

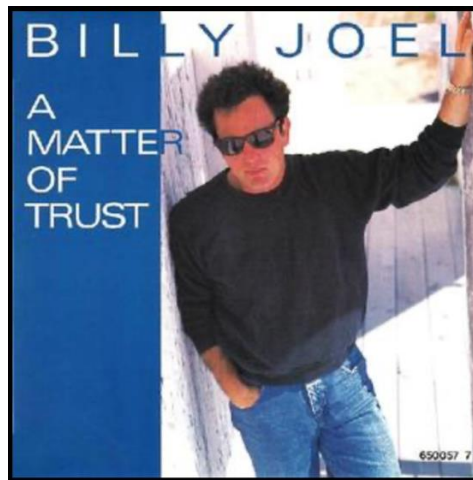


MEDALLION

WEALTH MANAGEMENT

July 2025 Market Commentary

A Matter of Trust



*I've lived long enough to have learned
The closer you get to the fire, the more you get burned
But that won't happen to us
'Cause it's always been a matter of trust*

By Billy Joel <https://www.youtube.com/watch?v=6yYchgX1fMw>

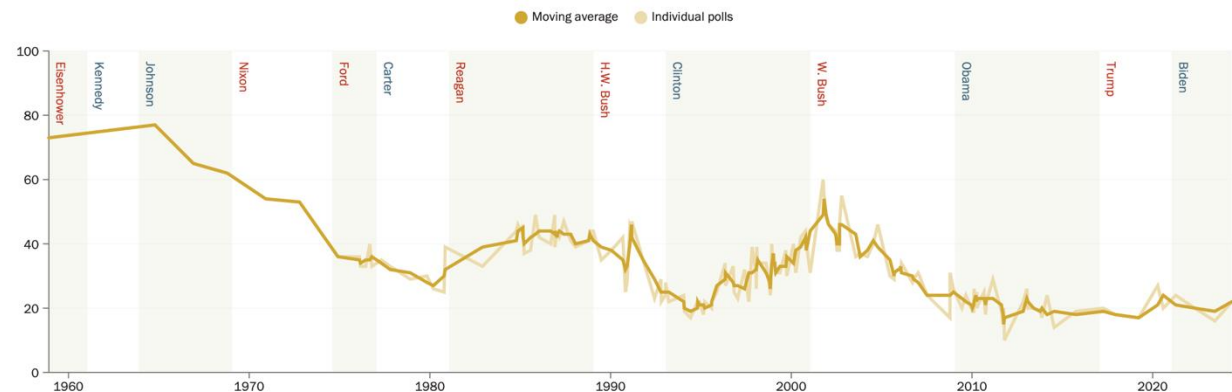
I just completed the Pulitzer Prize winning book *“Trust”* by Hernan Diaz, and it got me thinking about the role trust plays in our society and financial markets in particular. The book offers us four different perspectives of the lives of a Wall Street financier and his wife in the late 1920’s and early 1930’s. It delves into how trust is built, manipulated, and broken. That what you trusted was true, may be total fiction depending on who is crafting the story. “Trust” questions the way history is written and who gets to tell the story, particularly when it comes to money, power, men and women.

My first job in this profession was at the Mahoning National Bank trust department, soon followed by the Mellon Bank trust department. I was a trust investment officer. I still remember my boss telling me that I work in the **TRUST** department, and that we are responsible for the two most important things in our client’s lives ... their families and their money, not necessarily in that order. Trust was our most valuable asset, and once it was lost it was nearly impossible to regain.

Trust always starts with a belief in the truth and adds integrity, reliability, and character. For some reason trust was a more common occurrence back then than it is today. In 1964, according to Pew Research, 77% of Americans trusted the government to do what was right. Today, that number is 22%. Trust really started to slide in the late '60's with the Vietnam War, Watergate, and economic struggles.

