Do the Markets Believe Trump?

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Ezra Klein's recent *New York Times* op-ed, *Don't Believe Him*, lays out a stark warning: Donald Trump's second administration is poised to follow a deliberate strategy of chaos and media saturation, a playbook borrowed from Steve Bannon's infamous "flood the zone" approach. It's a tactic designed to overwhelm, distract, and manipulate public perception. But as we considered Klein's thesis, we found ourselves asking a different question: *What about the markets?* Do they believe him?

The executive order illusion

The narrative of rule by "executive fiat" is something that the media sees headline value in—headline-grabbing directives designed to shock and set the tone. But this is hardly a new phenomenon. The past three presidents have aggressively wielded executive orders, and the all-time record-holder remains Franklin D. Roosevelt nearly a century ago.

Yes, some of Trump's executive orders are designed purely for spectacle. But judicial review acts as a hard stop on the more legally dubious moves—whether it's Trump's attempt to end birthright citizenship or Biden's student loan forgiveness plan. Both were ultimately unconstitutional, yet both succeeded in rallying their respective political bases. The markets, however, aren't buying the theater.

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Tariffs and the market's selective attention

If there's one area where Trump's presidency has made waves in market movements, it's trade policy. The Constitution grants Congress authority over commerce with foreign nations, but by framing trade disputes as national security concerns, the president has more latitude to act unilaterally. Tariffs have been the most influential factor in day-to-day market swings, but even their power appears to be fading.

Consider the market's reaction to Trump's recent announcement of punitive tariffs on Canada, Mexico, and China. Overnight futures plunged, signaling a heavy risk-off day. But by market close, concessions had been made, plans altered, and the damage mitigated. It was less an economic shift than a diplomatic chess move. Fast forward a week, and another round of tariff announcements, this time on aluminum and steel. The market barely blinked.

The predictability of the Trump trade

Despite the theatrics, the 2024 US election cycle was one of the most investable in recent history. The market priced in a Trump victory well in advance, with asset class movements and prediction markets signaling the odds.

The Trump trade is a familiar formula: tariffs fueling inflation, tax cuts driving growth, deficit spending increasing and deregulation benefiting banks. The dollar strengthens (now the second most crowded trade after mega-cap tech), interest rates rise, gold gains and financials outperform. These trades were set in motion early and continue to play out.

But not everything is working as expected. The assumption that small-cap stocks would benefit from deregulation has yet to materialize. The reason? Higher interest rates are stifling borrowing costs, and with 10-year Treasury yields hovering around 4.5%—the highest in 18 years—businesses are struggling to adjust to a new, costlier capital environment.

The real market headwind

The biggest market challenge right now isn't Trump's policies. It's the declining expectation of Federal Reserve rate cuts. Since the Fed's hawkish December message, volatility has crept in, macro uncertainty is rising, and institutional trading volumes are dented. Cash deployment is high, and equity exposure remains concentrated in a few major players.

Meanwhile, corporate earnings for Q4 have been solid, but expectations for 2025 are even loftier. Every economic data release, particularly inflation measures like CPI and PPI, now carries heightened market scrutiny. With 40% of S&P 500 companies citing currency impacts in their earnings reports, the strength of the dollar is top of mind, and the tariff narrative is is particularly poignant across a wide swath of the top US companies.

A market caught between signals

So, do the markets believe Trump? Not exactly. Markets don't trade on slogans or speeches. They trade on policy and execution. The broader themes—tariffs, tax cuts, deregulation—are priced in, but the sustainability of Trump's economic strategies remains uncertain. Investors are wary of overexposure, cautious of macroeconomic headwinds, and navigating a market environment filled with both opportunity and risk.

Whether Wall Street believes Trump or not, there are many factors at this stage of the cycle introducing opaqueness and trepidation into the markets. The reality is that uncertainty, not conviction, is the prevailing sentiment.

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