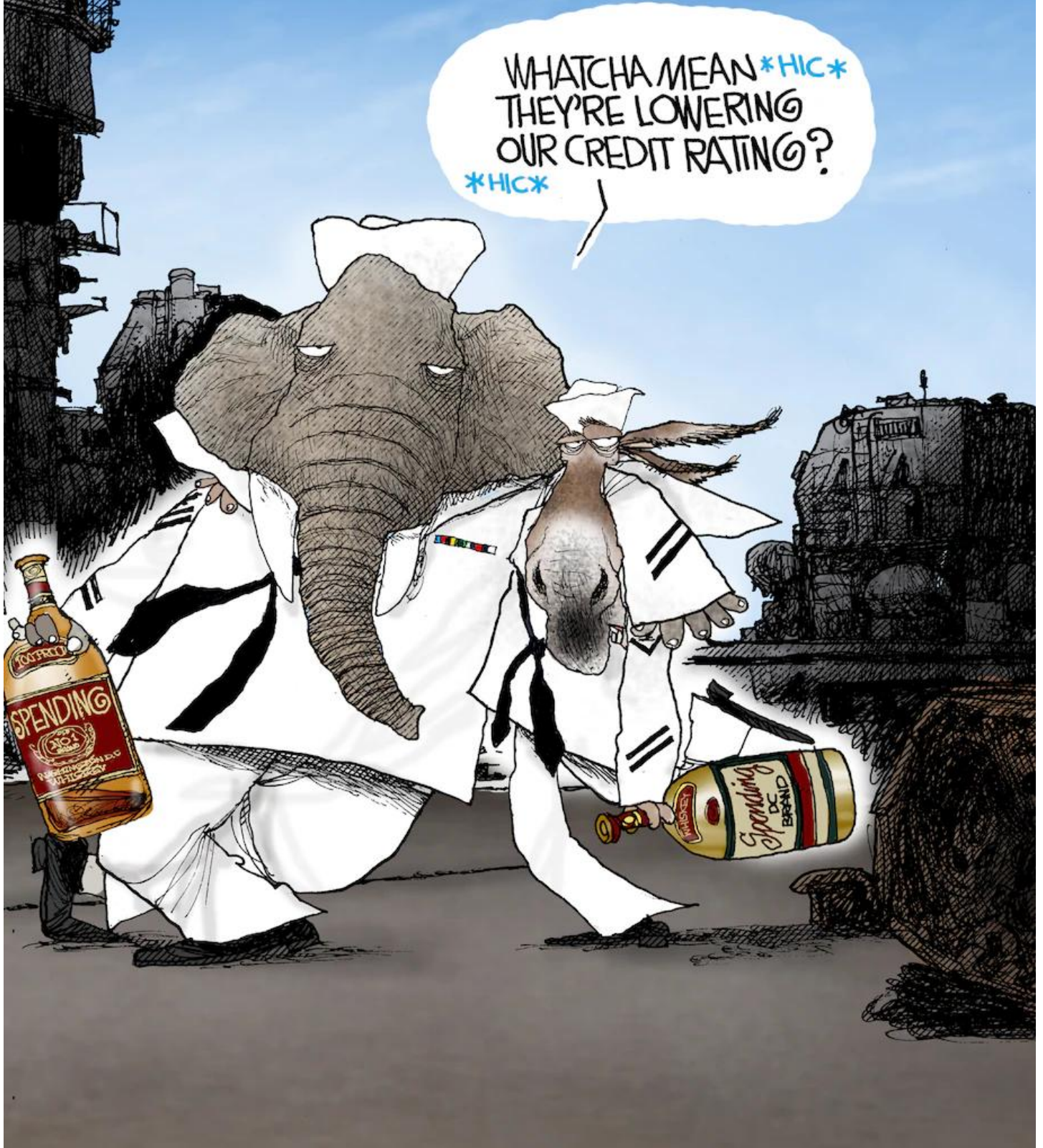


May 2025

PANIEREZ LAS VEGAS REVIEW-JOURNAL for THE WASHINGTON POST
2025©

WHATCHA MEAN *HIC*
THEY'RE LOWERING
OUR CREDIT RATING?
HIC



From the front page of this weekend's WSJ:

Stocks Post Best Month Since 2023

BY JACK PITCHER

U.S. stocks delivered their best month since late 2023, powering through every twist of tariff news and an uneven corporate earnings season to leave the indexes hovering just above where they began this tumultuous year.

