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2025 First Quarter Newsletter and Outlook¹

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BUCKLE UP.

*"There's something happening here.
What it is, ain't exactly clear."*

"For What it's Worth," Buffalo Springfield, 1966

I don't think I've ever had as many clients asking about my next newsletter as I have had this year. I recognize there is no shortage of topics² to write about. I'll concentrate on what is moving markets the most right now.

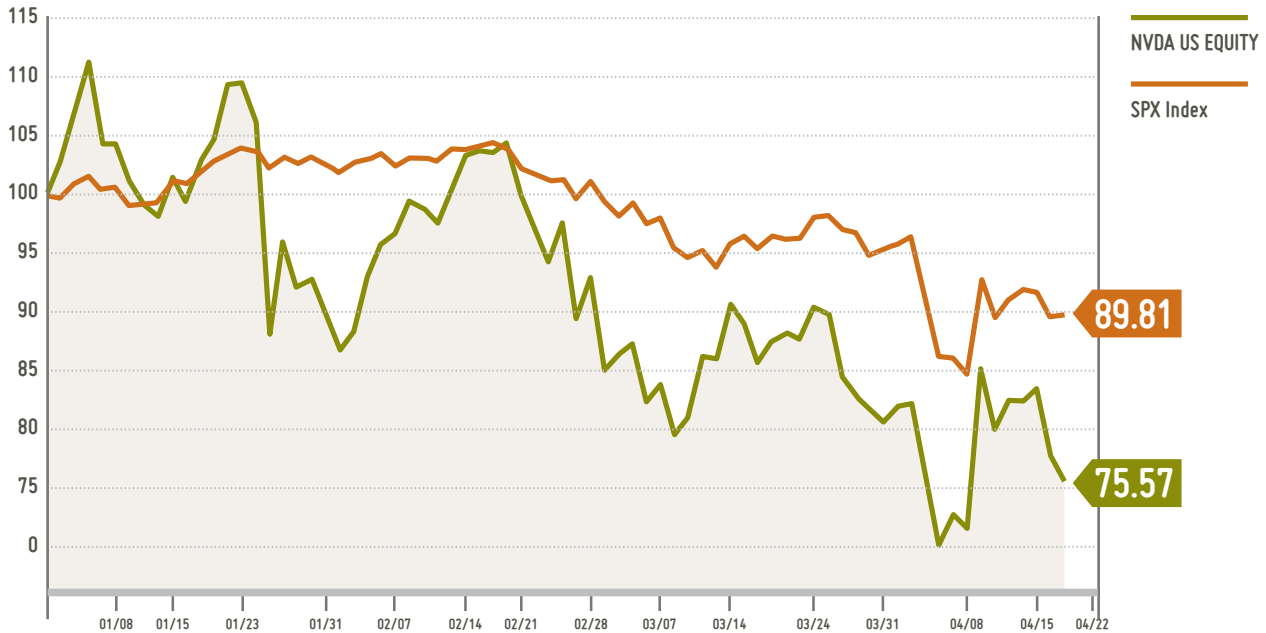
But First, a Review of Last Quarter

Fortunately, we have shielded MCS clients from the market's volatility. Please see your quarterly statement for your individual portfolio performance. In the broad markets, the S&P 500 Stock index lost 4.30% through March 31, while the Bloomberg Bond index gained 2.78%. Both stocks and bonds lost ground through April 22nd, with stocks down 10% and bonds up 1.59% year to date.

My last newsletter discussed the investment hype around AI while acknowledging the profound changes it is bringing to humanity. AI chip stocks have fallen this year, reflecting concerns about whether the vast amount of money pouring into data centers to support AI development would result in a commensurate return on investment. Microsoft has pulled back on data center development around the world, causing some investors to wonder whether there's less demand for AI services than anticipated, or lack of available power infrastructure to support such facilities, or more efficient AI processing methods, a la Deepseek, or some combination of these factors.

