A Controversial Start

By John Mauldin | January 4, 2025

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It was an amazingly short week, punctuated by making 20 gallons of chili, serving almost 300 of my neighbors, and then recovering the next day, which didn't leave a lot of time for in-depth analysis and forecasts. I'm sure you will be happy with the shortened letter as we cover some of the main events of last year and the ones that will have the most impact this year. A few will surprise you. Let's jump in.

Let's Start with the Controversial

I wrote last year that I think the Supreme Court's overturning of the "Chevron rule" would be one of the most impactful rulings of the last few decades. We saw that this week in the final rejection of net neutrality. Of course, many will want to see it brought back but that will now take an act of Congress. Which is the way laws should be written.

What does that have to do with the 2025 forecast? It is actually central and is one reason the forecasts will likely be so much tissue paper.

It is not lost on those looking to rein in government that Chevron was critical. It is certainly not lost on Musk and Ramaswamy. Many rules and regulations have grown from a bureaucracy interpreting laws that Congress purposely (and in dereliction of the process) left vague. The overturning of Chevron basically told Congress its legislation must be more specific. But that also means many rules now have the potential to be overturned. In fact, the bureaucracies enforcing those rules have the potential to be removed, at least under the assumptions that DOGE (whatever that will be) will make.

Prior to this period, a bureaucracy could make a rule and under the old Chevron ruling from 1982 (one of the worst Supreme Court rulings of all time) enforce the rule, set fines and penalties, and create its own judges and commissions to handle any disagreements. There was literally no appeal outside of the bureaucracy. You could not appeal to a federal court.

If by some narrow margin you did get into a federal court, you actually faced the Department of Justice arguing for the bureaucracy. I can see the opposite happening this year.

Now, you are going to get a new bureaucracy (DOGE, and yes, I get the irony of it being another bureaucracy) arguing to change or eliminate other parts of the bureaucracy. This will not happen without opposition. Cue the lawyers. There will be multiple lawsuits seeking to reinstate the bureaucracy, or at least the rulings.

It will be quite chaotic. I can almost guarantee you won't like some of the outcomes, no matter what side of the political aisle you are on. Hopefully, it will force Congress to actually write rules when needed. Not all bureaucracy is bad. We need rules and guidelines for a healthy functioning of society.

DOGE clearly sees itself as responsible for making government more efficient. Like motherhood and apple pie, who can be against that?

To the extent that bureaucratic overreach is reined in, the economy will be more efficient. To the extent that guidelines and rules are relaxed beyond the point of what is really needed, it could create a Wild West. Laws and bureaucracy were made to help a large, complex society function smoothly and fairly. But we have also seen these bureaucratic rules become crony capitalism, or be used to hamper competition. Crony capitalism is not capitalism. It is a bastardization that should be eliminated.

Business professionals and entrepreneurs like predictability. The next few years will be anything but predictable. Perhaps we will find all this can happen in the background and not really affect our economic reality, but I wouldn't bet on it. Then again, I am moving ahead with my own ventures, and I notice that all of my friends and the business community are as well, so no one is predicting anything significantly negative.

Most people don't pay much attention to the political process, either local or federal. This year I think it is something we should all be paying attention to as it might affect our various lives.

Immigration Issues

Chevron actually has immigration implications. Much of what we think of as immigration law is actually bureaucratic rulings and procedures. We know this because recent presidents issued many executive orders changing immigration policies.

Millions (7 million plus?) of undocumented immigrants came across our border in the last few years. Just to be clear, I support a fairly open immigration process. As any economist will tell you, growth in GDP is equal to the increased productivity of workers times the number of workers. All things being equal, if you increase the number of workers you're going to increase GDP. If you increase the number of productive workers, you will increase GDP even more.

John Burns estimates roughly 700,000 additional housing units are needed just for the recent wave of immigrants. It will increase. Many of these immigrants are already working somewhere in the economy, although they are not the ones we see on TV or social media.

There are 1.2 million illegal immigrants who already have court orders to be returned to their home country. There are known criminals who by definition should be returned. I am sure they will find many others.

This is a political landmine. Immigration needs to be reformed. Actually, I think the Canadians pretty much have a decent handle on it. We need a variety of workers from those who are highly skilled, already speak English, and have a degree hopefully in a STEM area (we don't need any more lawyers) to agricultural workers. We need entrepreneurs who are willing to bring their money and put it to work here. Bluntly, if we actually could wave a magic wand and remove all of the illegal immigrants in the country today? I think it would pretty much guarantee a recession.

We need to reform immigration and bring in new immigrants at the same time we are removing immigrants who don't need to be here. But if we go too far in removing them without replacing those who are working, it will likely have a negative impact on the economy.