Fears over the fallout from the continuing trade war remain just below the surface, and on Friday JPMorgan Chase's Jamie Dimon, the CEO of the largest U.S. bank, implored Washington to resolve its differences with other governments, and China in particular. "They're not scared, folks," Dimon said about China. "We have to get our act together and we have to do it very quickly."

But for most of May, stock investors were learning to tune out the thrum of sound bites and instead focusing on what Wall Street views as the likely outcomes for the trade conflicts and the nation's economy: a string of bilateral deals with the U.S.'s biggest trading partners, and a still-healthy corporate America. ...

The S&P 500 rose more than 6% in May, putting it within 4% of a record closing high in mid-February. A hot tech sector, encouraging inflation data, and a growing consensus that the Trump administration won't follow through on its most severe tariff threats helped power the gains.

The Dow Jones Industrial Average added 3.9% in May, while the tech-heavy Nasdaq Composite was 9.6% higher.

Many downside risks that spooked investors earlier this year are still evident. On Friday, President Trump accused China of violating a tariff agreement, signaling that the trade detente between the two countries is at risk of falling apart. ...

Meanwhile, one of the loudest voices on Wall Street sounded a warning.

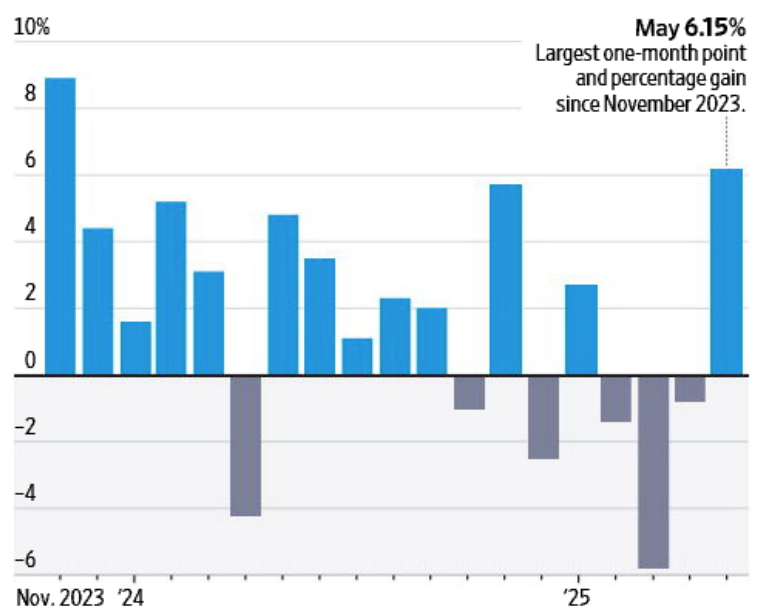
While China is a potential adversary, "what I really worry about is us," Dimon said, adding that high U.S. deficits mean "you are going to see a crack in the bond market."

Bonds have fared far worse than stocks.

The benchmark 10-year Treasury yield rose nearly a quarter point to 4.418% in May as traders scrutinized the president's multitrillion-dollar fiscal package. Moody's Ratings stripped U.S. debt of its triple-A rating, citing the government's towering pile of debt, and tepid demand for Treasuries at a May 21 auction added to concerns.

Investors were euphoric after a surprise de-escalation between the U.S. and China recently put

S&P 500, monthly change



Source: FactSet

many of the new duties between the world's two largest economies on pause. Indexes rallied further after a federal trade court said Wednesday that Trump didn't have the authority to impose sweeping tariffs on virtually every nation, voiding the levies. An appeals court put that ruling on hold less than a day later. ...

