RATHBONES

WEEKLY DIGEST

TAKING STOCK – TRUMP'S FIRST 100 DAYS

By John Wyn-Evans, Head of Market Strategy

30 APRIL 2025

With Donald Trump's first 100 days as President coming to an end, his approval ratings – in the polls and in the markets – have taken a beating. Has investor sentiment gone too negative?

In March 1933, Franklin D. Roosevelt was inaugurated as US President and proceeded to enact a number of policies designed to drag his country out of the depression. Some of his more radical measures included declaring a four-day bank holiday, which helped to stem a flow of deposits from banks, and taking the US off the gold standard. The aim of the removal was to reverse deflationary forces, and a path which the UK had taken two years earlier with some success. As ground-breaking as these initiatives were, I suspect that his most popular move was to begin dismantling prohibition! Such was the flurry of announcements that the nation's media decided to pass judgement for the first time on the first hundred days of his presidency, a tradition that holds to this day.

It helps to inherit an economy that is in the grip of some sort of crisis because things can probably get better with only a few judicious tweaks to the policy settings. Barack Obama was elected at the nadir of the Global Financial Crisis, while Joe Biden came to power just as the economy was opening up after the pandemic. Fortuitously, the first successful vaccine trials were announced just six days after he was elected. George W. Bush's arrival in the Oval Office, on the other hand, came just as the turn-of-the-century technology bubble was beginning to deflate.

Donald Trump's second presidency began with the stock market at an all-time high and with animal spirits elevated. His approval ratings have plummeted to such an extent that his performance is the worst since Dwight Eisenhower in 1953, according to one poll gathered by CNN. From our perspective as investors, the judgement of markets has been equally harsh.

Policy pandemonium

It didn't have to be this way. At the end of 2024 and in the wake of a resounding election victory (at least in terms of electoral college votes), markets seemed to be set fair. Bulls were focused on tax cuts and deregulation and the average strategist forecast was for the S&P 500 to end the new year 11% higher, according to Bloomberg. The fact that this projection has now been trimmed by 8.5 percentage points tells its own story.

What we got instead was a flurry of extremely disruptive announcements. These ranged from plans to cut as much as $2 trillion of federal spending (under the aegis of tech entrepreneur Elon Musk) to threats to the sovereignty of Canada, Greenland and Panama. The defence 'umbrella' was effectively withdrawn from Europe. There was a string of questionable appointments to key agency leadership posts and further threats to the independence of the Federal Reserve (Fed). Some law firms and leading educational establishments were forced to bend to the President's will by his threats to withdraw business or funds. And, yes, that it is a lot of threats.

The tariff announcements on 'Liberation Day' added to the list of threats, though ostensibly aimed at a non-domestic audience, and triggered a two-day stock market decline of more than 10%. The combination of the size and methodology of calculating the tariffs came as a huge shock. To put the outcome into some context, the prevailing average tariff rate imposed on imports into the US pre-Liberation Day was around 2.5%. A Goldman Sachs poll of clients just before the announcement suggested that the expectation was for that to rise to around 9%. The actual number was 24%, and even with subsequent exemptions remains around 20%.

Whichever way we cut this, US imports are going to have a higher base cost. The question that lingers is who is going to pay that higher price, and it's going to be a while before this is resolved. There are three possible channels. The first is that companies exporting to the US reduce their price to some degree to maintain sales, but it would be impossible for their profit margins to bear the full weight. The second is for wholesalers and/or retailers to bear some of the cost. Again, there is only so much that can be absorbed. Which leaves consumers facing higher prices, which is ironic, given that Trump campaigned on a promise to reverse the inflationary legacy of Joe Biden. Crucially, this makes the Fed's job of balancing its dual mandate of maintaining full employment while keeping inflation at bay much trickier.

In reality, many of these tariffs are so ridiculous that they will probably be negotiated down or away completely. At the extreme, I like to refer to those imposed on Madagascar, whose primary export is vanilla pods, which, to the best of my knowledge, cannot be grown in the US. Moreover, they require arduous pollination by hand, which is not the sort of high value job that the administration might want to create (or even find takers for). The same goes for Lesotho's exports of textiles, of which Levi's jeans are a key example. Workers there earn the equivalent of $150 per month. The US imports 99% of its shoes. As the comedian Dave Chappelle put it: “I want to wear Nikes, not make them”.