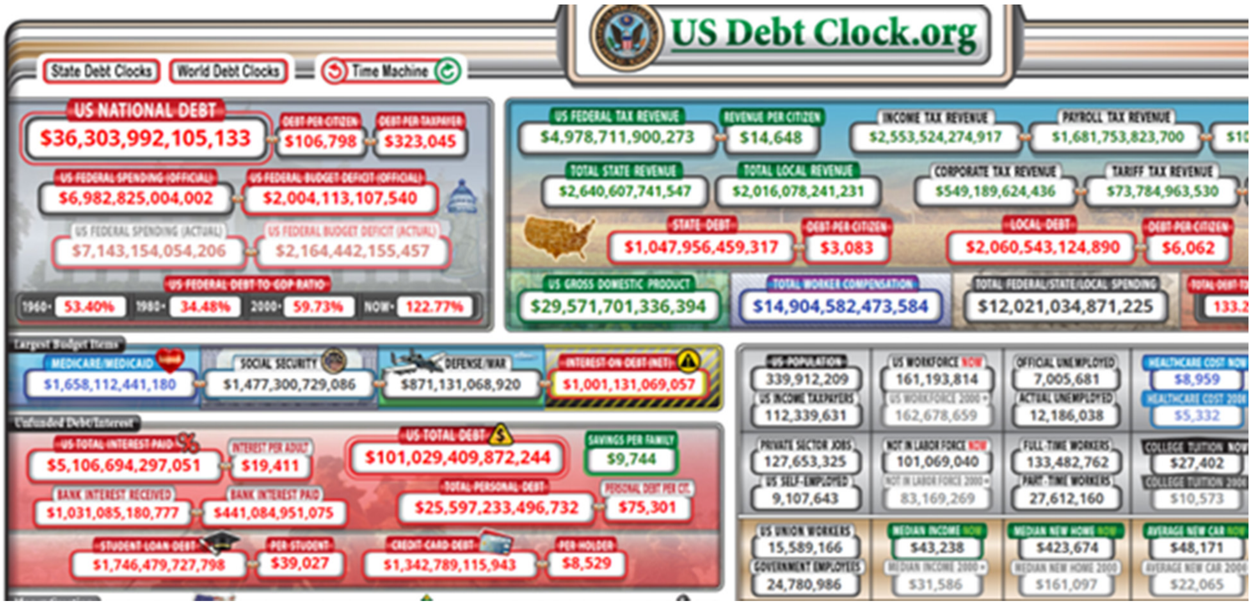
Let's Look at 2024 and My First Prediction

Here is a screenshot of how various markets ended up for the year. There is a lot of green in that year ending column. The Nasdaq more than doubled the DJIA because the Nasdaq has The Magnificent Seven.

