Yardeni Research

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Morning Briefing

Trump's Crypto Reserve Put & US GDP Math

Check out the accompanying chart collection.

Executive Summary: Bitcoin's value surged when Trump posted his support of a federal "strategic crypto reserve." If Uncle Sam were to invest in cryptocurrencies, bitcoin would no longer be independent of government influence—and neither would the financial markets broadly. Today, Ed explores the potentially significant implications of the notion in advance of the White House's first Crypto Summit on Friday. … Also: A look at the math of how recent trade and PMI data chopped the Q1 real GDP growth projection of the Atlanta Fed's GDPNow model. We're more sanguine than the model, expecting January's weakness to be temporary; we see Q1 real GDP growing between 1.5% and 2.5% y/y.

Weekly Webcast. If you missed Monday's live webcast, you can view a replay *here*.

Cryptocurrencies: Trump's Crypto Reserve Put. Under Trump 2.0, every week is likely to be an action-packed week for financial markets and the economy. That's because President Donald Trump likes to issue Executive Orders and to post on Truth Social, his social media outlet. He does both on almost a daily basis.

On Sunday, he announced the creation of a "strategic crypto reserve" that will include bitcoin (BTC), ether, XRP, Solana's SOL token, and Cardano's ADA, in a post on Truth Social. CNBC noted: "This is the first time Trump has specified his support for a crypto 'reserve' versus a 'stockpile.' While the former assumes actively buying crypto in regular installments, a stockpile would simply not sell any of the crypto currently held by the US government." On Friday, Trump is hosting the first White House Crypto Summit.

It's hard to say how this will all play out. The immediate impact was to boost the price of bitcoin by 10% to $94,343.82, up from a three-month low of $78,660.00 on Friday morning (*Fig. 1*). This level is likely to provide strong downside support to bitcoin now that we have the Trump Put in the crypto market.

Here are some of the possible implications of this development:

(1) Bitcoin was created with the notion that it would be completely independent of any influence by central banks and other government institutions and officials. The supply of bitcoin is limited to 21 million bitcoins by the program that created it. Now, the US Treasury will have the power to support its price and drive it higher simply by purchasing more bitcoin for the US crypto reserve. In addition, the supply of cryptocurrencies (which has no self-imposed limits) includes other cryptocurrencies that also now have the support of Trump's "crypto reserve put."

(2) In effect, the US government is adopting the business model of Strategy, the bitcoin company operated by Michael Saylor. Instead of issuing convertible bonds to purchase bitcoin, the US government can issue US Treasury securities to purchase bitcoin and other cryptocurrencies.

(3) Tesla already owns quite a bit of bitcoin, almost 10,000 BTC, and now must report its market value quarterly. On January 31, Yahoo!Finance reported: "The Financial Accounting Standards Board (FASB) rule change related to digital assets resulted in Tesla recording $600 million extra in net income during Q4 2024. Under the new mandate, companies need to update the values of digital assets through market evaluations each quarter, which allows Tesla to show its Bitcoin holdings at the current fair market price."

(4) Increasingly, publicly traded companies are buying bitcoin as part of their financial strategies, joining those like Tesla with significant bitcoin holdings already (e.g., Saylor's Strategy and Marathon Digital Holding). They claim that bitcoin is a potential hedge against inflation and a way to diversify their assets. The bitcoin holdings of public companies are tracked on CoinGecko's *website*. (We at YRI are considering joining the list too!)

(5) We've previously observed that BTC's price has been highly correlated with that of Proshares UltraPro QQQ (TQQQ) (*Fig. 2*). TQQQ is one of the largest leveraged ETFs that tracks the Nasdaq-100 index. TQQQ is typically used by day traders because it was built for short holding periods. If more of the companies in the Nasdaq-100 become leveraged plays on bitcoin, the correlation between the two of them will be even tighter. In effect, the Trump crypto put will support the Nasdaq-100 and the broader stock market.

(6) President Trump might believe that if the government's US crypto reserve appreciates significantly in value, then it can be used to pay off the US federal debt. That would be a "beautiful thing." The problem is that when and if the Treasury announces such a move, the

price of bitcoin and other cryptocurrencies would probably crash. A less market disrupting plan might be for the Treasury to add its bitcoin reserve to its cash management account and use some of the bitcoin reserves to fund government outlays.