Public trust in government near historic lows

% who say they trust the government to do what is right just about always/most of the time



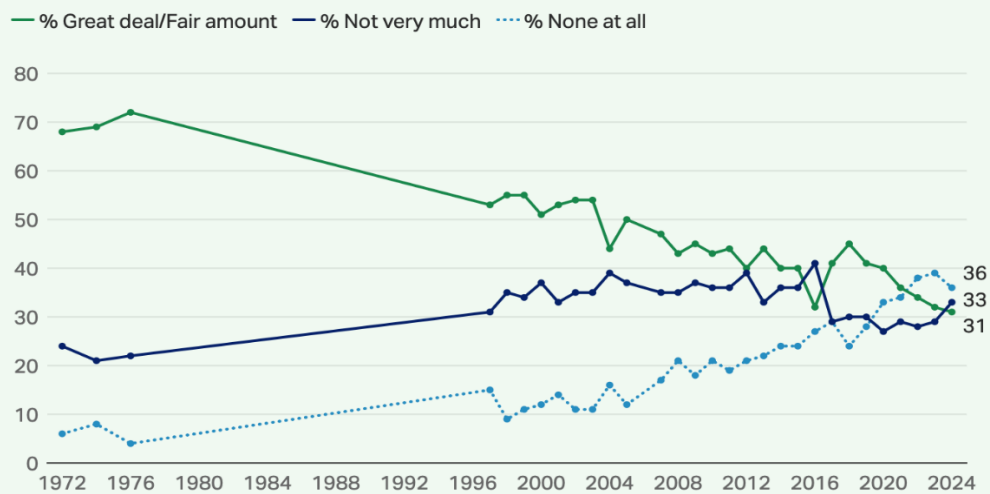
Sources: Pew Research Center, National Election Studies, Gallup, ABC/Washington Post, CBS/New York Times, and CNN surveys.

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Our declining trust in government isn't alone, we have also experienced a similar decline in our trust in the media, from a high of 72% in the 1970's to 31% currently.

Americans' Trust in Mass Media, 1972-2024

In general, how much trust and confidence do you have in the mass media -- such as newspapers, TV and radio -- when it comes to reporting the news fully, accurately and fairly -- a great deal, a fair amount, not very much or none at all?



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Unfortunately, trust levels in both the government and media are even lower for younger generations. In fact, when asked who they trust for recommendations, 69% of younger generations say they trust influencers. Influencers, those people paid to influence others!

Trust is also the cornerstone of our economy and of free markets. Free markets work with the separate, different decisions of millions of participants. They fail when they are controlled/manipulated by a few. We can trust the collective, working in their own best interest, to arrive at wealth creation.

As Hernan Diaz in **Trust** said, *“Every single one of our acts is ruled by the laws of economy. When we first wake up in the morning we trade rest for profit. When we go to bed at night we give up potentially profitable hours to renew our strength. And throughout our day we engage in countless transactions. Each time we find a way to minimize our effort and increase our gain we are making a business deal, even if it is with ourselves. These negotiations are so ingrained in our routine that they are barely noticeable.”*

Probably the two most important things that have made America great are, free people and free markets. Whenever the government gets overly involved in either, our trust deteriorates and we become a little less great.

