**Nowadays-3**

Back in 2023, I started a newsletter (if you want to call it that) called *Nowadays*, where I expressed my thoughts on the U.S. economy and financial markets. I plan to resume it on an xwy basis starting today. As I continue to educate myself—studying, reading, and researching—I will keep developing these *Nowadays* updates. These can be technical or more theoretical. As we all know, U.S. economics and investment markets cover a wide range of topics, and the focus depends on the context and timing. However, let me be clear: this is not investment advice. I always tell those close to me that while I’m happy to discuss economics and investments (especially in the U.S.) because I love these fields and dedicate time to expanding my knowledge, my conversations (or this newsletter) simply offer comments, ideas, and responses to current events or historical scenarios. Every individual has a unique investment approach and perspective on the economy—experts often disagree on both industries even more than the average person, and that’s the beauty of it. But this also means it’s impossible for my words to be tailored to anyone’s specific financial situation—if anything, they are tailored to my own. I as well tend to keep a lot of my research to myself. As Bertrand Russell said, *“The whole problem with the world is that fools and fanatics are always so certain of themselves, and wiser people so full of doubts.”* Sadly, there are far too many fanatics in this world.

Discussion:

The year 2025 has had quite a start in U.S. economics and financial markets—well, worldwide too, honestly—with a resurgence in equities (and other markets) across China and the EU, driven by government intervention and a long-overdue revival of continental pride. Economically, we’ll have to wait and see. However, I’ll stick to the U.S.

Before diving into the reasons why, the major headlines lately can be summed up as growing doubts about the U.S. economic outlook, largely driven by trade policy—potentially fueling inflation and slowing growth (among other factors, but that’s the main concern). This uncertainty is reflected in reports such as GDPNow, which is closely tied to the Atlanta Fed. Let me note that it’s a running estimate, so it can fluctuate significantly from week to week. Currently, it predicts a sharp contraction in the U.S. economy next quarter, primarily due to trade policies.

This is not the prevailing sentiment on Wall Street, though major players now agree on the likelihood of slower growth. By the way, I see slower but controlled growth as a positive in the context of the famous “soft landing” scenario, but I’ll get to that later.

Focusing now on the markets, the headlines—understandably—center around equities, where a correction (<-10%) has already taken place in the NASDAQ (indexes of almost all types) and even worse in some well-known Tech. stocks. It is also close to occurring in the S&P 500. There’s been a lot of red, but we’re seeing more of a reset—essentially erasing post-election (U.S.) gains. The broadening trade (cyclicals and smaller caps) that started back then has now shifted into a more defensive trade (staples, healthcare across most of its industries, etc.).

The reality is that, even though Discretionary and Technology are both down more than 10% YTD, they still rank among the top five and number one out of 11 sectors over the past year, respectively. Meanwhile, as of this year, we have six—and nearly eight—out of 11 industries in positive territory. The equal-weighted S&P 500 (RSP) has also been performing better than its market-cap-weighted counterpart (SPY) YTD; and the latter one is now down 6% YTD (not a “crash” I may say).

A correction in the NASDAQ and in the S&P 500 certainly warrants an explanation. The stock market is a leading indicator of consumer sentiment, but in my opinion, neither Technology nor SPY would be outperforming this year in any case, that was my feeling back in November 2024 too (and earlier in time even though I was wrong because they kept outperforming).

Whys:

In my opinion, three major market jitters are currently rattling U.S. financial markets and sentiment around the U.S. economy, ranked in order of importance as of March 13, 2025:

1. The Trump administration’s tariffs—aka the trade "war"—with China and key allies (especially the latter)
2. The resurgence of inflation, driven largely by trade policy (as mentioned above), immigration policies, and future fiscal policies (Government Spending and deregulation), which could lead to an even more hawkish monetary outlook (it is hawkish since the December meeting) from the Fed in the near term (i.e., higher-for-longer interest rates)
3. Geopolitical tensions and global stability.

