Myrmikan Research

March 13, 2025

Daniel Oliver
Myrmikan Capital, LLC
doliver@myrmikan.com
(646) 797-3134

Stocks on Their Own

In his first term, Trump promoted the stock market as a gauge of his presidency. This is no longer the case. Trump recently told the media: “You can’t really watch the stock market. If you look at China, they have a 100-year perspective. We have a quarter. We go by quarters.”

Trump cares about the real economy this time. His Treasury Secretary Scott Bessent told Larry Kudlow: “He wants lower rates. He is not calling for the Fed to lower rates.” Instead: “He and I are focused on the 10-year Treasury and what is the yield of that.”

The federal funds rate is more or less the spot interest rate, which is relevant especially for stock market loans. The 10-year rate is a better reference point for home mortgages and long-term industrial loans to large companies.

Bessent explained: “Over the medium term, which is what we’re focused on, it’s a focus on Main Street. Wall Street’s done great. Wall Street can continue to do fine. But we have a focus on small business and consumers. We are going to rebalance the economy. We are going to bring manufacturing jobs home.”

The political reality is that the rich did not vote for Trump—those with incomes over $100,000 was Harris’s best income demographic—so why should he reward them? While 58% of households own stocks, according to Federal Reserve data, the top 10% richest Americans own 93% of all stocks. The poorest half of Americans own only 1% of stocks. This is why the stock market has less political clout than in the past. As Bessent points out: “The market was up 20% last year, 20% the year before. Did the Biden administration succeed? The American people weren’t buying it just because the market was up—they voted out the Democrats.”

In our January letter, we pointed out that the sources of liquidity were going into reverse: higher for longer on the Fed funds rate, continued Quantitative Tightening, an empty reverse repo facility, a potential government shutdown, Treasury bond short-end issuances already maxed out, and now DOGE cutting off funding to the parasitical parts of the economy. Plus we have a president, a Treasury Secretary, and a lame-duck Federal Reserve chairman who are signaling in concert that Washington, at least for the moment, does not care about stock prices.

Not surprisingly, the bubble trades identified in our January letter are reversing: in 2024, whereas the HUI gold mining index increased by only 13.3%, the S&P 500 increased 25%, the “magnificent seven” an average of 69%, Bitcoin 164%, Michael

Saylor's MicroStrategy Incorporated (MSTR) 358%, "Fartcoin" 2,031%, and Butthole Coin 200x. The more absurd the instrument, the more it went up.

We expect the opposite ranking in 2025, and year-to-date, whereas the HUI is up approximately 20%, the S&P 500 is down 4.8%, the magnificent seven is down an average of 12.8%, Bitcoin is down 13.2% (24% from its January peak), MSTR is down 9.3% (35% from its January peak), Fartcoin and Butthole Coin are down 89% and 92% from their January peaks.

The poor, the Trump voters, will feel the effects of a falling stock market, of course, as the rich cut consumption. Trump's bet is that the resulting unemployment will be temporary and healthy as these workers find more productive jobs in a manufacturing resurgence.

Bessent observed: "The top 10% of Americans are 40% to 50% of consumption, and that is an unstable equilibrium. The bottom 50% of working Americans have gotten killed. We are trying to address that; we are trying to get [interest] rates down. Could we be seeing this economy that we inherited starting to roll a bit: sure. There is going to be a natural adjustment as we move away from public spending to private spending. The market and the economy have just become hooked, addicted to this government spending, and there's going to be a detox period."

The detox hit D.C. first, with layoffs from both government and NGOs threatening the local housing market. Next the shock hit research institutions, mostly in blue cities, including hospitals and universities, which are seeing their funding reviewed and slashed. They will have no choice but to downsize the administrative and non-productive staff.

Subsidiary industries are already starting to feel the pain. Delta airlines lowered its Q1 earnings guidance in half, its CEO commenting: "We saw companies start to pull back, corporate spending started to stall; consumer spending started to stall." United Airlines reports that government-related travel is down 50% (government employees were all working from home but happy to travel).

The economic unease is now spreading into the broader economy. In January, US retail sales plummeted by 0.9%, marking the biggest decline in nearly two years. U.S. consumer confidence in February deteriorated at its sharpest pace in 3 ½ years. Restaurant traffic in February was up 5.9% year-over-year, but sales were down 2.4% as consumers ordered cheaper food.

Strapped consumers are turning to debt: total household debt increased by $93 billion in the fourth quarter to $18 trillion; half of that increase came from credit card balances, which rose to a new record of $1.2 trillion. Given that these balances are subject to an average interest rate of 28.7%, Trump had better hope those manufacturing jobs materialize soon.

It turns out also that Biden was masking a housing crisis: According to *The Wall Street Journal*: "7.05% of FHA mortgages issued last year went seriously delinquent—90 or more days past when a payment is due—*within 12 months* [emphasis added]. That's more than at the 2008 peak of the subprime bubble." Yet "of the 52,531 FHA loans last year that went seriously delinquent within their first year, only nine resulted in foreclosure" because Biden directed the FHA to make the missing payments and simply add the amount to the mortgage balance. "The FHA made 556,841 'incentive payments' to servicers over the past year to prevent foreclosures—nearly as many as the new mortgages it insured."

The Mortgage Bankers Association published an unintentionally comic reply in the *Journal*, claiming the article: "doesn't adequately describe mortgage servicers and the crucial role they play.… They have continued to perform well—and, as of Jan. 31, provided home-retention options to approximately 8.5 million homeowners since 2020. Imagine the economic and housing-market fallout if these homeowners went into foreclosure."

FHA loans are guaranteed by the federal government, so the choice is either to keep bailing everyone out and bleed slowly or accept a sudden massive liability as the property sales cannot possibly pay off the now-enlarged mortgages, especially if the sales all happen at once. The latter seems like the wrong political choice, except that it would fulfill the campaign promise to provide younger, less affluent buyers access to the housing market.

We think that the trends of the past couple of months will continue. Trump knows he has inherited a bubble; he is calculating that he can blame Biden if he can pop it quickly—the continuing revelation of spending scandals assist that narrative. It is a risky strategy, of course, but even if he does catch the blame, it is nevertheless better for Trump that the crash happen now rather than right before the mid-terms or before the next election when he will be trying to cement his legacy. This is the Reagan model: take the pain early.

We note that earlier this week as the broader market continued deeper into correction, gold and silver prices reversed their losses and headed higher with the gold mining stocks close behind. The passive money flows pass over the juniors, yet they have kept up, and it will not take a lot of capital inflow to send them substantially higher.