Ticker	Last Pri	DAY CHG	DAY %	MTD %	QTD %	YTD %	Record High Change	Record High
DOW JONES	42544.22	-29.51	-.07%	-5.27%	+.51%	+12.88%	-5.4868%	45014.0400
S&P 500	5881.63	-25.31	-.43%	-2.50%	+2.07%	+23.31%	-3.4258%	6090.2700
NASDAQ	19310.79	-176.00	-.90%	+.48%	+6.17%	+28.64%	-4.2783%	20173.8900
RUSSELL 2000	d 2231.995	+3.896	+.17%	-8.34%	+.08%	+10.09%	-8.6009%	2442.0310
GOLD SPOT $/OZ	2623.34	+16.62	+.64%	-.76%	-.43%	+27.15%	-5.8929%	2787.6099
GDX-GOLD MINERS	33.91c	+.14	+.41%	-9.96%	-14.84%	+9.35%	-22.1874%	43.5790
SILVER SPOT $/OZ	28.9040	-.0467	-.16%	-5.62%	-7.24%	+21.47%	-17.0819%	34.8585
S&P 100	2890.23	-17.55	-.60%	-.44%	+4.27%	+29.25%	-2.9619%	2978.4500
RUSSELL 1000 GROWTH	d 4053.569	-26.886	-.66%	+1.09%	+7.19%	+32.81%	-3.7909%	4213.2900
DOLLAR INDEX SPOT	d 108.432	+.301	+.28%	+2.55%	+7.59%	+7.00%	0.0009%	108.4310
30-year U.S. treasury 2051	55-10	- 09	-.51%	-7.33%	-11.32%		-20.6367%	69.6953
Govt 30 Yr Treasury yield	4.7812	+.0315	+.66%	+9.66%	+.66%	+18.69%	-6.4326%	5.1099
Govt 10 Yr Treasury yield	4.5690	+.0363	+.80%	+9.61%	+.80%	+17.79%	-8.4332%	4.9898
Govt 2 Yr Treasury yield	4.2416	-.0002	--	+2.19%	--	-.20%	-18.7822%	5.2225
XBT-BITCOIN	93508.50	+1584.31	+1.72%	-3.45%	+46.59%	+119.97%	-12.1223%	106407.5000
DOW UTILITIES	982.74	-.66	-.07%	-8.92%	-7.29%	+11.46%	-8.9954%	1079.8800
VIX-Volatility Index	17.43	+.03	+.17%	+29.02%	+4.18%	+40.00%	-54.8094%	38.5700
VXX- VIX ETN	45.80c	+.27	+.59%	+7.55%	-7.66%	-26.22%	-79.539%	223.8400
XLF-FINANCIAL ETF	48.33c	+.05	+.10%	-5.86%	+6.64%	+28.54%	-5.4609%	51.1217
OIL SERVICE INDX	72.6020	+1.1659	+1.63%	-9.64%	-5.02%	-13.44%	-26.4852%	98.7583
WTI CRUDE FUTURE Feb25	d 71.80	+.81	+1.14%	+6.02%	+6.65%	+3.16%	-9.4692%	79.3100
BRENT OIL FUTURES	d s74.64c	+.65	+.88%	+2.33%	+4.00%	-3.12%	-22.6929%	96.5500
NATURAL GAS FUTR Feb25	d 3.625	-.311	-7.90%	+13.14%	+4.05%	-1.63%	-26.1109%	4.9060
S&P RETAIL ETF	d 8450.45c	-133.12	-1.55%	-3.40%	+2.72%	+10.48%	-5.084%	8903.0800
DOW TRANSPORTS	15895.75	+8.96	+.06%	-9.78%	-2.45%	-.02%	-10.4686%	17754.3800

Notice that both the 30-year and 10-year Treasury yields rose around 18%. This was a year when the Fed was cutting short-term rates. The yield curve is normalizing but it feels different this time.

We are beginning to see the hints of a bond market concerned about $2 trillion deficits and a $36 trillion national debt on its way to $60 trillion unless something changes soon. At the current rate, total US debt will be over $50 trillion by the end of the decade. Interest on the debt will be the largest line item in our budget—larger than Social Security, Medicare, and certainly defense. It will be approaching the actual level of income taxes that we pay. Just as an exercise, go to the [US Debt Clock](https://www.usdebtclock.org) and browse through their treasure trove of data.



Source: [*USDebtClock.org*](https://www.usdebtclock.org)

Then add state and local debt to federal debt. You will find the total government debt-to-GDP ratio is not just 122% but 133%. Is it any wonder bond buyers might want a little bit more for taking that risk? How long do you think they'll be satisfied with 4.5%?

Even if the Fed cuts two or three times this year, I don't see long-term rates coming down absent a recession. And even in a recession, it would only be temporary and rates would soon return to higher levels.

While some will call this just a return to normal, which it is in a sense, I think it is the beginning of a trend to higher rates because of debt concerns. It won't overwhelm us this year or next, and if we actually can begin to control the deficit, I believe interest rates could come down. But I don't think that's reality. It is going to take a crisis to get the deficit and debt under control.

Source: Bespoke Investment Group

Even as the market made all-time highs, and the last two years have been record-setting, you have to go back almost 70 years to find an end-of-the-year drawdown as big as the one in the end of December, even though it did come back.

For those of you looking for forecasts in general, Bloomberg performed a fabulous service looking at over 50 different major institutions, summarizing their 700+ forecasts for us. You can follow this link to see individual forecasts but I will give you their general summary below.

(Caveat: Remember that these institutions are in the business of selling you something, and whatever they sell is nearly always forecasted to be something you need in 2025.)

