The Tariff Economy

And the Economic Consequences of D.O.G.E.

United Airlines said very recently that government travel has dropped by about 50%.[1] Governments (particularly the USA) have been on a spending spree since covid which artificially boosted the economy through the 2021 to 2024 period. **This is now over**. Investors got accustomed to that high level of spending (high budget deficits) to a point of acting like this was sustainable forever. On this false premise, investors drove stock market indices to record levels and speculated into all sort of doubtful assets (0DTE, shitcoins, meme stocks, etc). The effect of D.O.G.E. and the "Tariff War" is not only going to bring back investors to a normal economy (on its own, this would likely put brakes to stock prices), rather, it will drive us right into a very difficult economy (yes, let's call it – a recession is very likely coming).

D.O.G.E is cutting government spending very aggressively which means it is also shrinking the economy at the same time. The D.O.G.E. clock says they already cut more than $200 billions so far (U.S. National Debt Clock : Real Time). An interesting fact that might not be understood by many is the cuts being made won't reduce the deficit by an equivalent amount. To put simply, businesses and people that benefited (received) from that money train have now lost an income (when they get cut) therefore they will pay less taxes and spend less money on their own (the multiplier effect). We estimate that for each $1 of cuts, governments will save only 50 cents (half) on the deficit considering the lost revenues of that lower spending. Considering the interest costs will be up by about $200 billion (US government) alone in 2025, D.O.G.E. will have to cut at least $500 billions just to have a very marginal effect on the deficit. Their goal is to cut between $1 and $2 Trillion. Everybody should understand this is not good for the economy over the short term, as these cuts are implemented (although being more efficient is good for the long term).

Add to that, the effect of a "Tariff War" that should intensify in the weeks ahead. Indeed, the US government will announce all of the "reciprocal tariffs" with potentially dozens of countries around the world on April 2nd. Europe, China and a few others seem to be willing to fight. So, we should expect to see counter tariffs and other measures against the USA. All of that is not going to be good for jobs, inflation and business investments.

Indeed, it is clear that during uncertainty, some businesses will delay the next investment, the next expansion, the next hire, etc. It is also clear that consumers with the fear of potentially losing their jobs (through D.O.G.E. or through tariff causes) will cut discretionary spending just in case. All of that decreases the size of the economy (GDP).

The combo of these forces, unless reversed quickly, are going to take the economy into a recession in 2025 in our opinion. And remember that on average, stocks go down between 20% and 40% in a recession. This coming recession could be a pretty bad one, so make sure to place your bets accordingly.

We have lowered our exposures substantially across our portfolio and expect to make more money from our shorts throughout 2025. After the recent 10% drop, we could see a rebound, but clearly, we believe stocks in general should be sold on strength. We believe, "Buy and Hold" or "Buy the Dip" won't work in 2025. Good luck to everybody as these new factors play out…

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1 https://www.cnbc.com/2025/02/19/united-says-government-travel-falls-amid-trump-musk-firings.html?msockid=01a7b08d62a96cef1ae8a39163036d7f

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