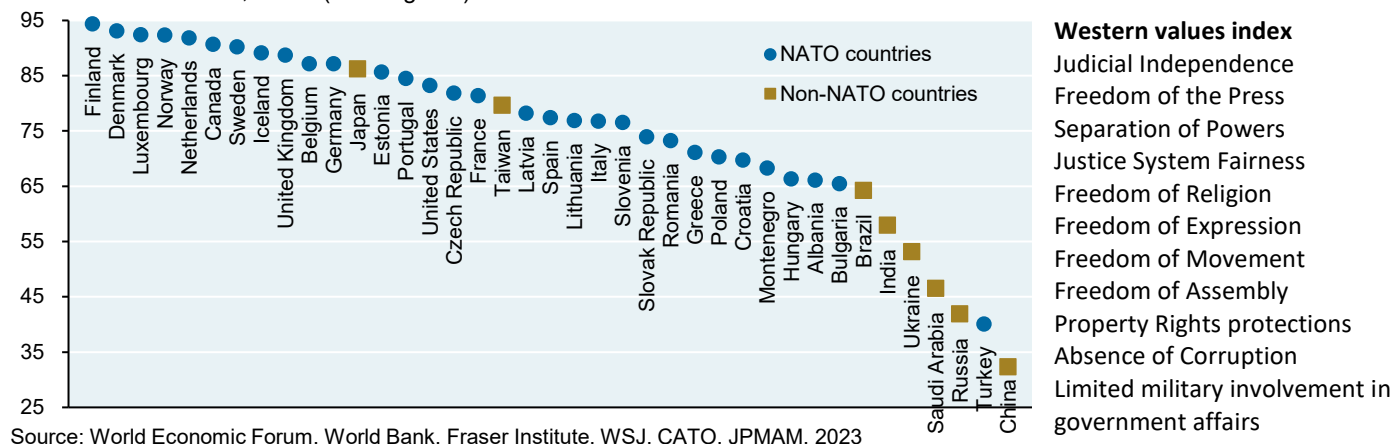
Other Day 1-50 projects: a swan song for NATO

For most of my life, I was led to believe that if Russia attacked a NATO country, there would be a vigorous collective military response in which the US would play a major role. It's hard to say with certainty, but in less than 50 days the new administration appears to have completely upended this assumption. The points below reflect conversations with military contacts on transatlantic security. **There are implications for cross-border investment, migration, portfolio flows, trade and other things that I'm still thinking through.**

- While no formal withdrawal from NATO will be announced since it would require Senate approval, Trump will rely on Article II powers to substantially reduce US forces in Europe. US forces in Europe are ~95k after the addition of US troops after Russia's invasion of Ukraine, and could be cut by 2/3 by the midterm elections
- Troop withdrawals are more compelling if there were a ceasefire in Ukraine, which may explain the Zelensky defenestration meeting in the White House. A ceasefire is also likelier since US and European artillery and equipment inventories have been depleted to critical levels after all the supplies provided to Ukraine
- Even though the US might technically remain in NATO, with Trump as President the US would almost certainly not deploy US troops in case of a Russian invasion of a NATO country. As a reminder, NATO's Article V clause describes military deployments to other NATO countries as voluntary and not mandatory
- While Russia has lost 30% of its prewar munitions, artillery and tanks in Ukraine, its air force and navy have been minimally affected. Also, Russia would essentially face no organized opposition in the Baltics (NATO), Georgia (not NATO) or Moldova (not NATO). Poland would be a different story
- The Trump administration aims to rely on 18th century-style security arrangements: separate spheres of influence for the US (Western Hemisphere), China (Asia) and Russia (Eastern Europe). Without explicit or implicit promise of US military assistance, smaller countries in Eastern Europe could fall prey to the rise of pro-Russia nationalist parties, quasi-military incursions by Russian forces and other tactics. Russia's goal would be to recreate the security buffer that existed during the post-war period. In 1997, a large number of US foreign policy experts including Paul Nitze and Stansfield Turner [warned President Clinton against encroaching upon this buffer](#)...a warning which was largely ignored as NATO continued its enlargement, culminating with NATO deliberations in 2008 regarding membership for Ukraine
- An abandonment of Ukraine could send a signal to President Xi (i.e., the US would not respond militarily to a Chinese invasion or blockade of Taiwan) as well as to North Korea, since the US might withdraw troops from South Korea due to its protectionist trade practices. A ceasefire in Ukraine would also allow Russia to rebuild equipment and restart military aid to Iran/Syria which it was forced to curtail over the last 18 months
- The biggest wild card: what would Europe do on its own to protect another European country if threatened by Russia, if the US were not participating as well?