I'll discuss the first two today:

- Tariffs/Trade policy: I almost never find the following in the media, but tariffs have a long history between the U.S. and the rest of the world. This is not new, even though it may sound that way. Yes, the EU has levied tariffs on many products coming from the U.S. over the decades, and yes, Mexico and Canada have also levied tariffs on American products, even after NAFTA and USMCA acts, which, of course, improved trade between these nations. My point is that these are negotiations and efforts to balance each nation's agenda across different administrations and varying people in power. Not to mention China... and we only see about 1% of what really happens behind the scenes (in my humble opinion). Almost everything I read or listen to has a negative outcome, but I don't see it that way. I disagree with the continuous "yes and no" play by the Trump Administration when tariff deadlines approach because uncertainty is the enemy here. However, in the long term, I believe tariffs will be very targeted and will barely affect growth or inflation. Same deal with earnings growth. Similarly, I don't believe they will be effective economically talking; I see them as a negotiation tool for many reasons. It is a critical moment for global trade, and we need to accept that changes do happen sometimes. Changes = fear. It takes just a few minutes to read about global trade history and realize that. However, I have a hard time believing that the people truly handling this (not Trump) will pursue the kind of tariffs in the long run that could hurt the economy badly, even though it might seem like it in public appearances.

- Monetary outlook/Fiscal policy and U.S. economics: The Fed shifted to a more hawkish stance in December 2024. Sticky inflation since early fall—though now seemingly easing based on yesterday’s CPI and today’s PPI readings—has reinforced the idea of holding rates higher for longer. We’ll see what the Fed says in next week’s meeting, but I liked those readings a lot. Even though they reflect a pre-tariff (possible) environment, they still signal to me that the monetary tightening cycle has been working. It just takes time. A balanced enough labor market has also contributed to this “new” outlook; I personally believe the Fed will turn its focus to the labor market sooner rather than later in 2025.

Moreover, I’m fine with the “higher for longer” scenario as long as the goal remains eventual rate cuts—which I believe will happen more than twice this year. It’s interesting how the recent wave of pessimism has led to conclusions like recession fears, weak growth (yes, we’re hearing that word again), or even stagflation—mostly due to the trade policy concerns I mentioned earlier. On the other hand, rate cuts for 2025 are now priced in at three, possibly even four, whereas earlier this year, the expectation was just one or even zero. Remember when the U.S. 10-year yield approaching 5% was the market’s biggest fear? Funny how quickly things change, it’s the beauty of it.

Looking at U.S. economic data, I like what I see. The manufacturing sector is expanding for the first time since late 2022, which is significant. Yes, it is good to see these PMIs along with the services’ one holding up in a decent spot. I also see growing long-term optimism among businesses, especially smaller ones—though there’s still significant uncertainty and fear given the recent tariff outlook. (Small businesses are major importers, even if they don’t seem like it—just look at the Russell 2000, down 10% YTD.) U.S. growth appears to be shifting toward 2% instead of 3%, but I’ve long said I’d take that in an environment where consumer spending cools (which is necessary), allowing inflation to decline gradually. I’d rather see steady, lower growth in the near term, leading to a healthy and continuous cutting cycle, rather than volatile spikes.

No one seems to be talking about the housing market anymore, where the 30-year mortgage rate is clearly trending downward again, following the 10-year Treasury note. The yield curve keeps normalizing. Meanwhile, real estate appears to be stabilizing—it’s actually the fourth-best-performing sector in the S&P 500 this year, and by the way, it is a cyclical sector.

I also see a weaker dollar and lower oil prices—both indicators I like to see. And let’s not forget AI—I personally believe it will start boosting U.S. productivity sooner rather than later. Yes, the NASDAQ and Tech. stocks are, once again, in correction territory, but AI is a long-term play that has barely begun. It has its own cycle and stages (just like we saw and are still seeing with China’s DeepSeek and others). I believe American and related companies will continue to lead in the semiconductor, software, and related industries. The last point I want to touch on regarding corporations is earnings. I previously mentioned that I don’t believe trade policy will have a long-term negative impact on them. Besides, earnings continue to grow at double-digit rates as we recently saw in the latest quarterly reports and guidance, expanding to smaller companies as well, given that the cutting cycle started in September 2024.

I dislike the recent consumer confidence and consumer expectations reports because they are important, but I understand the uniqueness of the moment we’re living in. I can see those indicators spiking for the better once there’s more clarity on tariffs. You must consider that any analysis quickly becomes obsolete with changes in percentages, targets, industries, or deadlines for any tariff policy. The uncertainty is what rattles markets, the economy, and sentiment even more than the actual impact—if we could properly prepare, understand, and analyze the long-term effects, the reaction would be much different. I’m not saying it would be good for the base case, but definitely more controlled and less bizarre.

I believe the latter part of the year will be smoother, based also on actual fiscal policy—which, in my view, could lead to a healthy reduction in government spending (a major inflation driver in the recent cycle), along with sensible deregulation (hopefully for the better—we also need evidence here) and a resurgence of IPOs and M&As if we discuss the financial markets again. We shall see, it will be very interesting as it always is.