Figure 1

Year to Date³, AI poster stock, NVIDIA, down over 24%
vs. S&P Stock Index down over 10%



Source: Bloomberg, MCS

I closed last quarter's newsletter with:

Trump's ambiguous policies on tariffs are potentially inflationary. Cutting taxes (popular) is easier than cutting deficits (unpopular when it requires higher taxes). The jury is out on the new administration's ideas about increasing government efficiency. Trump's 'I'm crazy', hard-ball opening style of negotiation creates a lot of uncertainty and potential underlying resentment. Markets don't like uncertainty. That said, it can be an effective negotiating strategy if you're in the power position. If it's employed in a military near-equal's situation e.g. with China / Russia, it may be dangerous and misinterpreted, leading to dramatic consequences (both unanticipated and unintended).

The Herky-Jerky Dance

If you just looked at the recent stock and bond charts, you wouldn't know that a fight bell has been rung to overturn the domestic and international world order.

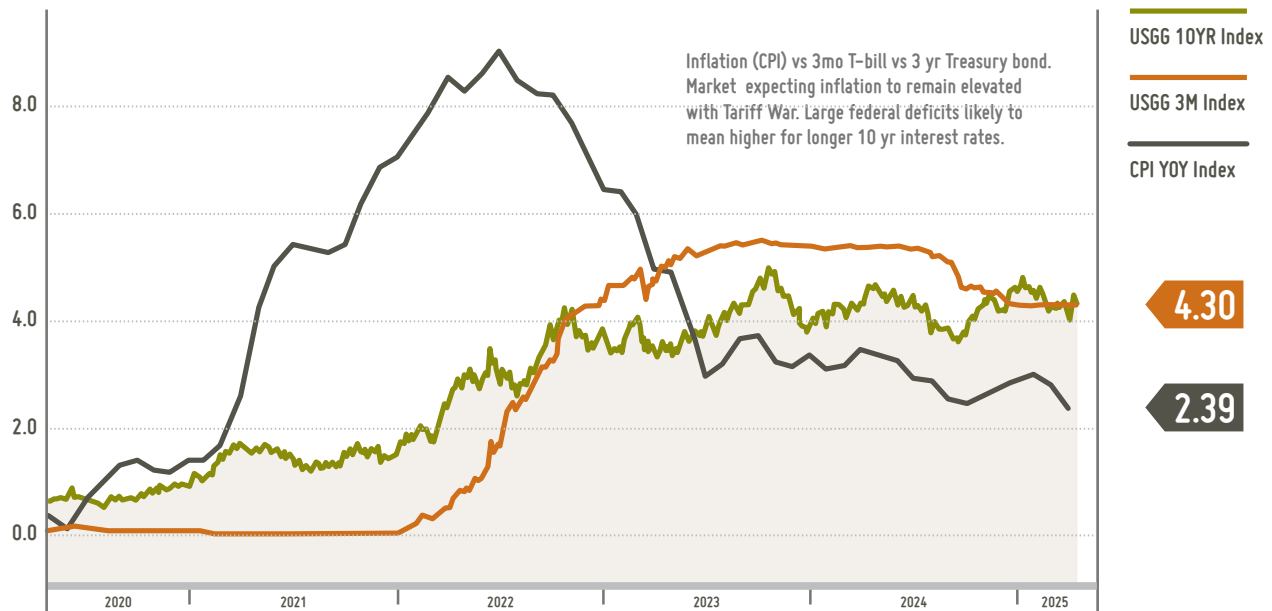
Markets were surprised by the aggressiveness of the tariffs. Going to 'war' with the world on trade means the potential for dramatic consequences; both unanticipated and unintended. Given this potential, markets appear quite complacent despite the headlines-induced volatility. When faced with a very unclear outcome, most investors will choose a "wait and see what happens" posture or a more aggressive "buy the dips" approach in the hopes of getting, IF the markets rebound, a good deal.

