

Trump's Economic Landscape: What Investors Need to Know

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Key Takeaways

- As the Federal Reserve recalibrates rate cut expectations for 2025, short-term Treasuries remain attractive, while bond market stability may support equities.
- Renewed trade tensions, including potential USMCA renegotiations and increased China tariffs, are reshaping global supply chains, benefiting alternative markets like India.
- Investors should focus on sectors poised to benefit from policy shifts—financials and industrials show strength, while gold remains a hedge against uncertainty.

One month into President Donald Trump's new term, financial markets are adjusting to a rapidly shifting economic and policy environment. Investors are watching closely as tariffs, interest rate expectations and regulatory changes take center stage. While uncertainty remains a key theme, we believe that understanding how these forces impact fixed income, equities and global markets is essential for positioning portfolios effectively.

Interest Rates and the Federal Reserve's Dilemma

The Federal Reserve's role in shaping market expectations has been at the forefront of investor discussions. Just a few months ago, markets anticipated multiple rate cuts in 2025. However, those expectations have dramatically shifted—Fed Funds Futures now reflect only one possible rate cut this year. This pivot has had significant implications across asset classes, particularly in the bond market.

Short-term Treasury yields remain attractive relative to longer-duration bonds, as the yield curve has remained inverted. This has led investors to favor short-duration fixed income instruments, which offer competitive yields without the volatility of longer-term bonds. The Fed's wait-and-see approach means that economic data—especially inflation reports—will dictate future rate moves.

Tariffs and Trade: A Renewed Focus on Protectionism

Trade policy is back in the spotlight, with tariffs on China, Mexico and Canada once again dominating economic discussions. The probable renegotiation of USMCA (formerly NAFTA) later this year is likely to introduce new trade frictions, but markets appear relatively unfazed—for now.

Mexico's stock market, for example, has continued to post gains despite concerns about trade relations. This highlights an important lesson: markets often price in known risks ahead of time, meaning investors should be wary of overreacting to headline-driven volatility.

China remains a different story. The potential for increased tariffs on Chinese goods is significant, and any major policy shifts could have far-reaching effects on global supply chains. Meanwhile, corporate America has been actively reducing reliance on Chinese manufacturing—a process that has been underway since the first wave of tariffs in 2018. Major retailers like Walmart have cut their China imports from 60% to 40%, while increasing sourcing from India and other markets.

Equity Market Implications: Uncertainty vs. Opportunity

Stock market volatility has been a constant theme in early 2025. While the broader market remains resilient, investors are keeping a close eye on two key risks:

- **Uncertainty around tax policy**—The **Tax Cuts and Jobs Act (TCJA)** is set to expire in 2026, and investors are already speculating on whether it will be extended or modified. A failure to renew these tax cuts could introduce headwinds for corporate earnings and consumer spending.
- **Sector rotations and valuation shifts**—Certain sectors are showing strength amid policy changes. Financials have benefited from expectations of lighter regulatory oversight, while gold and commodities have gained amid trade tensions. Meanwhile, technology and China-linked equities have faced headwinds as trade risks remain elevated.

The Bond Market's Warning Signs

A key risk for equities is the potential for higher bond market volatility, which has historically preceded stock market downturns. If 10-year Treasury yields climb above 5%, equity valuations could face renewed pressure. However, recent trends suggest that bond market volatility is stabilizing, which may provide a more supportive backdrop for risk assets.

Another theme to watch is spending cuts and fiscal policy shifts. The administration's push for aggressive budget cuts could impact certain industries, particularly defense contractors and government-funded initiatives. However, markets have yet to fully price in these potential disruptions.

Investment Strategies in a Shifting Landscape

As markets adapt to Trump's policies, investors should consider a strategic approach:

- **Fixed income:** Floating-rate Treasuries provide yield without duration risk.
- **Equities:** U.S. large-cap value stocks remain attractive, particularly in financials and industrials.
- **International exposure:** Japan and India offer compelling investment opportunities amid shifting trade policies.
- **Alternative assets:** Gold has emerged as a hedge against policy uncertainty and inflation risks.

Final Thoughts

Markets are adjusting to Trump's economic agenda, but investors should focus on fundamentals rather than political noise. Interest rates, inflation trends and corporate earnings remain the key drivers of long-term market performance. By staying diversified and adaptable, investors can navigate this evolving landscape and position for both risks and opportunities.