(7) We are wondering if there are any historical analogies for the US crypto reserve. What if the federal government had established a US Beanie Babies Reserve? Beanie Babies are a line of stuffed toys created by American businessman Ty Warner, who founded Ty Inc. in 1986. He created a shortage of them by producing limited editions during the 1990s. They were collected not only as toys but also as a financial investment due to their high resale value. However, the Beanie Baby Bubble eventually burst.

US Economy: Imports & M-PMI Turn Q1-GDP Growth Negative. The latest economic indicators aren't supporting our resilient-economy thesis. Nevertheless, we are sticking with it for now. Consider the following:

(1) *Atlanta Fed's GDP Now & CESI.* The Atlanta Fed's GDPNow tracking model lowered the estimated growth rate of Q1's real GDP from 2.5% (q/q, saar) to -1.5% on Friday and then further to -2.8% on Monday (*Fig. 3*). Friday's downward revision was attributable to a huge increase in imports during January and to a significant drop in consumer spending during the month. Monday's downward revision was attributable to weak construction data in January and to a drop in the new orders index of February's M-PMI.

The Citigroup Economic Surprise Index (CESI) has turned negative over the past few days and was -16.5 on Friday (*Fig. 4*).

(2) *Purchasing managers surveys.* Monday's M-PMI report for February was weaker than expected at 50.3, down from 50.9 in January (*Fig. 5*). Those were the first back-to-back readings above 50.0 since late 2022. However, the new orders index (48.6) and employment index (47.6) were both below 50.0 last month.

We've previously observed that the correlation between the M-PMI and the quarterly growth rate in real GDP of goods isn't very high, especially of late (*Fig. 6*). While the former has been mostly below 50.0 since late 2022, the latter has been mostly positive.

The same can be said about the correlation between the NM-PMI and the quarterly growth rate of real GDP of services (*Fig. 7*). Neither the M-PMI nor the NM-PMI is particularly useful for assessing the current growth rates of goods and services in real GDP when the economy is expanding. They are more useful for that purpose when they fall significantly below 50.0, signaling a recession.

February's NM-PMI will be released on Wednesday. Stock investors were spooked on February 21 when the S&P Global "flash" estimate showed a sharp drop to 49.7 from 52.9 in January (*Fig. 8*). We don't expect a similar drop in Wednesday's report from the Institute of Supply Management.

In any event, the Atlanta Fed and the financial markets may be giving both the M-PMI and NM-PMI more weight than they deserve. Nevertheless, we will continue to track the regional business surveys conducted by five of the 12 Federal Reserve district banks for insights into the national M-PMI (*Fig. 9*). The former misleadingly indicated a stronger national M-PMI in February.

We will also be monitoring the prices-paid and prices-received indexes in the regional and national business surveys. February's M-PMI prices-paid index jumped to 62.4, the highest reading since June 2022 (*Fig. 10*). The bond yield fell as investors focused more on the "stag" than the "flation" in the stagflation scenario that's been gaining credibility.

(3) *Construction.* Following the release of Monday's construction report for January, the GDPNow model slashed the residential construction component of Q1 real GDP from 1.4% to -4.9% y/y and lowered the nonresidential structures component from -2.0 to -2.5% y/y (*Fig. 11*). January's actual m/m changes in these two categories were -0.4% and 0.1%.

(4) *Imports*. Following the release of the advance report for January's merchandise trade data, imports growth in Q1's real GDP was boosted from 5.4% to 29.7% y/y (*Fig. 12*). That remarkable jump was attributable to importers front-running Trump 2.0 tariffs.

Real GDP is basically a measure of domestic production that is calculated by adding up the sources of domestic demand and adding exports (which are not included in domestic demand, but boost domestic production), while subtracting imports (which need to be subtracted from domestic demand to calculate domestic output). So soaring imports depressed GDPNow's real GDP growth estimate for this quarter significantly. Some of that surge was attributable to imports of gold.

Imports are likely to have fallen in February and to fall again in March, which would boost Q1's real GDP in the GDPNow tracking model.

(5) *Personal income, consumption & saving.* Personal income jumped 0.9% m/m during

January (*Fig. 13*). Total wages and salaries rose only 0.4% m/m. Total personal income was boosted by a 1.8% increase in government social benefits and a 1.2% increase in nonlabor income (from dividends, interest, rents, and proprietorships).