NATO: a defense organization in which most members share common values

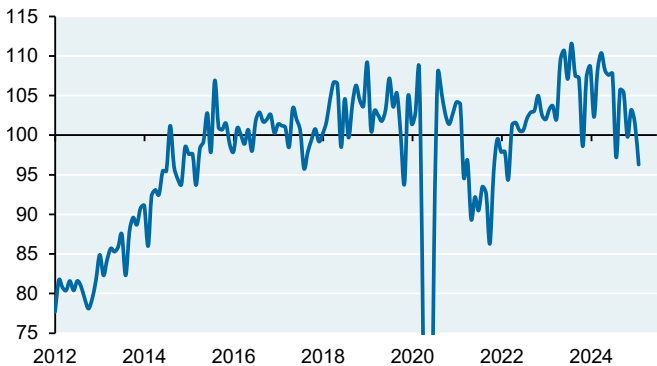
Western values score, 0-100 (100=highest)



Appendix: tariffs challenges for the US auto industry, evidence from steel/washing machine tariffs

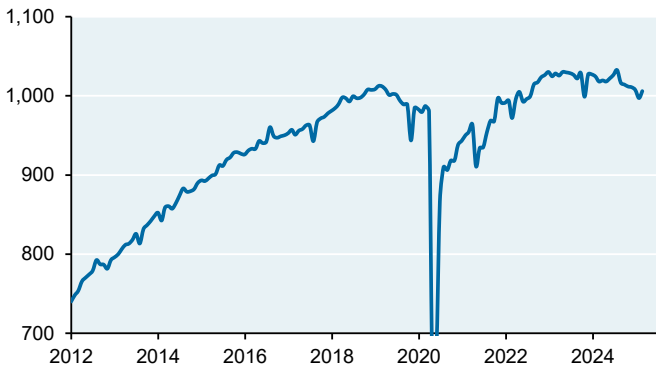
While tariffs on auto imports from Canada and Mexico that comply with free trade zone content/origin rules may not be applied, a global tariff on other auto imports (~50% of the total) would come at a difficult time if enacted. Production and employment in the auto sector are already weakening.

US industrial production of motor vehicles & parts
Index (100 = 2017)



Source: Federal Reserve Board, JPMAM, January 2025

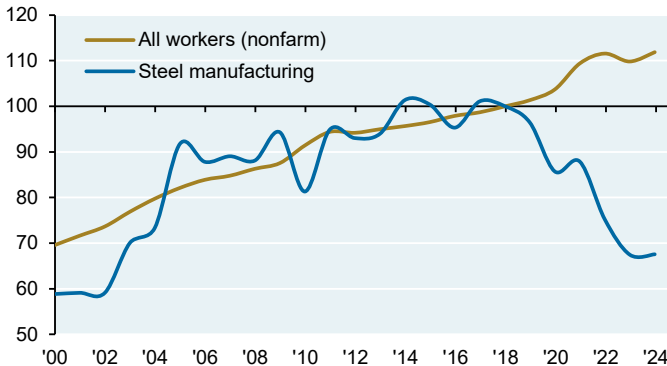
US motor vehicles & parts employees
Thousands of employees, seasonally adjusted



Source: Bureau of Labor Statistics, JPMAM, February 2025

Some evidence from 2018 US steel tariffs: productivity in the steel sector declined after the tariffs were imposed, compared to rising productivity elsewhere. US import prices absorbed almost the entire tariff increase and US steel production levels only increased a small amount. The usual suspects disagree, as shown below regarding projected one-time growth and inflation impacts resulting from the latest rounds of tariffs.

US labor productivity: steel vs all workers
Index (100 = 2017)



Source: BLS, JPMAM, 2023

2018 steel (25%) and aluminum (10%) tariffs
Percent change from pre-tariff baseline

	Steel	Aluminum
Import prices	22.7%	8.0%
Imports	-24.0%	-31.1%
Production	1.9%	3.6%

Source: USITC, JPM Global Economics, May 2023

Tariff impact on US growth and inflation (price levels), 2025-2026

IMF	GDP	Price	Yale Budget Lab	GDP	Price	Peterson Institute	GDP	Price
10% universal	-0.6%	0.0%	10% universal, 60% China	-0.5%	1.6%	10% universal	-0.4%	0.9%
w/ trade policy uncertainty	-1.0%	-0.1%	w/ retaliation	-0.6%	1.7%	w/ retaliation	-0.9%	1.9%

Source: JPM Global Economics, March 2025

Finally, a paper in the American Economic Review estimated the consumer cost per new job created by the 2018 “safeguard” washing machine tariffs. The estimate: \$817,000 per job created, based on the increase in consumer washing machine prices.

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