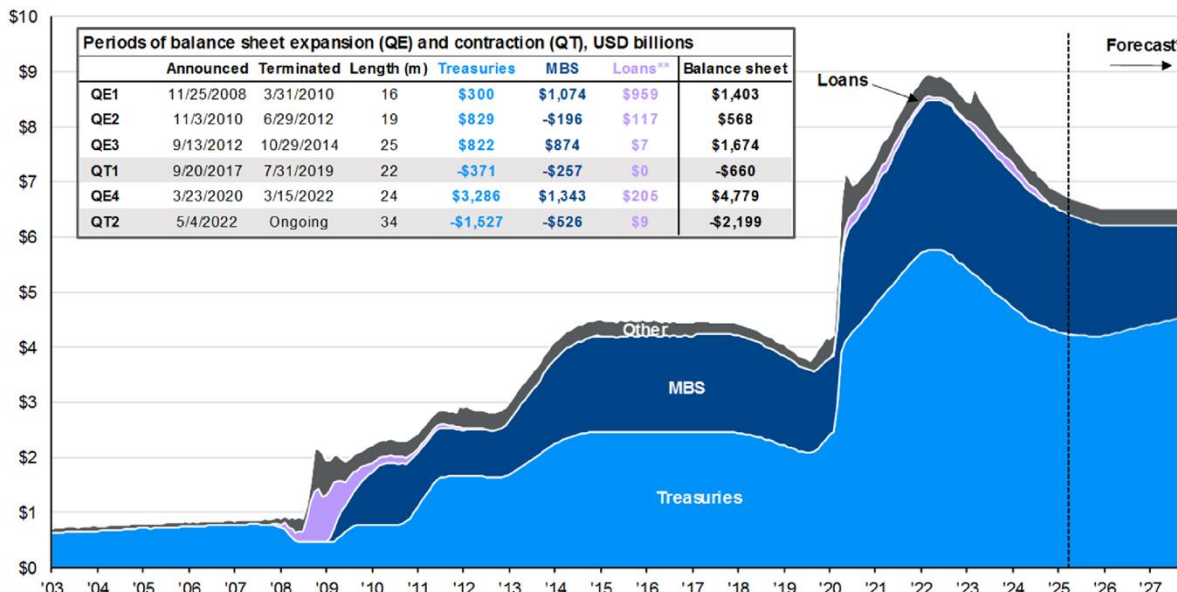
A great example of this assault on free markets is the Trump administrations attempt to nationalize US Steel through a “Golden Share”. In exchange for approval of Nippon Steel’s merger with US Steel, the government gets a single Golden Share, which gives them a seat on the board, and all kinds of control over US Steel’s ability to close factories, invest capital, or relocate jobs. Decisions are not being made by the capital markets, but instead by a select few that don’t have shareholder interests first and foremost. I’m still amazed that Nippon Steel agreed to this.

Nationalization is the antithesis of free markets and the capitalist spirit, which thrives on competition. Why? Because profit motives go away and the inevitable price controls lead to economic stagnation.

US Steel was just one company specific example of how trust is destroyed. A much bigger and more important example is the Federal Reserve Bank. Through the Fed Funds Rate the Fed controls the price of money (the mother of price controls which our President wants to control). Historically that was the Fed’s main tool to control capital markets, this all changed in 2008 when the Fed used its balance sheet to bail us out of the Great Financial Crisis, and they’ve continued doing it ever since.

The Federal Reserve balance sheet

USD trillions



Why does it matter that the Fed is manipulating capital markets? Because it impacts investor behavior! When you have a population of investors who don't trust the government, don't trust the media, and don't trust that we have free market capitalism, then the markets are going to be driven by different forces.

In the old days, when we used to have free markets, capital was allocated to winners and removed from losers by investors doing fundamental research on the long-term viability of each enterprise. There were occasions when volatility would signal that something fundamental might be going wrong at the corporate level, and we would place our bets accordingly.

Today, volatility often triggers preemptive liquidity injections from the Fed. This is why risk assets continue to perform despite obvious macro imbalances and risks. **Market participants no longer fear collapse. They fear policy withdrawal.**

