

Land of Confusion

For those of us that grew up in the 80s, the state of the U.S. landscape may feel eerily similar to the lyrics of the song 'Land of Confusion' by the band Genesis.

*There's too many men, too many people  
Making too many problems  
And there's not much love to go around  
Can't you see this is the land of confusion?*

Putting aside why no band seems to use electric drums anymore, the Trump 2.0 playbook is definitely built around an intent to disrupt and to do so in a not so loving (aka "politically correct") way. All political views (and music preferences) aside, we thought it was worthwhile to summarize the current state of the market by highlighting a few observations about the recent disruptive events.

- The administration's approach to tariffs appears to be more about China than other nations. As much as the approach was to create "fairness" of global trade and, in turn, empower U.S. manufacturing again, the focus seems to be squarely on China. We come to that opinion based on the outsized tariffs imposed on China. In fact, it is starting to become apparent that the administration's goal is to isolate the world vs. China. As an example, the U.S. is forcing Vietnam to crack down on transshipment of goods from China in exchange for lower tariffs. Not only is the U.S. working on bi-lateral deals with Vietnam and numerous other nations, but so is China in a very public way. This may challenge the U.S. approach, as China's President Xi went on a Southeast Asia tour visiting Vietnam, Malaysia, and Cambodia. To contrast the U.S. approach, China has already inked 45 deals with Vietnam, which is focused on defense, security, and infrastructure, one of which includes Chinese loans to enhance their rail system. Coincidentally, the isolator may find itself becoming the isolated. Which makes us beg the question that if this was truly about isolating China from the world, why would the U.S. start the tariff saber rattling with its closest neighbors, Canada and Mexico, and isolate itself at that outset?
- By nature of Trump being a deal maker, as well as a politician, when it comes to the tariff negotiation process, he will want a "win." Unfortunately, the leaders of other nations, by nature of also being politicians, will also want a win which means this process is likely to take longer than the market would like or want. At the end of the day, both parties will end up with something that is a balance of things they want and do not want but will ultimately have enough positives to convey a win to their constituents. With respect to China, where there is less focus on the views of their constituents, they may be more willing to fight this out longer than other nations. This means it is unclear how much of a win the U.S. can expect, or even when to expect, clarity on a tariff deal. In fact, Trump has already started to state that tariffs will be lower than 145% so if China was calling our bluff, they were right. To be fair though, China is the country that has been overproducing to dump cheap manufactured goods on world markets so as much as we are here because of the U.S., China was the initial driver of the state of unfair trade. This is the global economic risk to focus on.
- In addition to the point above, we could argue that China for years has been preparing for the situation that the U.S. has created. With a Western (U.S. and U.K.) educated government leadership team, China knows our playbook and what matters to the western world. They are not the China of the past and they have global reach and perspective now. China may also be looking at this as an opportunity to strengthen their position in the world's trade eco-system. The U.S. is

their largest trading partner, and this may provide an opportunity to increase their sale of goods to other nations. Most importantly, as much as it was not clear initially after “Liberation Day” they are now aware that the U.S. Administration has shown their cards and cannot play hard ball with the U.S. financial system. As noted in our commentary last month, the idea that Trump 2.0 was not using the U.S. markets as a barometer of success this time around has been debunked which has led to them conceding on original tariff demands in order support U.S. corporations and financial market growth.