As I write this, interest rates (while volatile) are not higher than levels seen earlier in the year (see Figure 2). For all the angst, the stock market is currently in a run-of-the-mill correction. Two-year Treasury note yields have declined while long-term yields have not. The Fed, taking a “wait and see” approach, has not changed the overnight Fed Funds rate, thus the 3 month T-bill (which closely follows the Fed funds rate) remains unchanged.

Figure 2

Inflation Rises, Declines, Then Gets Sticky as Downward Progress Slows

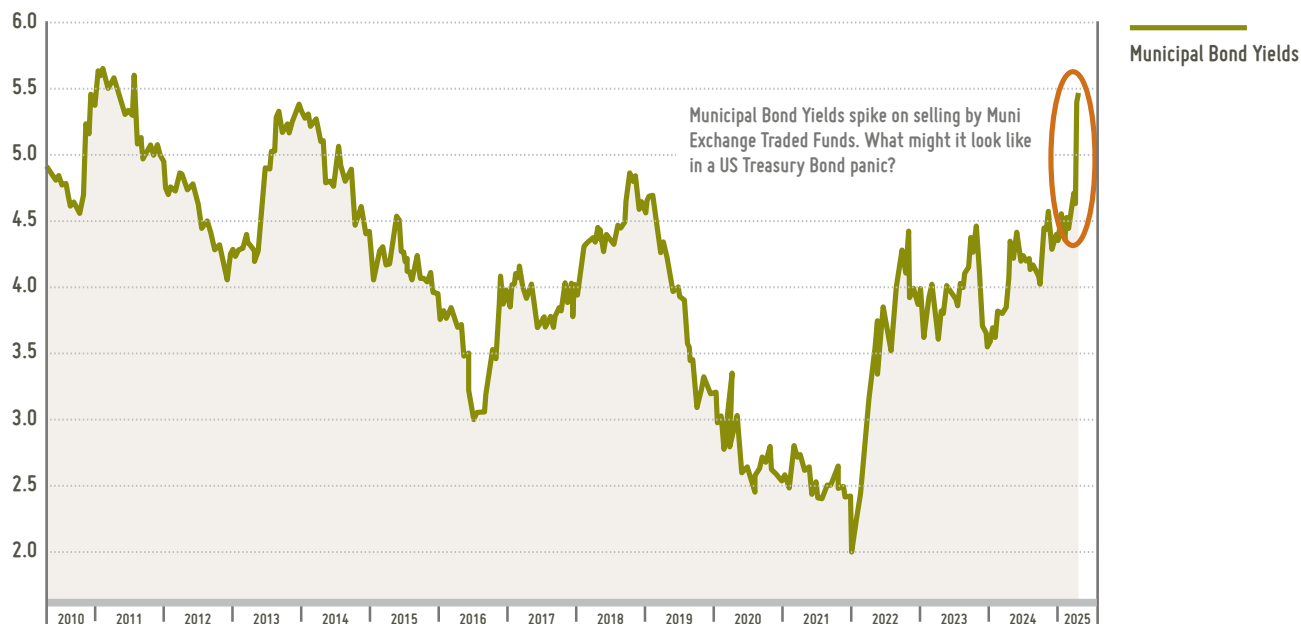
In Response, Interest Rates on 10-year Treasury Note and 3-month Treasury Bill Flatten



Source: Bloomberg, MCS

Figure 3

Municipal Bond Yields Spike: A Canary in the Coal Mine?



Source: Bloomberg, MCS

While the US Treasury market sell-off remained orderly, less than two weeks ago I witnessed a mini-panic in the municipal bond market (see *Figure 3*). Investors aggressively sold Municipal Bond ETFs (Exchange Traded Funds). This forced the ETFs to sell their bonds in a market where there were no buyers. The result was a big spike in yields as bond prices dropped. It's too early to call it a buying opportunity, rather, I see it as a warning about how fragile and illiquid some markets have become. The buying opportunity will develop during a more persistent sell-off in US Treasury bonds.