Despite the jump in income, personal consumption fell 0.2% m/m, resulting in a 32% increase in personal saving. The personal saving rate jumped from 3.5% during December to 4.6% during January (*Fig. 14*). We attribute the weakness in January's consumption to inclement weather. It was the coldest January since 1988. In addition, December's m/m rate in consumer spending was revised up from 0.7% to 0.8%.

In the GDPNow tracking model, Q1 real consumption growth was lowered from 2.2% to 1.3% y/y after the release of the personal income report on Friday. It was lowered again to 0.0% on Monday. We aren't sure why, so we submitted an inquiry.

In any event, we are reasonably sure that consumer spending will rebound in February and March.

(6) *Q1's GDP.* Our bottom line is that we expect to see real GDP increase during Q1 between 1.5% and 2.5%. We are betting on the economy's resilience. We are keeping the stagflation scenario in our what-could-go-wrong bucket with a 20% subjective probability.

Calendars

US: Tues: Weekly Crude Oil Inventories; Williams; Barkin. **Wed:** ADP Employment Change 140k; Auto Sales; Factory Orders 1.6%; ISM NM-PM 52.9; MBA Mortgage Applications; Beige Book. (FXStreet estimates)

Global: Tues: Eurozone Unemployment Rate 6.3%; Japan Consumer Confidence 35.7. **Wed:** Eurozone, Germany, France, Italy & Spain NM-PMIs 50.7, 52.2, 44.5 & 55.1; Eurozone Industrial Output 0.4%; Eurozone PPI 0.3%; Italy GDP 0.0%q/q, 0.5%y/y; Japan NM-PMI 53.1; China Caixin NM-PMI 50.8; Ueda. (FXStreet estimates)

Strategy Indicators

S&P 500/400/600 Forward Earnings (*link*): During the February 28 week, forward earnings rose for two of these three indexes for a second straight week, after falling for all three simultaneously for two straight weeks for the first time in 14 months. LargeCap's forward earnings rose 0.2% to its first record high since the January 31 week. MidCap's rose 0.1% w/w to 0.5% below its record high in early June 2022. SmallCap's posted its fifth straight weekly decline, tumbling 1.1% w/w to an 18-month low, and is now 13.2% below its June 2022 record. LargeCap's forward earnings has soared 22.6% from its 54-week low during the week of February 1, 2023; MidCap's is 8.3% above its 55-week low during the week of March 10, 2023; and SmallCap's is only 0.5% above its 72-week low during the March 17, 2023 week. These three indexes' forward earnings downtrend from mid-2022 to early 2023 was relatively modest compared to their deep double-digit percentage declines during the Great Virus Crisis and the Great Financial Crisis. Here are the latest consensus earnings growth rates for 2024, 2025, and 2025: LargeCap (11.3%, 9.8%, 14.0%), MidCap (-0.4, 10.7, 16.4), and SmallCap (-12.5, 11.8, 18.7).

S&P 500/400/600 Valuation (*link*): Valuations were mostly steady w/w for these three indexes as the SMidCaps continued to test their 17-week lows during the January 10 week. LargeCap's forward P/E dropped 0.3pt w/w to 21.5, and is now 0.8pt below its 43-month high of 22.3 during the December 6 week. It's up 4.5pts from a seven-month low of 17.0 during the October 27, 2023 week and 6.4pts from its 30-month low of 15.1 at the end of September 2022, which compares to an 11-year low of 11.1 during March 2020. MidCap's forward P/E was steady w/w at 15.6, matching its four-month low during the January 10 week, and is now 1.4pts below its 40-month high of 17.1 during the November 29 week. It's up 3.3pts from a 12-month low of 12.3 at the end of October last year and compares to a record high of 22.9 in June 2020 and an 11-year low of 10.7 in March 2020. SmallCap's forward P/E was unchanged w/w at 15.3, which is just 0.1pt above its four-month low during the January 10 week and 1.8pts below its 41-month high of 17.1, also during the November 29 week. It's up 4.7pts from its 14-year low of 10.6 in September 2022 and compares to a record low of 10.2 in November 2009 during the Great Financial Crisis. That also compares to its record high of 26.7 in early June 2020 when forward earnings was depressed. The forward P/Es for the SMidCaps have been mostly below LargeCap's since August 2018. MidCap's 27% discount to LargeCap's P/E is up w/w from a seven-month-low 28% discount; that compares to a 19% discount during the March 2, 2023 week, which matched its best reading since October 14, 2021. It's just 2ppts above its 25-year-low 29% discount during the July 5, 2024 week. SmallCap's P/E is at a 28% discount to LargeCap's P/E, up from a 17-week low 29% a week earlier, which compares to a 23% discount during the November 29 week, which was its best reading since the March 2, 2023 week. It's now 6ppts above its 24-year-low 34% discount during the July 5, 2024 week. SmallCap's 1% discount to MidCap's is narrowing again and remains among the smallest since July 2021.