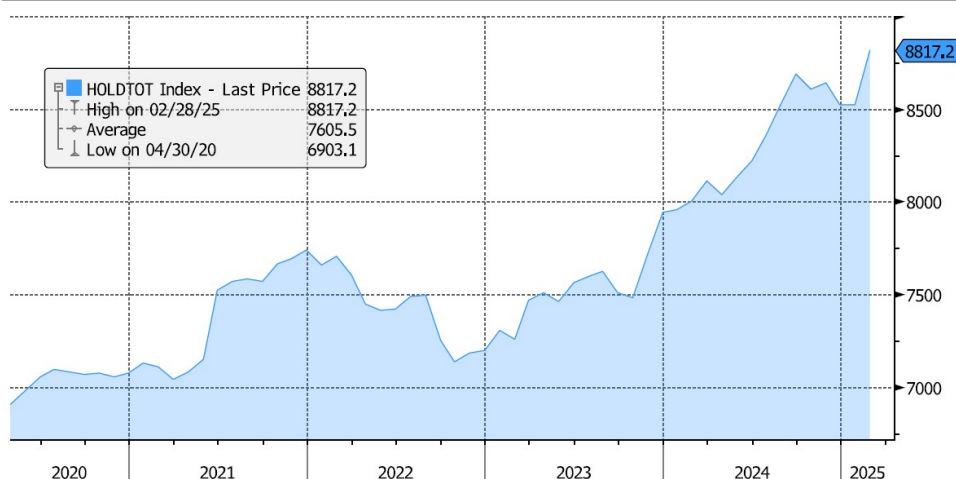
- This brings us to our next disruptive point. Despite his rhetoric, Trump cannot get rid of the Federal Reserve Chairman Jerome Powell whether he has the power to or not. We are not even sure why Trump even played that card because if he was able to remove Powell from his post, this would remove the “fall guy” that Trump needs to pass the blame on any U.S. economic fallout. This explains the quick turnaround on April 22<sup>nd</sup> when Trump said he had “no intention of firing” Powell just a few days after he said the week prior that “termination cannot come fast enough.” This is just another indicator, that the U.S. financial markets are still a barometer for the administration’s policy. In addition, to undermine the U.S. central bank, the precedent it sets and the foundational support it provides to not only U.S. markets, but global markets would lead to a massive economic structural change post the Global Financial Crisis. That could lead to years of uncertainty beyond the current global trade war that is currently at play.
- Finally, in our view, the longer this disruptive approach that has bred uncertainty prevails, the harder it will be for the U.S. and global economy to recover. Uncertainty leads to consumers and companies to act more conservatively and reduce spending and delay future investment until policy clarity emerges. As much as this may have a positive effect on inflation, it will come at the detriment of GDP growth and ultimately financial market growth. As much as the new administration’s very public playbook of America first was what the American public voted for, it’s the way that they are executing that policy that is contributing to the volatility of risk markets and not the ultimate intent of the policies themselves.

## The Data that Matters

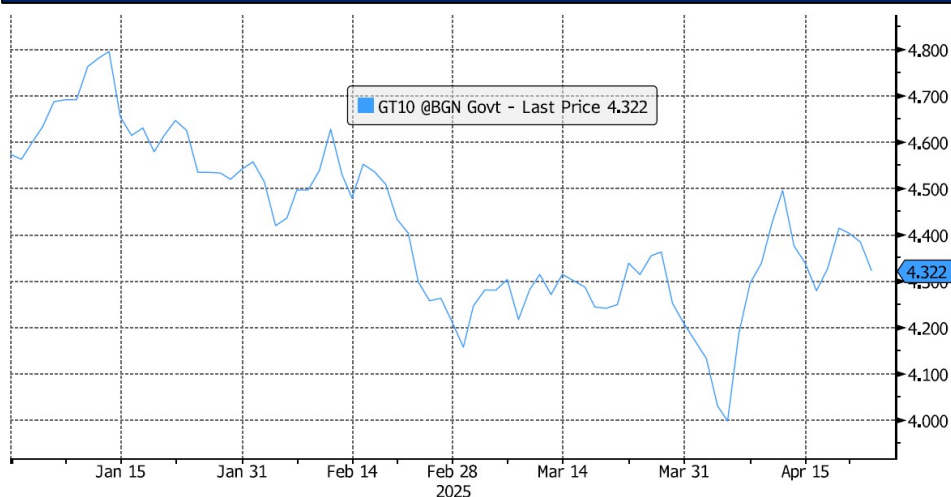
As discussed, the current environment is unique and, as such, requires a particular approach and focus on certain data points that we believe will best inform investors on how to manage the market.

- Despite the U.S. starting a global trade war and the “sell America” theme that is prevailing in the media, U.S. Treasury holdings by foreign countries hit their highest level ever at the end of February of \$8.8tn which is up 3.4% from January and up ~11% since the end of 2023. Although this data is a lagging indicator and the recent data noted is prior to the official tariff announcement, it was very clear that trade would be an agenda item for the U.S., so it is surprising to see an increase in holdings. Maybe more noteworthy, the two largest holders are Japan and China with \$1.1tn and \$784bn respectively which are both up ~3%-4% month over month. With the U.S. borrowing ~35% of their debt from foreign nations of which the biggest are facing higher tariffs, this could create a risk to higher U.S. Treasury yields if those buyers were to decrease their interest in lending to the U.S. In fact, higher treasury yields since April 2<sup>nd</sup> may be indicative of that activity although if any of these nations publicly state their interest to own less U.S. Treasuries that could lead to negative price action to a very large investment of theirs which we would think they would want to avoid.