Even so, such is Trump’s ideological belief in tariffs that they seem to be here to stay, used variously as diplomatic bludgeons, weapons to reorder global trade in favour of the US (ignoring the benefits of comparative advantage in the production of goods) as well as to increase fiscal income (with a view to financing more attractive tax cuts in other areas). I recently listened to a call with Robert Lighthizer, who was US Trade Representative in the first Trump administration. He maintains that tariffs should (and will) be “permanent and universal”. We will work on that basis until policy announcements suggest otherwise.

Investors vote with their feet

The correction in equity markets is the most reported result of these policies, but we can also point to a reversal for the dollar as well as to heightened volatility in bond markets. The S&P 500, at its nadir on 8 April, had fallen by 18.5% from its 19 February peak. On an intra-day basis, it fell as much as 21.5%, entering a technical ’bear market’ (defined as a peak to trough drop of 20% or more). These moves were undoubtedly exaggerated by various investors being forced to liquidate positions and, thanks to some softening of policy, the fall had been trimmed to around 10% as of the most recent close at the time of writing. Does that make this a strong buying opportunity? Not yet, in our opinion. Over the same period, the consensus earnings growth forecast for this year has declined from low double-digits to mid-single digits, and we’re not convinced that it has bottomed out yet. Therefore, there has been no real derating of US equities in aggregate at a time when heightened uncertainty would appear to call for one.

We are keeping a close eye on companies as they report first quarter earnings, not so much for the historical number as for future guidance on their sales and profits, although some are either not giving any at all or offering an extremely wide range of potential outcomes. Remember that goods arriving in the US now are the first to be subjected to the new tariffs. I have heard stories of small businesses waiting to receive items that set sail from China weeks ago that they’ll now have to stump up more for in tariffs than what they paid for them in the first place. The actual effects of the tariffs have yet to bite. Economic data is also likely to be distorted by the effect of extra goods being imported before the tariffs. It could be several months before the fog lifts.

The end of US exceptionalism?

One feature of the US in recent years has been its ability to attract capital flows. These have largely been directed at its booming stock market and especially at the high-flying technology companies that have come to dominate indices and investors’ benchmarks around the world, but they have also found their way into bond markets, helping to support growing fiscal deficits. A big question being asked is whether this process is about to go into reverse. There have been two signs of potential trouble. One is the bond market and the other the dollar.

In the days immediately following “Liberation Day”, the 10-year US Treasury yield spiked up from 4% to 4.5%, a move of almost unprecedented scale and speed. As in the equity market, the move was exacerbated by some forced selling among over-leveraged investors, but it was a clear warning shot from the ’bond vigilantes‘ that the President was trying their patience. A more recent recovery has largely been attributed to the decision to ‘pause’ the roll out of tariffs for ninety days (with the exception of China). This theoretically gives time to negotiate some new trade deals, although it seems improbable that they could be finalised in such a short period. The showpiece USMCA free trade deal between the US, Canada and Mexico, which was a feature of the first Trump presidency (and which now lies in ruins) took 18 months to agree. Maybe a more realistic outcome would be a Memorandum of Understanding or Heads of Agreement, neither of which would be legally binding but which would allow Trump to declare some sort of victory.

The dollar has fallen around 10% on a trade-weighted basis. Not only will there by less underlying demand for dollars should Trump succeed in shrinking the trade deficit, but investors are also building in some sort of valuation risk premium to account for the policy risk. The big currency winner has been the euro, which has appreciated by 10% against the dollar over the last two months. But an even bigger gain has been made by gold, which, in dollar terms, has risen by 16% over the same period. The signal from that move is that investors are concerned about the underlying integrity of the dollar-based system of global finance. To be sure, the dollar is so deeply intrenched in the global financial system that it won’t be losing its status as the world’s reserve currency in short order. Meanwhile, we continue to deem gold to be a valuable risk-diversifying asset.

Wrapping it up

The verdict on Trump’s first hundred days is damning on almost all counts, but there is some evidence that markets, especially the bond market, have the power to rein him in. That’s good news and we think limits the immediate downside. However, it’s hard to get too optimistic before we see the full effects of the policies announced so far and how they will affect economic growth and company earnings. The Polymarket betting site (which proved to be a useful guide running up to the election) currently prices the probability of a recession developing this year in the US at 55%. Our analysis is not far behind at 45%. Both are too close to a coin-flip to be making big bets in portfolios.

The optimists’ angle could be that Trump is front-loading all the bad news and might even have some success in curtailing the excesses of government spending. If that paves the way for the previously anticipated tax cuts and deregulation, things could turn out better. And one does not have to be too cynical to note that the election cycle rolls on towards the Congressional mid-terms, which are but eighteen months away. A few electoral ’bribes‘ are surely to be expected.

