

## Government Is a Risky Shareholder

*di Robert C. Pozen*

Since returning to the presidency, [Donald Trump](#) has governed with the same volatility that defined his first term—but now with a new tool in hand: federal ownership stakes in private companies. This unprecedented economic power grab, coupled with opaque decision-making and conflicts of interest, has created a climate of instability for investors and companies. While the administration says these moves promote national security and industrial revival, the reality is that Mr. Trump’s use of executive power is eroding market predictability and distorting capital flows.

The Trump administration has taken direct ownership stakes in nine companies across critical sectors like semiconductors, rare earths and defense. This marks a radical departure from traditional U.S. policy, under which government purchases of equity were temporary and reserved for bailouts during systemic crises.

The federal government now holds a 9.9% stake in Intel via an \$8.9 billion stock purchase, 15% in [MP Materials](#), 5% in Lithium Americas, minority stakes in startups like Vulcan Elements and [Trilogy Metals](#), 10% in [USA Rare Earth](#). In the case of U.S. Steel, the government received a “golden share” to secure veto power over major business decisions. This veto has already been used to stop the closing of a plant in Illinois.

The administration says these deals are about protecting national-security interests—ensuring a domestic supply of critical materials and advanced technology. What’s missing is a consistent standard. There is no public framework to explain why these companies were selected, what criteria they met, or when the government plans to exit. Because the process of choosing companies for equity investments is unclear, market actors are left wondering whether the choice is primarily political.

Nowhere is the appearance of favoritism more glaring than in the case of Vulcan Elements, a North Carolina-based rare-earth magnet startup. In August 2025, [Donald Trump Jr.](#)'s venture firm, 1789 Capital, invested in Vulcan. Three months later, the company received a \$620 million Pentagon loan commitment and \$50 million in Commerce Department equity funding. The investment was one of the largest industrial deals issued that year.

The younger Mr. Trump says he had no role in securing the funds. But the sequence of events—and his personal investment—raised red flags. It wasn't the only instance: 1789 Capital reportedly held stakes in at least four companies that secured federal contracts or investments. Lawmakers have since asked Defense Secretary Pete Hegseth about whether Trump family connections have influenced the granting of government contracts.

The concern isn't only questionable ethics—it's market uncertainty. When success appears to depend on political access rather than actual performance, investor confidence weakens. This warps market incentives, discourages fair competition, and introduces long-term risk to private capital.

The president himself bought between \$1 million and \$5 million in Intel bonds shortly after his administration finalized its investment in the company. While that isn't illegal, the optics are troubling. Without clear guardrails, Mr. Trump's use of economic power seems inseparable from his personal interests.

The companies benefiting from these equity deals experienced meteoric stock gains. Intel's share price rose more than 80% in 2025, MP Materials' surged more than 200%, and USA Rare Earth's rose 15% after the announcement of the government's investment.

This boom suggests a new Wall Street reality: If a company is seen as favored by Mr. Trump, investors pile in, not because of fundamentals but because of perceived political insulation. The risk is that valuations become inflated, competition narrows, and capital is allocated inefficiently.

Meanwhile, rival firms—those in the same sectors but without Washington ties—face a chilling effect. If their competitor has an equity investment from the U.S. government, raising funds and winning contracts becomes more difficult. As MP

Materials CEO James Litinsky said in an earnings call that “in the very short term the administration has made sure that we have a successful national champion in MP.”

The instability is reverberating across other industries. Will Mr. Trump’s next target be aerospace? Biotech? Who qualifies for government capital, and who doesn’t? Without transparency, every company becomes a potential beneficiary—or casualty—of political favoritism.

Economists warn that this behavior introduces an uncertainty premium—a return demanded by investors to offset unpredictable policy. That premium raises borrowing costs, suppresses investment, and slows growth.

Markets can tolerate bad news, but they struggle with no news, sudden reversals and unclear rules. Mr. Trump’s governing style delivers all three. He has become the destabilizer in chief, introducing unpredictability that undermines the confidence on which healthy markets depend.

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