CLIENT NOTE

Return of the TACO trade?

In what is proving to be a whirlwind month for equities, Portfolio Manager Dan Babington looks into the potential return of a very successful 2025 trade and what may be motivating President Trump's recent interventions.

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I have previously expressed concern over the bombastic nature of the commentariat, especially where the stock market is concerned. Primarily because when I was at school, I was introduced to what is fundamentally the backbone of microeconomics: the supply/demand equation. Grossly over-simplified: if consumer demand for a good or service goes up, a higher price can be set or more can be sold (or both).

I may well be a touch cynical, but I've found it difficult to view any business since, through any lens other than this. Bloomberg, CNBC and the Financial Times are businesses, who therefore seek to profit for an increased demand of the service they are providing. Our attention is the currency and fear can encourage a deposit.

Therefore, a small decline in markets can be labelled a rout while investors discerning new information and adjusting expectations for a company, can be a crash, because it encourages clicks. My favourite is when a company's earnings are announced below the street's expectations. This is curtly brandished a 'MISS', but surely it was just that analysts made an incorrect forecast?

However, sometimes the 24 hours news cycle does get a fresh catch, with enough on the bone that no seasoning is required.

Over the last two weeks, Nvidia, which was the world's biggest company (by market capitalisation), fell 47% following the news that their maverick CEO had been engaged in an inauspicious relationship with an alleged Chinese spy, among other instances of infidelity. Upon being ousted by the board, the market hypothesised that Jensen Huang's mind may well have been the spider at the centre of the AI web all along. A web that without him was a latticework, too flimsy to serve as the foundation of any technological revolution.

On Monday morning, as the reader is likely aware, it was announced that Jensen would be returning to much fanfare, oh and a 30%+ rally in the stock.

As a fund investor, I'm the wrong person to ask whether the reverberations of Jensen's Huang's departure were accurately discounted in the stock market, just as I'm not entirely sure whether his return was worth re-adding $1 Trillion in market cap. What does interest me though, is not the dominos which fell, but the person who picked up the first domino off the floor and set it back in place. That person was Donald Trump.

The President claimed he 'convinced' Nvidia's Board to make 'the deal' after assuring them Huang hadn't broken any national security laws. But why?

Somewhat concerningly, there is a litany of reasons we can look to. Whether it is the need for America to stay ahead in the AI race or fears of what a slowdown would do for US growth, both appeal to the national interest which very well could have motivated him. It is certainly what we would expect to see underpinning policy decisions of the President of the United States.

However, I wonder if the answer may in fact be personal interest. We know Donald Trump owns millions in Nvidia stock. But I wonder if there is something that sits closer to his heart: his legacy.

The President has consistently pointed to stock market returns as the Presidential scoreboard and therefore the judge over his tenures. He also criticised market returns in Joe Biden's and Barack Obama's presidencies.

TACO

This has been a fundamental tenet of his time in the White House. So much so, that investors coined the phrase last year that 'Trump Always Chickens Out'; essentially that a bond or stock market fall could persuade the President to step in to remedy that which proved the harbinger for said decline.

I suppose that which motivates the President to step in so frequently matters less, in the near term, than the fact that it keeps happening. At a moment where the financial commentariat is set that an AI bubble is deflating at a rapid rate, I believe it can be true that the President's reluctance to let this happen on his watch is very much a positive to stock market parti-

The value of investments can fall as well as rise and you may get back less than you invested.

cipants. While the growing undercurrent of political interference in the stock market is a long-term concern.

But the key lesson, above all from this debacle, is that this market is highly sensitive in both directions. Day-to-day, everything can change in a single headline. While over the long-term, the companies leading the AI build-out continue to deliver exceptional earnings growth. Therefore, more than ever: time in the market will beat timing the market.

"Time in the market beats timing the market"

Ken Fisher, CIO - Fisher Investments

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