Robert Maltbie Featured in IBD 3/11/25

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- The Big Picture

Stock Market Falls Again But Closes Off Lows As Bears Lose Some Grip; Precious Metals Clearly Lead In 2025

- DAVID SAITO-CHUNG
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Another day, another session of heavy trading volume. Only this time, the stock market bears appeared to show less bite.

Investors, at least in the early going, reacted again in fear of "MAGAnomics" policy. Industrial companies led the decline on a decision by President Donald Trump to double already-steep tariffs on Canadian imports of big ticket items including steel and aluminum to 50% from the original plan of 25%.

Yet late during the trading day, Peter Navarro, a key economic advisor to the White House, affirmed in a live interview that the U.S. would not enact 50% tariffs on Canadian steel after the province of Ontario dropped a plan to place extra fees on hydroelectric power sent across the border.

Navarro called the plan a "nothing burger" during an exclusive interview with CNBC due to the fact that it would have affected just three states in the U.S., including New York and Minnesota.

Stock Market Whipsaws

As a result, the Nasdaq composite has had an interesting pair of sessions. On Monday, it plunged 4% and finished well in the lower half of the session. Volume jumped sharply.

On Tuesday, turnover rose even more vs. the prior day. Yet this time, the Nasdaq closed less than 0.2% lower after undercutting Monday's intraday low.

At Tuesday's session low of 17,238, the leading index for growth stocks fell as much as 14.7% from its Dec. 16 peak of 20,204.

Meanwhile, the Nasdaq 100 swooned 1.2% lower at one point but rebounded to also lose just 0.2%.

Reverse Railroad Tracks?

Notice on the daily chart of the Nasdaq composite how the Monday and Tuesday sessions resemble the so-called "railroad tracks" named by IBD founder Bill O'Neil for certain stock market leaders that topped by showing two trading sessions with wide intraday ranges and a second-day closing price that was near the prior session. The closing hash marks resembled a railroad tie on a train track. Such action showed stalling action near the top.

The S&P 500 dropped 0.8%, following Monday's 2.7% slide. The Russell 2000, however, closed a touch higher, up 0.2% after hitting a low of 2,001, while the Dow Jones Industrial Average slumped 1.1%.

Among sector-based exchange traded funds, the Industrial Select Sector (**XLI**) sank 1.5% in heavy trading. Since Feb. 20, this fund has logged no fewer than nine down days in unusually heavy turnover. At 130.12, it closed sharply below its still-rising 200-day moving average.

Among Investor's Business Daily's 197 industry groups, however, some heavy industries actually rallied more than 2%. They included steel alloys, steel production, heavy construction, auto making, coal, cable and satellite equipment, oil and gas machinery and fiber optic telecom.

Some tech industry groups, including security software, networking and database software, also gained 2% or more.

Volume rose 6% to 9.18 billion shares on the Nasdaq vs. Monday. On the New York Stock Exchange, turnover eased 3% to 6.22 billion.

This Sector Gets Slammed

Nonetheless, the selling damage in certain sectors was dramatic.

Transport-related companies fell hard. The Dow Jones transportation average slipped 3.1%. At 14,780, it's fallen 17% from its 2024 high of 17,845.

Another sell-off like Tuesday's session would tip not just transportation issues but also small caps into a technical bear market, defined as a 20% decline from a 52-week or all-time high.

The iShares Transport (**IYT**) exchange traded fund also dropped 3% and is now down 4.5% for the year.

IBD's railroad industry group finished among the 10 worst performers, down 2.9%, according to early data on **MarketSurge**. Lodging, retail and wholesale auto parts, leisure products and funeral services stocks were among the industries that fared worse.

How Cold A Stock Market Shower?

Will the trade war escalate further before it settles down? Will Trump's ambition to cut federal spending dampen consumer sentiment and slow the economy? Who knows. Yet some market observers believe concerns have gotten overblown.

Robert Maltbie, president and founder of Singular Research, argues the Trump administration needs to better communicate the potential benefits of decisions ranging from cutting staff at the federal level to aiming for a level playing field in global trade.

"This is kind of a cold shower (for the market) before the good stuff happens, or whatever you want to call it," Maltbie said in an interview with IBD. He calculates an economic tailwind on the order of $1 trillion to $2 trillion.

How does Maltbie come up with such a big number? For starters, government officials estimate there will be $526 billion in spending appropriations in programs that have expired under federal law. Meanwhile, the General Accounting Office reportedly says the U.S. is committing $362 billion in overpayments that could get terminated. The U.S. government continues to operate numerous buildings and facilities that lie empty.

"DOGE has made $65 billion in cuts already and has a clear path to $500 billion," Maltbie said. He also points to future massive onshore investment by large companies as having a major impact.

It's hard to know if such government savings are achievable in the near term. New infrastructure, meanwhile, could take years to get up and running.

Hoping For The Multiplier Effect

The bigger point, Maltbie says, is that due to inefficient operations by the government, such money spent does not produce a beneficial economic return. But if the private sector were to capitalize on the savings and generate a multiplier effect on the economy, then it could result in continued growth of earnings and justify a stock market valuation that pulls the S&P 500 into new highs.

According to Maltbie, S&P 500 companies generally grow their earnings 6% each year. The 500 has a historical average price-to-earnings ratio of 16. This gives the stock market a PEG ratio — the P-E ratio divided by annual earnings growth — of 2.6. Based on his model, Maltbie sees per-share earnings rising to as high as $300 collectively for the index and the P-E ratio climbing to 25, using forward earnings estimates over the next 12 months.

That produces a long-term S&P 500 price target of 7,500 within the next 18 months. It represents a 34.6% lift from Tuesday's close of 5,572 by the S&P 500. That's a highly bullish view, no doubt. After all, the 500 rallied 24.2% in 2023 and 23.3% in 2024, excluding dividends.

As for applying tariffs on all of America's trading partners based on the policy of reciprocity, Maltbie emphasizes the U.S. is in a winning position. Why?

First of all, exports to China, Mexico and Canada make up just 3% of U.S. gross domestic product, according to Maltbie, who also manages the Argonaut Fund. Second, because Mexico's own exports make up roughly 20% to 40% of the entire economy, the impact of a full-fledged trade war has a 30-to-1 bigger impact on Mexico vs. the U.S.

"For Canada, the impact is 15-to-1 and for China it's 5-to-1," he said.

Bulls Vs. Bears

Meanwhile, investor pessimism continues to grow. But it is far from hitting the extreme levels that coincided with the end of the bear markets of 2008-2009, early 2020, and even 2022.

On Wednesday, the latest Investors Intelligence weekly survey of stock market pundits will come out. Last week, bullishness fell sharply for the second straight week to 36.7%, down from a 2024 peak of 64.2%. Bearishness is off its 52-week high of 32.2%, but at 28.3% it's double that of its 2024 low of 14.1%.