

Navigating Trump's Economic Waves: A Portfolio Strategy for Investors

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Learn how to maintain a steady hand in your investment portfolio despite global economic shifts. This guide emphasizes risk management through duration, beta, and strategic allocation for long-term prosperity.

By Brian Regan

I've often shared my love for boating in Cape Cod Bay and just outside Boston Harbor. These waters can be serene and peaceful, but they can also transform into stormy waves that remind you of your smallness against the mighty Atlantic Ocean. In such moments, staying calm and ensuring your vessel is strong and prepared for turbulence is important. Similarly, the Trump administration has been altering the currents of the global economy. Let's take stock of our portfolio and ensure we navigate these changes with a steady hand.

Duration Positioning

How do you position duration immediately following April 2nd? Do you assume that growth would slow dramatically and take more interest rate risk?

There are big risks in taking a longer duration position.

Here are some questions that I had to contend with:

1. What if the so-called bond vigilantes came out and sold bonds for fears of a rising deficit from a slowing economy?
 2. What if foreign countries decided they did not want to hold treasuries to put the USA in the penalty box for the tariffs?
 3. What if imports slowed dramatically thus slowing the exports in dollars that are typically invested in dollar denominated assets by foreigners?
 4. What if inflation expectations rose due to the increased tax causing rates to rise?
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Ultimately, I decided none of these questions could be answered nor could I even find comfort with where rates would go. The result was a very volatile treasury market.

I decided the risks were too big for my clients. I shortened the duration further assuming that the Federal Reserve could not act for some time as earnings, GDP and inflation readings would be backward looking and would not account for tariffs. Powell confirmed these expectations:

“Despite heightened uncertainty and downside risks, the U.S. economy is still in a solid position. However, the effects of recent trade policies remain highly uncertain, and we are closely tracking incoming data as households and businesses continue to digest these developments. Given the evolving situation, it seems unlikely that the Federal Reserve will be able to act immediately to adjust monetary policy.” – Jerome Powell April 16, 2025

Equity Beta Positioning

For me, my duration position helps inform my equity beta position. Most of our clients have a combination of stocks and bonds. Generally, I think it makes sense to take more beta if I am short duration. Here's why:

1. **Falling Interest Rates:** If interest rates fall, I won't get a large tailwind from my fixed income, but I could benefit from equity assets that are discounting cash flows at a lower rate.

2. **Rising Interest Rates:** If interest rates rise, my fixed income won't suffer significantly, making any pain in the equity portfolio more manageable. If rates rise due to real growth, I could benefit on both sides of the allocation.

This approach is somewhat unique, as most allocators tend to silo their thought processes and even their internal teams between fixed income and equity without integrating them. However, it's important to note that if rates fall due to decreased economic growth, I could face challenges on both sides. This brings us to another risk we need to address in the portfolio.

Where Can I Allocate for Predictable Growth?

You can increase beta in a few ways. One approach is to concentrate on high-quality growth businesses, while another is to allocate toward lower-quality, smaller, poorly capitalized or unprofitable companies.

1. **High-Quality Growth Businesses:** Vanguard Mega Cap Growth (MGK) ETF: This fund is a prime example of increasing beta through high-quality growth businesses. The top names include APPL, MSFT, NVDA, AMZN, META, AVGO, and LLY. These companies are

top-tier, profitable and well-capitalized, with the fund having a 5-year beta of 1.19.

2. **Speculative Investments:** Cathie Wood's ARK Innovation (ARKK) ETF: This fund represents a more speculative approach. The top names include TSLA, ROKU, RBLX, COIN, and TEM, which are considered more speculative than the MGK names. The beta of this fund is 2.01.

Personally, I prefer option 1 because these businesses are more fundamentally sound, although it requires a larger allocation budget to increase beta sufficiently from a quantitative perspective.

Predictable Growth Allocation

You may also decide to focus on the "predictable" aspect of predictable growth. Utilities are an obvious choice for this. They are mostly regulated, allowing them to charge customers in monopolized districts enough to gain a reasonable return on equity. These rate allowances last for years before being re-litigated and are typically fair. Utilities have the added bonus of a low beta of 0.58, allowing for more aggressive measures to be taken elsewhere.

Given the opportunity to be more aggressive, thanks to my utility position, I can concentrate on specific sectors or industries that I believe will continue to perform well even in uncertain times. I am partial to Aerospace, Defense, and Semiconductors.

1. **Aerospace and Defense:** Military budgets tend to rise generally, and there is reason to suspect they will increase further overseas as European nations become less reliant on the United States, China tensions escalate and conflicts in Ukraine and Gaza persist. The SPDR Aerospace and Defense ETF has a beta of 1.14.

2. **Semiconductors:** I view the semiconductor industry as crucial to the modern economy, similar to the importance of oil in the 20th century. Semiconductors are vital inputs in many products, including military assets and cutting-edge technologies, while largely being produced outside the United States. This sector is likely to be protected in trade, as evidenced by their exclusion from Trump Administration "reciprocal" tariffs and focus during the CHIP Act under the Biden administration.

Conclusion

The Trump administration's policies have created waves that can be challenging. By staying calm and ensuring our investment strategies are robust and adaptable, we can weather these economic storms. Just like a well-prepared vessel can withstand the might of the Atlantic, a thoughtfully managed portfolio can endure and thrive amidst economic turbulence. By focusing on predictable growth and making informed decisions with accurate risk profiles, we can guide our investments to calmer waters for a prosperous

future. I'll continue to monitor the economic landscape, adapt our strategies as needed and navigate these changes with confidence and resilience.

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