"It takes many good deeds to build a good reputation and only one bad one to lose it."

— Benjamin Franklin

Donald Trump Loves Fighting; Expect Suffering to Follow

Trump has convinced many voters that he's fighting for them. (Full disclosure: I am an independent voter.) My assessment is Trump just loves fighting. (Over 4,000 lawsuits, including numerous bankruptcies—see Appendix⁴).

Trump sold the idea that America is getting screwed due to bad trade deals, that it's time to fight back, and that only he can fix it. (Take a hard look at his failed **real estate** deals / lawsuits – the guy can screw-up royally.)

American leadership in both parties created the post WWII terms of the global trade and security system. It conferred great benefits to both the US and the world, in stark contrast to the competing ideology of communism. It's true that politicians and economists did not grasp the impact on American factory workers. Wall Street was 'all in' as lower labor cost abroad meant higher company profits.

Rather than simply own our past policy mistakes, Trump characterizes our Allies as free riders in global security. While I agree that countries have greatly benefited from America's protection and **should pay more**, that's a deal we cut. We can and should negotiate better trade terms for global trade and security, but how you do it is as important as what you do.

The problem for the administration is they've pitched tariffs as big money makers that will enable dramatically lower taxes. I'm skeptical.

Cutting government expenses makes sense, yet the current approach is the equivalent of using a bulldozer to remodel your house. It only makes sense if your goal is to destroy your existing house and replace it.

The US economy will carry on, nonetheless. Just as economies carry on in countries with high levels of corruption, toxic leadership, or failing democratic norms. Democracy is not necessary for financial markets. The rule of law over the rule of men isn't necessary either – so long as the rules are somewhat clear.

Unfortunately for investors, financial markets are not priced for major economic / political upheaval.

Globally, I'm concerned that China has been badly misread. It is pushing back hard as Trump attempts to assert US dominance over trade. The societal structure of China enables it to better endure economic hardship than America; contrast the Chinese vs American response to COVID quarantines. Furthermore, the Chinese export machine is globally well diversified to counter Trump's trade strategy and capitalize on Trump's bungling Tariff 'leadership'. Strategically, even our allies are likely to build a coalition to mitigate future US dependence.

Furthermore, Team Trump seems to ignore that our trade deficit is recycled into the US bond market, helping US interest rates stay lower. To be clear, I agree that the terms of international trade are due for an overhaul. In any negotiation, carrots and sticks are often necessary to move to a new agreement. I just don't believe that knocking all our trading partners down with firehose is a smart nor efficient strategy to get their compliance.

Bottom Line

On the current path, I expect asset prices to go down with increased odds of something dramatically bad or chaotic happening. MCS clients are well prepared. Client portfolios have not experienced the volatility that the markets have.

Endnotes

- ¹ This report is for information purposes only and does not consider the specific investment objective, financial situation, or needs of any recipient, nor is it to be construed as an offer to sell or solicit investment management or any other services. Past performance is not indicative of future results.
- ² Restructuring the Federal Government a la Elon's Twitter Method, Crippling IRS enforcement so it can only collect taxes from W-2 employees and retirees, Cast Doubt on the Fed's Independence thus Undermining Global Trust by Threatening to Fire Fed Chairman Powell, Push the Limits on Presidential Power and Ignore the Courts
- ³ Through April 17, 2025
- ⁴ Appendix

Donald Trump's Bankruptcies

Source links available upon request.