The constantly-changing tariff developments have whipsawed markets and companies, causing many S&P 500 constituents to pull their forward earnings guidance in recent weeks. But overall, solid first quarter results have shown that U.S. companies are on strong footing.

And fears that tariffs will spike inflation haven't yet come to fruition: The Federal Reserve's preferred gauge of consumer prices ticked up just slightly in April, according to data out Friday, a modest increase that lowered the 12 month inflation rate to 2.1%, just above the central bank's 2% target. ...

The Fed has held benchmark interest rates steady since its December meeting, and investors expect that to stay the case until September, when derivatives traders are currently assigning a 70% probability of lower rates.

On May 14th Global Investment Strategy reduced its 12-month US recession probability from 75% back to 60%, where it began with Trump's election. From May 28:

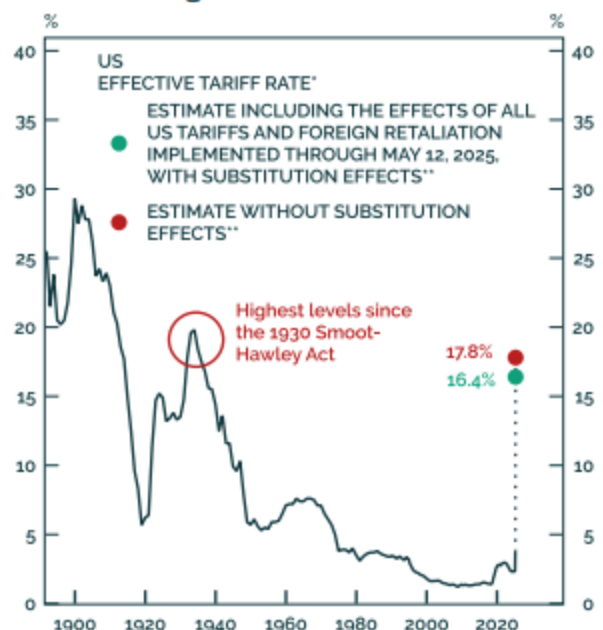
Peter Berezin's Thoughts Of The Day: Move Over Trade War, There May Be A Bigger Risk Lurking Around The Corner

1. After threatening the EU with a 50% tariff last Friday, President Trump backed off following a telephone call with Ursula von der Leyen, President of the European Commission. Our expectation is that the Trump administration will ultimately settle on a 10% base tariff for most countries. Canada and Mexico, which are partially insulated by the USMCA, will face lower tariffs. On the flipside, China will face higher tariffs than other countries, although it is possible that a portion of the 20% fentanyl tariff will be rescinded. Higher tariffs on autos will remain in place. Additional tariffs on industries deemed important for national security, such as semiconductors and pharmaceuticals, will also be rolled out over the coming months.

2. Taken together, we expect the US effective tariff rate to end up at around 15%. This is slightly below the Yale Budget Lab's estimate of the current tariff rate (**Chart 1**). However, it is still close to where tariff rates were in the 1930s (and keep in mind that imports, as a share of GDP, are more than three times as large as they were back then).

3. Most estimates of the price elasticity of imports cluster between 2 and 4, meaning that a 1% increase in tariffs will reduce imports by between 2% and 4%. Thus, a 10% tariff increase will reduce imports by between 18% (i.e., $1 - 0.9810$) and 34% (i.e., $1 - 0.9610$). In the case of China, where tariffs are roughly 30 percentage points higher than at the start of the year, the impact on trade flows will be more severe. This is one

CHART 1
Still The Biggest Tariffs Since The 1930s



reason why Chinese cargo shipments to the US have relaxed in recent weeks.

4. So far, the impact of the trade war on the US economy has been difficult to gauge. The conventional wisdom is that Q1 growth was weak due to a surge in imports.

Theoretically, any increase in imports should show up in the form of higher consumption, investment, or inventory accumulation. Since inventories are notoriously difficult to measure, the presumption among many analysts is that inventory accumulation has been understated. This would imply that the initial estimate of Q1 real GDP growth of -0.3% is also understated. A more pessimistic theory is that Q1 growth really was weak, simply because US households and businesses shifted purchases from domestically produced goods to foreign made ones. The fact that March wholesale inventories came in below expectations supports this more pessimistic interpretation.

