



Market Insights

Trump-Powell Showdown Triggers Market Sell-off

The markets continue to be roiled with volatility. This is what we have been expecting. This time, however, the narrative has shifted from tariffs to President Trump's threats to fire Federal Reserve Chair Jerome Powell.

Trump asserts that there is low inflation because energy prices have come down sharply. His position is that interest rates should be lowered immediately to stimulate the U.S. economy and avoid an economic slowdown. Powell's position is that rates should not be lowered until Trump's tariff plans are clarified and show that there will not be an significant inflationary impact. On Monday, Trump reiterated his call for the Fed Chair to immediately lower interest rates in post on Truth Social that deeply criticized Powell. This spurred a sharp sell-off of equities, sent bond yields higher and the U.S. Dollar lower.

It is not clear if in fact Trump has this authority to remove Powell, according to Reuters. A major risk? Attempting to remove Powell ends up in the courts. Powell still has a little more than a year in his term and was nominated by Trump during his first Administration.

Still in the Process of Making a Bottom

We maintain that the low still needs to be tested. What does this mean? Testing the low doesn't always mean you go to this low, in this case the intraday low of 4835 on the S&P 500, but you can go to that low or create a new low. This is not an exact science or formula, making it incredibly challenging for investors.

We know we have a successful test of the low when the market opens down sharply, closes on the high for the day, on lower volume and better internals, such as better breadth, the VIX not making a new high and no more new lows are made. In addition, the market opens down sharply and closes on the high for the day. The testing can take a month to four months and often markets can trade in a wide trading range for a time. (In this case, 5500 – 4800.)

This is where investors need to have patience because the testing is often against the backdrop of bad market headlines. We have confidence that we will achieve a successful test of the low.

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