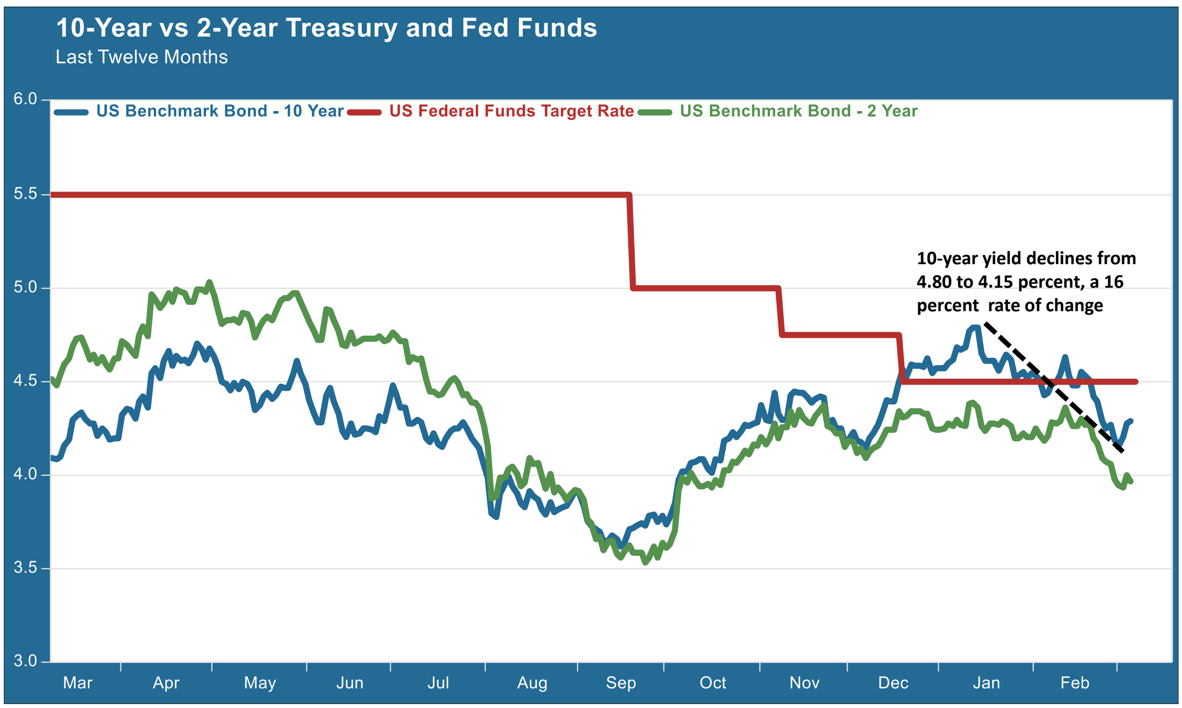
MV CAPITAL MANAGEMENT

Weekly Market Flash

The Cost of Uncertainty

March 7, 2025

It's Friday morning. Do you know where your tariffs are? Of course you don't, because nobody really knows what is going on with all the pinballing decrees on which tariffs apply to which countries, with exceptions and deferrals and audibles called at the line of scrimmage and then reversed for whatever combination of reasons or no reason at all. It has been a strange week. In the midst of all the weirdness markets have been doing what markets normally do when nobody has a clue about anything – selling out of risk assets, especially those with pricier valuations, and buying safety. As this week got underway, the yield on the 10-year Treasury note, at 4.15 percent, was 0.65 percent lower than where it was just six weeks ago – a massive move in percentage change terms for what is supposed to be the world's safest asset. As the week wore on, though, investors seemed to find safer waters in shorter maturities, with the 2-year note falling below four percent while the 10-year ticked up a tad.



Source: MVF Research, FactSet

Here Come the Growth Concerns

Markets don't like uncertainty, and neither do businesspeople who have to make decisions about how many widgets to produce based on data like input costs (raw materials, labor etc.) and demand trends. It's hard to make these kinds of decisions when you don't know whether something you need to import is going to be 25 percent more expensive next month on account of some new tariff, or whether wages are going to be pushed up as more immigration cuts take place, or whether your customary buyers will decide they're tapped out and need to put aside discretionary spending choices in order to buy $10 cartons of eggs. The not knowing is worse than dealing with the actual fact of a tariff policy that is announced, implemented and unchanged. At least you can make plans around a known fact, even if that fact is a negative for your sales.

These kinds of concerns are starting to show up in economists' growth forecasts for 2025. We have already seen a couple notable downward moves recently in high-profile consumer and business sentiment surveys. Then, on Monday of this week, the Atlanta Fed tossed a stunner into the daily economics chat with its latest GDPNow estimate, projecting that real GDP growth for the first quarter will be negative – yes, negative – 2.8 percent (by the end of the week that number had crept up to minus 2.4 percent, but still). Worries about growth pushed aside last week's chatter about inflation – even if those draconian tariffs don't happen and inflation remains in check, the slowdown in business activity could lead to a recession sooner rather than later.

Now, the Atlanta Fed number should be taken in stride. Because it is absorbing a constant stream of data in real time, the GDPNow figure is quite volatile and at times – like now – will be far away from the consensus forecasts of economists. The Blue Chip consensus, one such forecasting data point, currently has Q1 GDP coming in at a midpoint around positive 2.4 percent. We expect that when all is said and done, real growth for the first quarter will still be positive, but somewhere below two percent. Evidence of a growth slowdown is accumulating, including the most recent jobs report from the BLS this morning showing nonfarm payroll gains of 151,000, below economists' forecasts of 160,000, while the unemployment rate also ticked up slightly from 4.0 to 4.1 percent. There was a chance the numbers could have been much worse than that, though, so we'll take what we can get.

Still Time to Reverse

So where do things go from here? It's anybody's guess what the next policy move – or for that matter the next tweet, which seems to be where it all happens – is going to be. If anybody cared to listen to us, though, we would say that getting rid of uncertainty is job number one. Look, if you announce a tariff, and then the car companies call you up and say that the tariff would be devastating for your industry, and then you hear the same thing from farmers and from food manufacturers and everyone else – well, maybe it just means that these tariffs are a bad idea with very little upside and should be shelved entirely rather than the current silliness of a new delay or carve-out or "review" every day. Markets, businesses and consumers would all be most appreciative. Growth would likely be slower this year than last anyway, regardless of government policies, based simply on the normal course of things in the economic cycle. But hastening the decline, especially with the attendant lingering specter of higher inflation, is the opposite of good policy.

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advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.