> "The US economy and assets are once again expected to power ahead, enjoying new momentum from Trump and benefitting from the comparative lack of appeal of other major markets, many of which could be hit by his tariffs. This will be a world, says JPMorgan Chase & Co., 'where US exceptionalism gets reinforced.'
>
> "Inflation is seen as broadly contained, albeit unlikely to fall to target as Trump throws up trade barriers and takes a hard line on immigration. 'It will take longer than expected for the Fed to travel the last mile toward its inflation goal,' Apollo Global Management says. It's one of multiple firms that think interest rates will be cut more slowly than currently priced by the market.
>
> "Pretty much every institution warns investors not to expect another year of equity returns topping 20%, just like they did a year ago. But few are ready to call an end to the artificial intelligence-fueled stock boom. BNY Mellon Wealth Management believes 'AI's role in the world will surpass that of other technologies that propelled earlier periods of tidal change.' While no one else quite matches that bullishness, many expect gains to broaden as adoption of the tech spreads.
>
> "And it may not be a 'year of the bond,' given current tight pricing and ongoing worries about excessive government borrowing. But starting yields across both rates and credit are solid, and many firms would agree with the sentiment captured by Schroders: 'The old-fashioned reason for owning bonds—to generate income—is back.'
>
> "…Lower rates and pro-growth policies should support a modest global expansion with the US largely leading the way. Risks abound—not least the unpredictability of the new American administration—but solid, not exceptional, returns are the base case for most of Wall Street. Call it cautious optimism.
>
> "…The so-called Red Sweep of US government is expected to kick off a pro-business, regulation-light era that gives American activity a boost. Confidence in a European revival is low, while China is seen struggling to manage an ongoing deceleration.
>
> "…Trump's potential barriers to trade and aggressive approach to immigration are seen as fresh fuel for inflation, with the Federal Reserve struggling to bring price growth down to target. Still, inflation is generally seen as contained and range-bound both in the US and abroad, compared to recent years.
>
> …Wall Street is looking for the stock rally driven by the tech megacaps to broaden. That means a boost for mid- and small-cap equities in the US, which remains most firms' preferred market, even if it won't match recent returns. Cheap-looking international companies may offer bargains.
>
> …While everyone agrees new tariffs are on the way, some consider Trump's tough talk a negotiating tactic, and expect actual trade barriers to be highly targeted and less aggressive than the worst-case scenario. China will bear the brunt."

(This section had the widest variation of predictions and outcomes. There was serious disagreement about both the number of tariffs that would be imposed, what their impact would be, and where they would actually be imposed. This is only natural since everybody is guessing.)

> "…Corporate debt looks priced to perfection, meaning risks are arguably tilted to the downside. But yields are solid, central banks are cutting rates and default risks are seen as relatively low. Many firms prefer credit to government bonds as a source of income.
>
> "…Wall Street is split on whether gold can continue to shine, though bulls see it as a good hedge for the unpredictable macro backdrop. Improving growth and the build out of tech infrastructure (data centers, power plants) could boost base metals. No one is particularly bullish on oil."

Everyone is preaching diversity, and I found no one calling the AI revolution into question. And they do talk about risks and what they worry about. Generally, Wall Street is worried about a bursting of the AI bubble and bond investors losing patience with profligate governments. But the largest concern by far is that Trump goes harder than expected with tariffs, triggering retaliation and hammering world growth.

I am going to stop there. I think there is enough food for thought and I look forward to hearing your response. Next week we will get into my actual forecasts.

Austin, Newport Beach, and ????

On Monday I fly to Austin where I will be with friends (including Lacy Hunt) and have dinner with Joe Lonsdale and a group he has invited. I will also be meeting with the local office of The Bahnsen Group and a few of their clients and potential clients. Then on the 20th I will be flying to Newport Beach to be with David Bahnsen and his entire team as they gather for their annual event and client dinner. I will also be meeting with members of the Alpha Society as well as those who are interested in meeting the team at The Bahnsen Group.

As I mentioned last week, we are planning to open numerous clinics around the country that will specialize in a procedure called therapeutic plasma exchange. As much as I don't like to get on a plane and fly long distances, I am pretty much going to be in about 15 or 20 cities next year and will always make a point to try and meet. Longevity and health are going to be increasingly prominent in our society.

Shane and I entertained almost 300 of our neighbors on New Year's Day. I cooked 20 gallons of chili and she and the team did all the real work. It is different than most parties in that it is during the day, very kid friendly, and it is easy to have conversations throughout our home and patios. Many people say it is their favorite party of the year, and it certainly does grow each year. Just a few pictures. The first is the bouncy room that is 100 feet long and had all the kids gathered in it allowing the parents time to talk.

Finally, a suggestion that will make your 2025 better—subscribe to *The Free Press*. You can get it for free, but give them eight bucks a month. Bari Weiss and team have created something I think will be bigger than *The New York Times* in five years, and certainly more reliable journalism. And to understand what is happening in the intersection between culture and government and free speech, subscribe to Matt Taibbi. He has been on fire since the Twitter Files. You can find him at *Racket News*.

And with that, I will hit the send button. 2025 is going to be a great year. At a minimum it will be an interesting one but I hope it will be our best year ever! I look forward to being with you every step of the way. Thanks for being a friend and here's to being on the right side of the markets!

Your expecting a lot of fun analyst,

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