ECONOMIC HIGHLIGHTS

Global PMIs – The main global releases from last week were the latest purchasing managers indices (PMIs) of business activity. Although these can be considered as 'soft' data and don't always translate straight through to the 'hard' data, they remain a decent barometer of business sentiment. Unsurprisingly, the latest results were disappointing, as President Trump's tariff (and other) policies made their impact. The US is at the epicentre of this earthquake, and the composite PMI measure (combining manufacturing and services surveys) fell from 53.5 to 51.2 (below 50 signals contraction). That's not indicative of a recession by any means but heading in the wrong direction.

The manufacturing index rose from 50.2 to 50.7, defying consensus expectations of a fall to 49.0, although this could have been distorted by the front-running of activity ahead of the tariff announcements. Let's see what the May data holds. But Services was the source of weakness, falling from 54.4. to 51.4 which was worse than the expected 52.6. The story was similar in some national surveys. The eurozone composite reading fell from 50.9 to 50.1, again on the cusp of recession. Oddly, this happened despite both the manufacturing (48.7) and services (49.7) readings falling below 50. And here in the UK, there was no bucking the trend. The composite reading was 48.2, made up of manufacturing at 44.4 and services at 48.9. There is little doubt that President Trump's policy announcements are eroding confidence. Normally that would increase the probability of lower interest rates, but the US is hampered by the risk of higher inflation should tariffs be passed through to consumers. The position is somewhat less difficult in the UK and Europe. Indeed, if supplies are diverted from China (and other countries, potentially), inflation could be lower than expected.

UK – Separately, the UK reported an unwelcome increase in borrowing requirements as a result of higher government spending negating a rising tax take. Along with upward revisions to previous months' data, this meant that public borrowing in 2024/25 came in at £151.9bn, a whopping £14.6bn above the Office for Budget Responsibility's (OBR's) March forecast of £137.3bn. The worst year for public borrowing since 2020/21. The current budget deficit of £74.6bn in 2024/25, which is what matters for the Chancellor's fiscal mandate (essentially aimed at balancing spending with tax revenues over the course of the current parliament), was about £14bn higher than the OBR forecast only a month ago. The rise in borrowing costs since March has already whittled down the headroom against the fiscal mandate from about £10bn to about £8bn according to Capital Economics. Furthermore, the OBR has yet to incorporate the likely upward impact on borrowing costs from the tariff shock. All of this means that Chancellor Reeves may not be too far away from having to raise money again in the Autumn Budget, by cutting spending and/or raising taxes, to meet her fiscal rules.

ADDITONAL INFORMATION

If you no longer wish to receive this publication, please call 020 7399 0000 or speak to your regular Rathbones contact.

This document is not intended as an offer or solicitation for the purchase or sale of any financial instrument by Rathbones Investment Management International Limited.

Rathbones Investment Management International is the Registered Business Name of Rathbones Investment Management International Limited, which is regulated by the Jersey Financial Services Commission and is licensed by the Guernsey Financial Services Commission. Registered office: 26 Esplanade, St. Helier, Jersey JE1 2RB Company Registration No. 50503. Branch: Upper House, 16-20 Smith Street, St Peter Port, Guernsey, GY1 2JQ.

Rathbones Investment Management International Limited is not authorised or regulated by the Prudential Regulation Authority or the Financial Conduct Authority in the UK. Rathbones Investment Management International Limited is not subject to the provisions of the UK Financial Services and Markets Act 2000 and the Financial Services Act 2012.

Investors entering into investment agreements with Rathbones Investment Management International Limited will not have the protections afforded by those Acts or the rules and regulations made under them, including the UK Financial Services Compensation Scheme.

Rathbones and Greenbank are trading names of Rathbones Investment Management Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered Office: Port of Liverpool Building, Pier Head, Liverpool L3 1NW. Registered in England No. 01448919. Rathbones Investment Management Limited is a wholly owned subsidiary of Rathbones Group Plc.

Call
For contact details of your nearest office please visit
www.rathbones.com/about-us/our-offices

Visit
rathbones.com

Email
enquiries@rathbones.com

For specialist ethical, sustainable and impact investment services
Greenbank
0117 930 3000
enquiries@greenbankinvestments.com
greenbankinvestments.com

For offshore investment management services
Rathbones Investment Management International
01534 740 500
rathboneimi.com

@RathbonesPlc

@rathbonesgroup

Rathbones Group Plc

RATHBONES