5. The Bloomberg consensus for Q2 US real GDP growth stands at 1.4%. Considering that very little hard data for the quarter has been released so far, that estimate could still change substantially. Monitoring developments in the US labor market will be critical in that regard. The April payrolls numbers, which were collected in the second week of the month when shipments from China were still rising, were flattered by increased hiring in the transportation and warehousing industries. These job gains will likely reverse in May. May and June are also months that normally see brisk hiring in the leisure and hospitality industries. Recent commentary from US airlines suggests that travel spending has cooled. As such, the current

CHART 3
Both Initial And Continuing Unemployment Claims Are Trending Higher

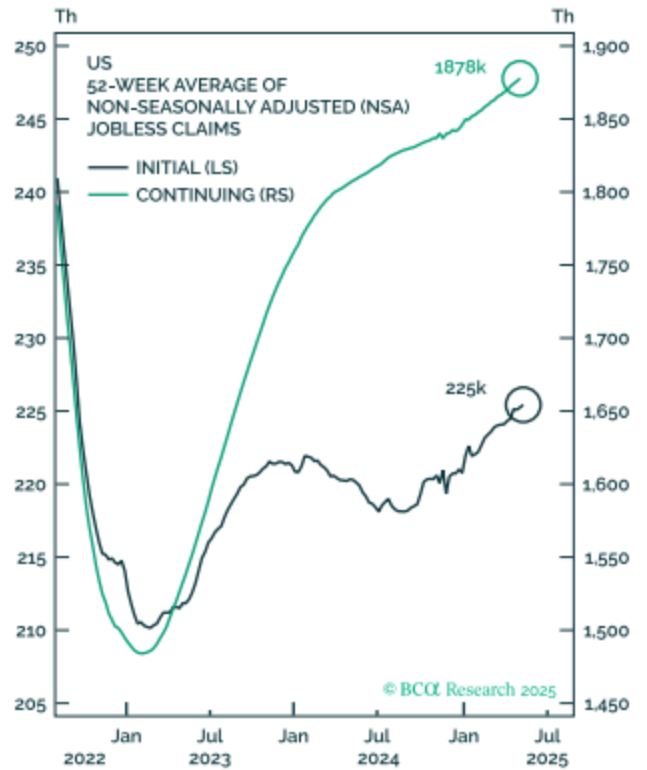


CHART 5
Soft Data Are Flagging The Risk Of An Imminent Decline In Job Growth



* FIRST PRINCIPAL COMPONENT OF SEVEN STANDARDIZED "SOFT-DATA" LABOR MARKET INDICATORS. SOURCE: THE CONFERENCE BOARD, UNIVERSITY OF MICHIGAN, NFIB, INSTITUTE FOR SUPPLY MANAGEMENT, AND BCA CALCULATIONS. LATEST DATA POINT IS AN ESTIMATE.
 ** QUARTERLY ANNUALIZED PERCENT CHANGE OF 3-MONTH MOVING AVERAGE. SERIES IS STANDARDIZED. SOURCE: BUREAU OF LABOR STATISTICS (BLS).
 NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS. SERIES ARE TRUNCATED AT -2 AND 2.

Bloomberg consensus of a 130,000 payroll gain in May looks too high to us.

6. Other indicators for the US labor market paint a mixed picture. Unemployment claims still look benign, although this may be partly due to faulty seasonal adjustments. **Chart 3** shows that the 12-month moving average of both initial and continuing claims is still trending higher. More worryingly, real-time measures of job openings have declined since the last official JOLTS release for March. ... openings tend to correspond to rising unemployment. Survey-based indicators for the labor market (the so-called “soft data”) have not recovered very much since Trump paused tariffs (**Chart 5**). Notably, despite an otherwise sharp improvement in The Conference Board’s measure of consumer confidence, the differential between the number of people who think jobs are “plentiful” and those who think they are “hard to get” deteriorated further in May (**Chart 6**).

