MV CAPITAL MANAGEMENT

Weekly Market Flash

The Market Finds Its Inner Peace

November 27, 2024

On Tuesday morning this week, investors awakened to animated chatter in the financial media about tariffs, lots and lots of tariffs, aimed directly at our country's three largest trading partners – China, Mexico and Canada. Twenty-five percent on all goods imported from the latter two, and an additional ten percent on top of the tariffs already existing with respect to China.

Now, to be perfectly clear, if this proposal were to make its way from effervescent bloviating on social media to become actual policy, it would have decidedly negative consequences in the form of slower growth and higher inflation. Stagflation, as they used to say back in the disco days of the late 1970s, and those of us who were around back then remember a lost decade for both equities and fixed income. Someone investing in the S&P 500 on November 29, 1968 and holding that investment until August 12, 1982 would have earned a cumulative return over that almost-fourteen year period of minus 5.5 percent. Not great. To paraphrase a saying popular back in the Seventies, stagflation is not healthy for children and other living things.

So what did markets do on Tuesday, following the news about these supposed tariffs? Well, not much of anything, actually. After watching most of Asia and Europe lose ground, US stocks opened higher and wafted gently upwards as the day went on. The bond market – where one might expect rates to pop on expectations of higher inflation, likewise found its moment of Zen. The yield on the benchmark 10-year Treasury note is around 0.15 percent lower than where it was a week ago. What gives? Does the market know something we don't, or is this serene mien a case of badly misplaced confidence?

Our best guess is that markets are going to remain in a wait-and-see mode until something comes along to make a definitive case otherwise. In other words, we are (probably) not going to see major gyrations every time some new pondering of possible policy burps itself into the conduits of social media. Investors have already given their collective-wisdom thumbs up to the new administration's primary economic policy team, a collection of Wall Street-adjacent types who mostly care about the traditional Republican playbook of tax cuts and deregulation.

Sure, there will be lots of kabuki-like drama around tariffs, goes this line of reasoning. But behind the bluster, away from the spotlight, the sober types will keep things from going off the rails. What markets seem to be expecting, given their beatific calm heading into the Thanksgiving holiday, is that rather than a bunch of punitive tariffs coming into force on Day One, as yesterday's announcement intimated, there will be some vague future date specified, likely of intermediate term, and the countries in question will have until then to make some grand gesture about cutting off illegal immigration or drug smuggling operations or whatever. A lot of show, but no economic gut punch when all is said and done.

We are neither convinced that the market has it right here, nor are we convinced that a wildly irresponsible tariff regime is going to come into effect on January 20, 2025. In other words, we are neither blissfully serene nor stewing in a wild panic. We will be watching many things very closely in the weeks ahead as we put our 2025 portfolio models in place.

In the meantime, though, it is Thanksgiving week, and we will use this time to be thankful for the many blessings in our lives. We hope that each and every one of you will do the same. A happy, healthy and restful Thanksgiving to all.

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