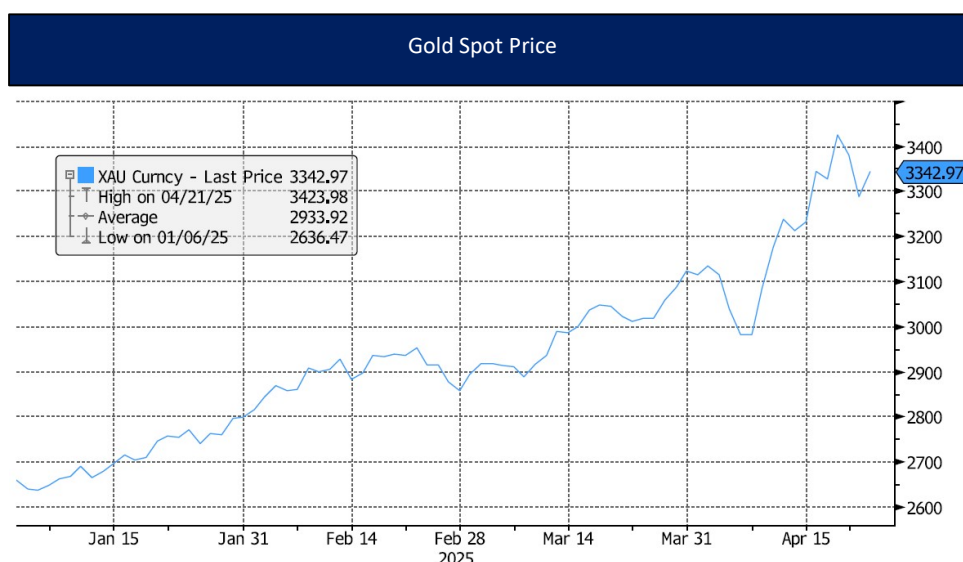
## U.S. Treasury Major Foreign Holders Total



## 10-year U.S. Treasury Yield



- Historically, in risk off environments such as the one witnessed since the tariff announcement in early April, you would typically see a flight to quality such as U.S. Treasuries. This time around though that did not happen, and it could be for the reasons noted above. Instead, the flight to quality has been to gold. Although gold has effectively been on the rise since the end of 2022 (up ~105% from the September 2022 5-year low), price appreciation significantly picked up in 2025, and even more so post the tariff announcements in April. Since the 1-month low on April 7<sup>th</sup>, gold got as high as up ~18% at its all-time highs and now is up ~12%. We believe a focus on gold and a potential reversal in this short-term price increase could indicate the market is gaining greater clarity in the future state of the global economy and could lead to an increase of risk appetite for risk assets.



- Like gold, the U.S. dollar, by nature of the global implications surrounding the trade war, needs to be in focus for investors. As opposed to gold being a macro indicator of global risk aversion, the dollar is a more focused representation of the risk sentiment around the U.S. Uncertainty has led to weaker growth expectations, so investors are selling U.S. assets and selling the dollar in exchange for other currencies to invest in other countries. This has precipitated the “sell America” theme mentioned earlier. The U.S. dollar had rallied from its 2024 lows in September leading up to and through the election on the hope a Trump 2.0 administration that would only take action that would lead to stronger growth like they did the first time around. After reaching a high of 110 in January 2025 the dollar has now slid to 99.33, which is its lowest level since 2022. As the market gains more certainty on the future prospect of U.S. policy and future growth, the dollar could be a leading indicator ahead of investor return to U.S. investments.



- As we have mentioned in numerous commentaries, the Federal Reserve will continue to act independently and will let the data dictate what actions they take. With that in mind, recent

economic data indicators such as claims, retail sales, industrial production, and new home sales have all relatively been in-line with expectations. These all seem to present a relatively healthy economic environment. Where signs of stress are starting to appear may be in core capital goods orders that were revised down in February to -0.3% and increased 0.1% in March in-line with expectations, which shows very minimal investment from companies to invest in equipment. As much as the data is important, we need to recognize how much has transpired in just a few weeks. Meaning not only are a lot of economic data points lagging indicators, but a lot of the impact from the last few weeks is yet to show up in the data. Futures data is now indicating about four 25bps cuts to Fed funds for the remainder of 2025 which is indicative of the market growing increasingly concerned about economic growth. We still do not believe the Fed will make a move until the data tells them to as maintaining a balance between inflation and growth is critical at this point. That said, as much as we have been in the no-cut camp for 2025, we believe the odds of a cut are going up. Although, we still think the markets expectation of four cuts would be extreme at this point.

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