To subscribe to our Newsletters, please send an email to info@palos.ca with subject line "Newsletter"

PALOS

The Palos Perspective

Issue **No. 23** | **June 7, 2025**

CONTENTS

A Macro Market View by Hubert Marleau

Mr. Crypto Goes to Washington

A large number of my readers ask me what my take is on the crypto industry.

When Bitcoin was started in 2009, it was essentially an utopian and anti-authoritarian movement with a call for technology to liberate the common man from expropriation, inflation and Wall Street. Indeed, crypto has fulfilled its libertarian goal of preventing commoners in certain parts of the world from being subjected to the real risk of currency debasement, property expropriation and hyper-inflation.

However, something happened "en route" to Nirvana. Crypto detoured to Washington, abandoning its original raison d'etre of full independence, and against the ethos of Bitcoin, causing some discomfort for certain factions of the crypto world. The thing is that it just got too big to be ignored by anyone. Crypto is now ascendant, leaping from near-pariah status to the darling of officialdom at outstanding speed. The combined value of all cryptocurrencies is $3.3 trillion - almost 15% of the US money supply - with roughly 50 million Americans owning Bitcoins; 40% of the world's mined Bitcoin held by Americans; publicly traded U.S. companies accounting for 95% of global corporate holdings; the U.S. government owning more than twice the global market of Bitcoin, as it does of gold; and US vanilla institutions like Mastercard, BlackRock, Franklin Templeton and tech-companies entering the industry with tokenized money-market funds to store value and/or pay and settle transactions. In this connection, crypto has become too big to be ignored by the high-rollers and right-wing elements of the Republican party, too widely held by the general public not to recognize its political value, and too important financially to not tie it up to the dollar.

Since Trump and his Administration see this as a huge opportunity to create wealth and power for Americans of the right mind, they have decided to do whatever they can to preserve, legitimise and grow it to become the dominant global leader in crypto. Last summer, during the presidential campaign at a Bitcoin conference, Trump pledged to lower regulatory restrictions and promote its advancement. Last week at a Bitcoin Conference in Las Vegas, Vice President JD Vance in front of a who's who of political power, Washington insiders, including senators, house representatives, big-name executives and tons of well-known enthusiasts said that crypto was a full-blown national economic priority.

While I understand that digital entrepreneurs, technology experts and futurists are resolute to run with the theory, I believe that they see it as a way to arrest the ambition of other entities from dethroning the US dollar's current status as the world's reserve currency. Put simply, something different needs to be tried to fend off challengers to retaining the competitiveness of the greenback. According to data put together in May by Axios to form favorability ratings of nations, China had a + 8.8 net favorability score, compared with -1.5 for the U.S. Historically, America ranks significantly above China: +20.0 versus -0.5 respectively. This drop in reputation is costing the U.S. economically through a fall in foreign visitors and a shunning of goods produced by US firms, and financially with a decline in the forex value of the dollar.

If the Administration wants to keep Trump's nationalistic capital and trade policies and keep running deficits, while wishing to enjoy the leeway afforded by its exorbitant privilege of having foreign nations help fund those deficits with a modicum of respect, it's the White House's duty to try something surreptitiously that is out of the box, even when if looks inconvenient for the resident's agenda and awkward to explain. Thus, tying the dollar to the growing popularity of crypto tokens is perhaps for them an answer.

First, the BITCOIN Act of 2025, is proposed legislation for the government to acquire 1 million Bitcoins over a 5-year period, and hold them in custody: a Strategic Bitcoin Reserve to back federal deficits. Second, the GENIUS Act of 2025, another piece of legislation to create a regulatory framework for stablecoins - tokens that are pegged to real currencies such as the dollar, treasury bills or short term treasury notes. Third, Trump Media and Technology Group Corp filed a registration statement for an exchange-traded fund that would directly hold Bitcoin - the latest move into cryptocurrency by people in Trump's orbit as his Administration tries to deregulate the industry.

A Macro Market View by Hubert Marleau

So What Went On Last Week, Ended June 6?

On Monday, the stock market started the new month under pressure as a flare-up in trade tensions erupted once again with menacing threats from China over chip restrictions, the US over critical minerals, and the E.U. over steel and aluminum tariffs. Yet stocks were mostly positive because AI names were featured, a couple of trade deals were close to the finish line, and the war of words did not have a lasting effect because the TACO theory prevailed: Trump Always Chickens Out. The S&P 500 rose 0.4% to end at 5936.