Prior to that, from 2003 to 2018, SmallCap's P/E had been mostly above Midcap's, and both were above LargeCap's.

US Economic Indicators

US Manufacturing PMI (*link*): The ISM M-PMI in February dipped slightly lower, but remained above 50.0 for the second successive month, after 26 straight months of contraction. February's *M-PMI* slipped to 50.3 in February after increasing from a recent low of 46.9 in October—which was the lowest level since December 2023—to 50.9 in January. According to ISM, the *overall economy* continued its expansion for the 58th month after a one-month contraction in April 2020. (A manufacturing PMI above 42.5 over a period of time generally indicates an expansion of the overall economy.) The new orders index (to 48.6 from 55.1) index fell into contraction territory in February, while the new export orders (51.4 from 52.4) gauge fell back toward the breakeven point of 50.0, as did the production (50.7 from 52.5) measure. The orders backlog (46.8 from 44.9) gauge continued to contract, though at a slower rate, while the *supplier deliveries* (54.5 from 50.9) gauge moved further above 50.0—a reading that indicates slower deliveries. (The supplier deliveries index is inversed; a reading above 50.0 indicates slower deliveries, which is typical as the economy improves and customer demand increases.) Companies continued to liquidate *inventories* (49.9 from 45.9), though February's reading was only a tick below the breakeven point of 50.0. Meanwhile, *factory employment* (47.6 from 50.3) dropped back into contraction territory last month. *Turning to prices,* manufacturers' *input* (to 62.4 from 54.9) prices accelerated sharply in February, jumping 7.5 percentage points.

Global Economic Indicators

Global Manufacturing PMIs (*link*): "Global manufacturing upturn gathers pace as growth of output and new orders strengthen" was the headline of the February report. The *JP Morgan Global M-PMI* rose further into expansionary territory, climbing from a recent bottom of 47.7 in September to an eight-month high of 50.6 in February, as business optimism climbed to a nine-month high. The report notes that three of the five *PMI components* were at levels consistent with improved operating performance, as both output and new orders rose for the second straight month and supplier delivery times lengthened. Meanwhile, employment and stock purchases both remained in contractionary territory. *By country*, India, Indonesia, Brazil, and the US recorded the highest PMI readings in February, while the level of China's

PMI improved. Meanwhile, PMIs in the Eurozone, Japan, and the UK were among the areas showing contractions. *By sector*, output expanded in the consumer and intermediate goods sectors, with the former posting the fastest growth, while output in investment goods stabilized following an eight-month downturn. *Turning to prices*, both cost and selling prices accelerated in February, with the former reaching a 25-month high and the latter an eight-month high. Intermediate goods posted the strongest rates of interest in both metrics, consumer goods the weakest.

Eurozone CPI (*link*): The *Eurozone CPI* is expected to ease to 2.4% y/y in February from January's recent peak of 2.5%, which was up from its recent bottom of 1.7% in January 2024—which was the lowest rate since April's 2021. Meanwhile, the *core CPI* is expected to be at 2.6% in February, down from the 2.7% rate in each of the prior five months. The headline and core CPIs are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. *Looking at the components*, the *services* rate is forecast to slow for the second month from 4.0% in December to 3.7% in February—which is the lowest rate since last April. The rate for *food, alcohol & tobacco* is expected to increase 2.7% in February, accelerating from January's 2.3%, while the *non-energy industrial goods* rate is expected to fluctuate between 0.5% and 0.6% for the fifth straight month, ticking up from 0.5% to 0.6% in February. Among the four *largest Eurozone countries*, the CPI yearly rate for France (to 0.9%y/y from 1.8%y/y) is expected to slow, according to the flash estimate, while Germany (2.8% y/y), Italy (1.7), and Spain (2.9) are expected match their January rates.

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Eric Wallerstein, Chief Markets Strategist, 201-661-3575
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-241-6502
Melissa Tagg, Senior Global Investment Strategist, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102