Market volatility 'could surely get worse before it gets better'

Pittsburgh financial analyst Matt Yanni makes sense of recent stock market swings

TIM GRANT
Pittsburgh Post-Gazette
tgrant@post-gazette.com

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If you've been watching the stock market this year — especially with a mix of confusion and concern — you're not alone.

The first quarter has brought an even more severe rollercoaster of ups and downs than normal, with investors trying to make sense of every policy shift, political tweet and news conference.

According to Matt Yanni — owner of Yanni & Associates Investment Advisors in Pine, and the subject of the Post-Gazette's latest "In Conversation" Q&A — the volatility has two key culprits: the Federal Reserve and the White House.

“The common saying in the investment business is ‘Don’t fight the Fed’,” Mr. Yanni said. “I use the phrase ‘Don’t trust the Fed,’ because the Fed has made some public comments only to pivot that position a few weeks later.”

Although he questions the Fed for adjusting its interest rate projections over the years, Mr. Yanni places most of the blame for the stock market’s most recent volatile behavior on the Trump administration’s trade war. He says escalating tariffs and uncertainty in global trade policy have spooked investors far more than shifting interest rates.

Mr. Yanni breaks down why the market has been so turbulent, what investors should be watching and how to navigate the uncertainty.

Post-Gazette: You’ve said “Don’t trust the Fed.” What specifically about the Federal Reserve’s actions this quarter has led you to that conclusion?

Mr. Yanni: While the phrase “Don’t trust the Fed” could be interpreted as the Fed has a proven track record in the past of changing their forecast over short time periods, their March forecast was actually not substantially different than their December forecast. The March forecast included 11 of 19 members voting for two rate cuts in 2025.

The Fed is trying to provide more consistent projections, but now they may be caught in a dilemma.

PG: How much does politics affect the Fed’s actions?

Mr. Yanni: The Committee has routinely stated they want to refrain from making comments on politics and making decisions based on political influence. However, this past meeting Chairman (Jerome) Powell delicately acknowledged recent government actions on tariffs may influence the Fed’s decisions for the need to reduce rates to stimulate the economy.

The Fed is somewhat caught now.

They don’t seem to want to make moves based on politics, but in reality they may have to.

President Trump has openly stated be believes interest rates are too high and has asked the Committee to lower rates. Trump’s trade war policies may be intended to influence the Fed decision to lower rates sooner than later.

PG: When they say "Don't fight the Fed," does that mean stocks will go down if the Fed changes course and decides to raise interest rates?

Mr. Yanni: Essentially, "Don't fight the Fed" is an industry phrase which means — if the Fed is lowering rates, that is typically the time to be holding stocks.

When the Fed raises rates, it's not necessarily the time to be out of stocks. But when the Fed lowers rates, typically the stock market will have stronger positive results.

PG: Is there a way for the stock market to stabilize in the near term, given the ongoing trade disputes and interest rate fluctuations?

Mr. Yanni: If we do get into an all-out trade war, the Fed will not be able to save the economy. Rate cuts and other Fed mechanisms will only be a Band-Aid on the situation.

While Trump's comments on trade wars have clearly caused a majority of this recent stock market volatility, one could also believe he will want to move on to other topics later in the year. If that is accurate, this recent volatility will provide good long-term entry points for investors.

With that said, it doesn't appear we're near the end of trade war talks and this market volatility could surely get worse before it gets better.

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Tim Grant is a business reporter who has covered personal finance and real estate in the Pittsburgh region since 2007. He can be reached at 412-779-5834

tgrant@post-gazette.com