**Market Letter**

**February 2025**

Programming note: Given the increased speed of new developments, we are committing ourselves to producing monthly market letters. Please send all comments, questions, and suggestions to us at team@hummermower.com.

**Reviewing the Coss Currents**

No matter where you fall on the political spectrum, we can all agree the beginning of Trump’s second administration has shattered political norms. The neoliberal order that defined the last 80 years is being exchanged for something different. I’m sure some pundit will have a name for this new era, but we can all *feel* the difference.

We see four broad themes in Trump’s America First agenda. First, rebuilding the country’s industrial base. Second, sealing the country’s borders. Third, tax and regulation. And fourth, reforming the executive branch. The implementation of these priorities will produce cross currents, to mix metaphors, both headwinds and tailwinds, to the economy and investment markets.

The goal of rebuilding our industrial base is a noble one. A superpower must be self-sufficient in critical goods, and we are not in several areas, most importantly semiconductors and advanced manufacturing. The covid supply chain crisis proved our reliance on others, both friend and foe. While we agree with the President on the problem, we disagree on the solution. Increased investment in capacity is a boon to growth and should be encouraged. The threat of tariffs has successfully secured foreign investment in key industries. But the self-stylized Tariff Man has wielded tariff threats in unhelpful, confusing ways too. Arguments for cracking down on Mexico can be made, but threatening tariffs on Canada is an unforced error. Tariffs are inflationary, and even the threat of tariffs acts as a chilling effect on the economy. When the rules are uncertain, executives postpone big plans, awaiting more clarity. One step forward, two steps back.

Immigration is the lifeblood of our country, and being welcoming is in our national character. But the abuse of the asylum program and general porous nature of our borders agitated even the most ardent immigration supporters. We had hoped that legal immigration reform would be concurrent with illegal criminal deportations, but that has yet to be seen. The net result is inflationary as there will be fewer workers in our economy. An unpopular opinion is that the increase in illegal immigration over the past few years kept inflation from overheating further and helped bring it down quicker. Reversing that trend will put upward pressure on prices.

Regulation reform, if done properly, has the potential to increase economic growth. Streamlining permitting and reducing red-tape should goose investment, powering productivity gains and standards of living. Agencies are instructed to scrutinize existing regulations, and to eliminate ten old regulations for every new one. However, the DOGE operation is operating in startup mode and is moving fast and breaking things, to borrow a phrase attributed to Mark Zuckerberg. This Silicon Valley operating style is distressing a Capitol that is more comfortable in hearings and committee meetings. Even Republican lawmakers are beginning to squeal about the cuts. For the scorecard that’s a tailwind on regulation reform and an unknown on bureaucratic torching.

Lastly, and least immediately consequential to the economy and markets, is executive branch reforms. Reducing the size of government polls well and wins elections, but actually combining or shuttering agencies is dirty work. The pushback from entrenched interests and worries about authoritarianism are burning the President’s political capital that is needed elsewhere. Creating enemies is not a good strategy for securing bipartisan deals in Congress, which is next needed in avoiding a shutdown on March 15. More uncertainty is net negative.

The stock market rallied after the election as investors focused on the positive aspects of the new administration. However, as policy becomes enacted and chaotic rhetoric dominates the news cycle, a sobering reality is setting in. We must be aware of the cross currents as we navigate a richly valued market featuring increasing volatility. So far investors are staying on board, but you can feel the hair trigger. A potential saving grace is the President’s use of the stock market as a scorecard for his administration. Hopefully a healthy correction stops at just that.