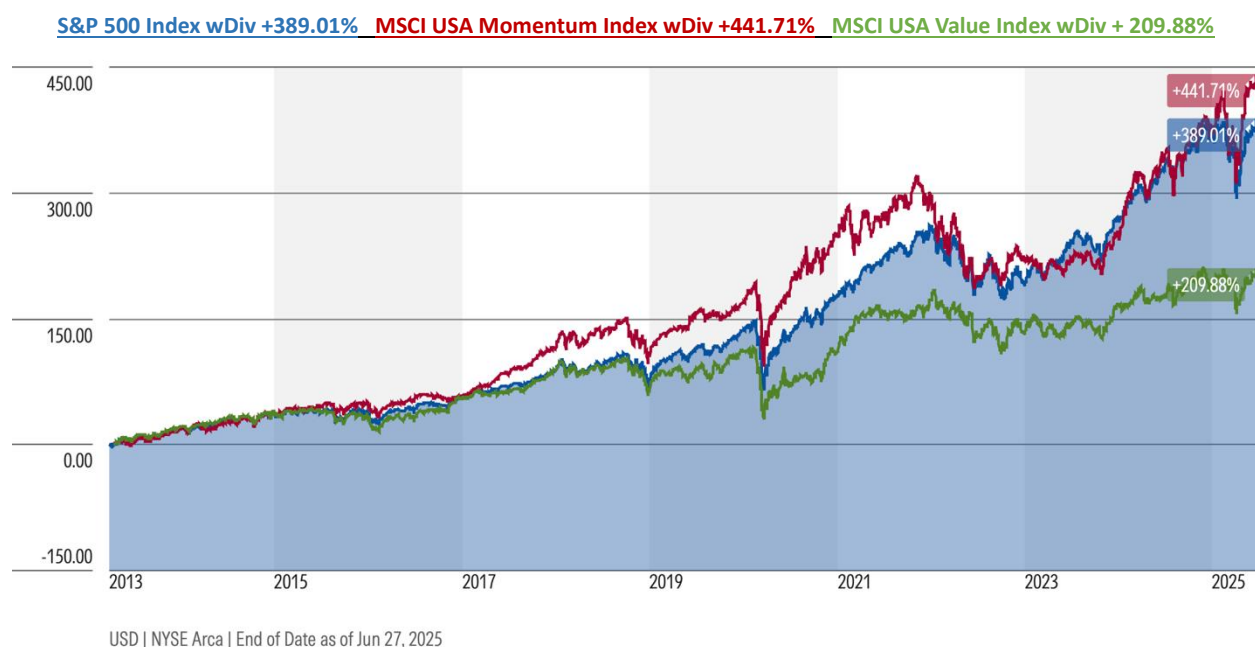
Liquidity injections have become the incentive structure, not the shock absorber. The financial system is now fully dependent on central bank scaffolding. Sovereign balance sheets and deficits are too large to fund organically. With a trillion-dollar deficit, real yields must be suppressed structurally. Old fashioned price discovery is tolerated only to the extent that it doesn't threaten political solvency.

We are undergoing a capital market and monetary transformation, away from free markets where individuals make capital allocation decisions, towards a government-controlled market where risk is actively managed. The Fed is no longer managing risk at the edges. It is absorbing the core fragility of the sovereign balance sheet, under the guise of financial stability.

I have always tried to adhere to Ned Davis's credo, "Would you rather be right, or make money?" In that regard, we can't just value companies and markets the way we used to. The old trust in the fundamentals to determine valuation is broken. Markets no longer trade on fundamentals. They trade on liquidity trajectory, and political tolerance.

Markets adapt, and we investors must adapt too. Trust in free markets is being replaced with trust in government employees to always ride to the rescue. For many investors under the age of 40, this is all they've known. When markets go down the Fed rides to the rescue with liquidity injections. If that continues to be the case, then why not just buy those companies with positive momentum, and buy every dip. This new generation of investors has a different trust system.

The chart below shows the performance of the S&P 500 Index (in blue), compared to stocks in the MSCI Momentum Index (in red) and stocks in the MSCI Value Index (in green), since April of 2013. Since the S&P 500 is market-cap weighted, the stocks performing the best become a bigger weight, therefore the S&P 500 has performed more like the Momentum Index and less like the Value Index.



The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available USA market capitalization. The **MSCI USA Momentum Index** is based on MSCI USA Index, its parent index, which captures large and mid-cap stocks of the US market. It is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity and moderate index turnover. The **MSCI USA Value Index** captures large and mid-cap US securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

As long as market participants trust that the Fed has their backs, and every sell-off should be bought Momentum strategies may trump fundamentals. I'm not totally giving up on free markets and fundamental analysis, but my trust system needs to evolve in order to make money. I like to think that some combination of fundamental analysis combined with momentum will probably do well. As Billy Joel said, ***"cause it's always been a matter of trust."***

As always, be careful out there.

Chris Wiles, CFA



Where Trust is Earned

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