Date	Business	Description	Amount Involved	Comments
1991	Trump Taj Mahal	Filed for Chapter 11 bankruptcy protection as it was unable to generate enough gambling revenue to cover the massive costs of building the \$1.2 billion facility, particularly amid a recession. The Washington Post/ThoughtCo	\$675 million in junk bonds at 14% interest. Trump ended up owing approximately \$900 million in personal liabilities. Cibik Law	Trump ceded 50% ownership in the casino to bondholders in exchange for lowered interest rates and more time to pay off the debt. He also sold his Trump Shuttle airline and Trump Princess yacht. Wikipedia
1992	Trump Castle Hotel & Casino	Filed for Chapter 11 bankruptcy in March 1992. This Atlantic City property had the most difficulty among Trump's Atlantic City properties in covering its operational costs. ThoughtCo	Not specified	The Trump Organization relinquished half of its holdings to bondholders. The casino remains in operation under new ownership and a new name, the Golden Nugget. ThoughtCo
1992	Trump Plaza Hotel and Casino	Filed for Chapter 11 bankruptcy in March 1992. The Plaza Casino was another Trump casino in Atlantic City to enter bankruptcy. ThoughtCo/Politifact	Over \$550 million in debt Cibik Law	Trump gave up his 49 percent stake in the property to secure better terms from lenders. Cibik Law
1992	Plaza Hotel (New York)	Declared bankruptcy after amassing debt. The Washington Post/Wikipedia	Not specified	This was a luxury hotel in New York City, separate from the casino property of similar name
2004	Trump Hotels and Casino Resorts	Filed for bankruptcy after accruing debt. At this time, Trump had consolidated his three casinos and some other properties under one company. The Washington Post/Cibik Law	About \$1.8 billion in debt The Washington Post/Cibik Law	Trump's ownership was reduced from 47 percent to 27 percent to secure more favorable terms from lenders. Cibik Law
2009	Trump Entertainment Resorts	Declared bankruptcy after being hit hard during the 2008 recession. This was a renamed version of Trump Hotels and Casino Resorts after the 2004 bankruptcy. The Washington Post/Cibik Law	\$1.2 billion in debt Cibik Law	Trump reduced his ownership to 10 percent and resigned as chairman of the board. Cibik Law

Significant Lawsuits

Date	Case	Description	Amount Involved	Outcome
1973-1975	United States v. Trump Management, Inc.	Discrimination case involving Trump's real estate company in New York City CRUSH The LSAT	Not specified	Settled with consent decree, no admission of guilt
2004-2011	Trump v. O'Brien	Trump sued author Timothy O'Brien for alleging Trump's net worth was much lower than he claimed CRUSH The LSAT	\$5 billion sought	Case thrown out in 2009, affirmed on appeal in 2011 CRUSH The LSAT
2013-2018	Trump University cases	Class-action lawsuits alleging fraud against Trump's for-profit education company CRUSH The LSAT	\$25 million settlement	Trump settled the lawsuits without admission of wrongdoing CRUSH The LSAT
2018-2022	Protest lawsuit	Five men who had demonstrated outside Trump Tower sued Trump, alleging his security staff had punched one of them Wikipedia	Not specified	Settled in November 2022 Wikipedia
2022-2023	E. Jean Carroll cases	Writer E. Jean Carroll accused Trump of rape in the 1990s and sued for defamation NPR	\$83.3 million awarded NPR	Jury found Trump sexually abused and defamed Carroll NPR
2022-2024	New York AG fraud case	Civil fraud case brought by NY Attorney General Letitia James accusing Trump and associates of knowingly submitting financial statements that inflated asset values NPR	\$355 million judgment NPR	Judge ruled Trump and his organization committed fraud NPR
2023	Trump v. Cohen	Trump sued his former attorney, Michael Cohen, for breach of contract Wikipedia	\$500 million sought Wikipedia	Trump dropped the suit on October 5, 2023 Wikipedia
2023	Trump v. Orbis (UK)	Trump filed lawsuit in London against Orbis Business Intelligence over the Steele dossier, alleging violations of British data protection laws Wikipedia	Not specified	High Court dismissed Trump's claim in February 2024, stating it was outside the six-year period of limitations Wikipedia

This table provides an overview of Trump's major bankruptcies and some of his most significant lawsuits. There have been many more legal cases involving Trump: according to some sources, he has been involved in over 4,000 lawsuits [CRUSH The LSAT](#)

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