On Tuesday, investors kept the June momentum going, powering the S&P 500 to 5970, up 0.5%, as new labour data showed that the job market is staying resilient amid trade tensions.

On Wednesday, the rise in the S&P 500 slowed to a crawl, registering a measly increase of 0.01% to 5971, amid reports from ADP and ISM showing a pause in the level of economic activity, with no signs of lifting. This was the first casualty of the trade war: a freeze on hiring and a reduction in both the service and manufacturing side of the economy. Repercussions were felt in the money markets where both the exchange value of dollar and Treasury yields plunged to 98.67 (DXY) and 4.35% (10-years) respectively, preventing stocks from dropping.

On Thursday, the S&P 500 snapped a 3-session win as Tesla shares plunged, losing $200 billion in market capitalization caused by an acrimonious feud between Musk and Trump over BBB that cost the later $35 billion. The benchmark fell 0.5% to 5939.

On Friday, the S&P 500 ran up sharply after the job report beat expectations and Trump announced that top officials will meet with Chinese counterparts on Monday. The benchmark increased 1.0% to reclaim the 6000 mark.

The Near-Term Stock Market Outlook:

A Macro Market View by Hubert Marleau

Last week, I wrote: "Trump's tariff policies and the saga over the Big Beautiful Tax Bill will likely continue to be an important driver of stock sentiment, which is why I am not ready yet to raise my target for the S&P 500 above 6000 because a stagflationary patch during the summer months is a perceptible risk. Yet I'm unwilling to exit the market and wired to buy dips, since many strategists have raised their target to as high as 7000 by June 2026. For example, Jim Paulsen, who has a highly-followed blog called the Paulsen Perspectives, has five key market supports that could become far more beneficial in the coming year, including a lower policy rate, a decrease in 10-year Treasury yields, an acceleration in the growth of the money supply, falling inflation, and rising consumer confidence."

With the S&P 500 reclaiming its 6000 foothold, which incidentally is the target that I bank on, a new forecast is warranted. Big round numbers don't mean much, but they do serve as reassessment points if they were used as a previously forecasted target.

Putting together another target isn't easy to do with total conviction because the market keeps fighting back and forth on tariffication, dollarisation, adoption of AI, and cost of capital. This situation makes me nervous, because I really don't know if I have sufficient information to expose myself to a new forecast. It's damned if I do, damned if I don't. According to Paul Tudor, one of America's most successful hedge fund managers, he is a believer that the market is in a "range expansion" where stocks either break above long-term resistance or violate multi-year support on the downside. Interestingly, at a meeting of an investment club that I chair, the consensus was neutral. That is why July 9 is a crucial date, when the 90-day pause on some of Trump's tariffs is due to expire.

Rumours have it that the negotiators in the Administration want to get the tariff issue behind them and out of the headlines. Thus there is anticipation that many trade deals will be signed soon, hopefully in a relatively transparent, fair and justifiable manner. Should this be the case, some normalcy will return to the market, meaning that conjecturing will be determined more by harder economic variables.

A Macro Market View by Hubert Marleau

In my judgement, we might bet on some stagflation over the short term. First, the strength of the labour market is fading as employment growth has slowed. Initial jobless claims have increased, job cuts have risen, job openings have slowed, and workers are not quitting their jobs. Second, tariffs have started to push up prices. However, these broad economic conditions are not expected to last for more than a quarter or two. Firstly, inflation expectations are now just tariff expectations, suggesting that the inflation boost could be temporary. Secondly, the lower exchange value of the dollar, the reduced cost of capital, the forthcoming easing of the monetary stance, the current run up in the money supply, the fast adoption of AI across many industries, and the expected decrease in taxes, are all ingredients that are likely to keep the economy resilient. In this connection, I think that there is a 75% subjective chance the S&P 500 will reach 6600 by June 2026 versus only 25%, for a fall to 5500.

The Palos Perspective

Issue No. 23 | June 7, 2025

Disclaimer:

L'infolettre Palos Perspective est un aperçu hebdomadaire de la situation macroéconomique disponible uniquement en anglais. Si vous avez des questions sur l'infolettre ou des demandes générales sur Palos, veuillez nous contacter à info@palos.ca