7. A weakening in the US labor market would spell trouble for consumption. The Bloomberg consensus is for real PCE to be flat month-over-month in April. However, the year-over-year change is still expected to clock in at a respectable 3.3%. The problem is that the 3-month average of real wage and salary income was up only 1.1% over the prior year in March, a number that is expected to rise only modestly to 1.2% in April. The CPI swap market expects inflation

CHART 6
Perceptions Of Job Availability Have Deteriorated

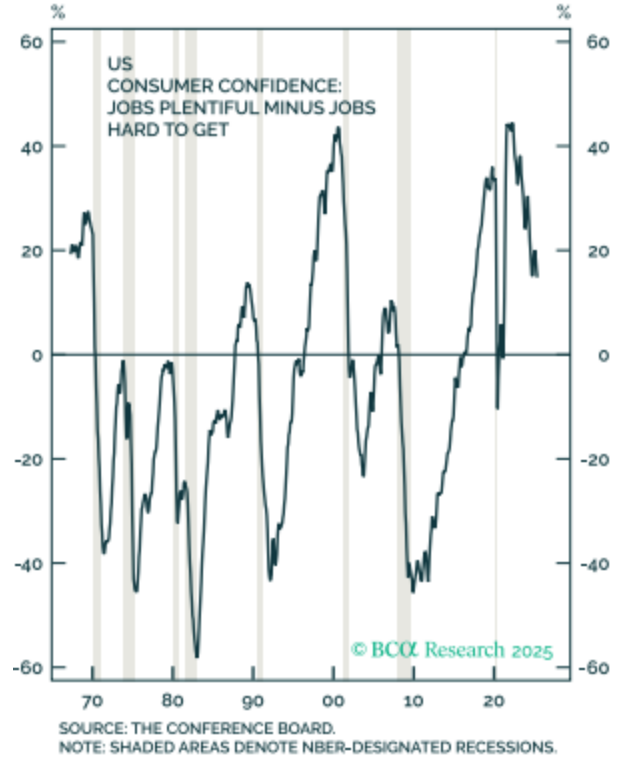
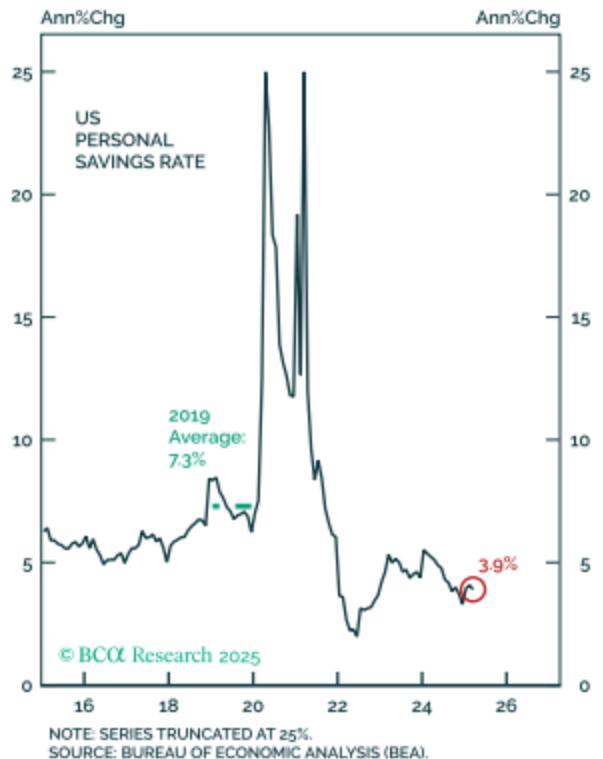


CHART 8
CPI Swaps Are Expecting Inflation To Rise By One Full Percentage Point Over The Next 12 Months



CHART 9
The Savings Rate Is Well Below Pre-Pandemic Levels



to increase by one full percentage point over the next 12 months, which suggests that real income growth could be close to zero or even negative by the end of the year (**Chart 8**).

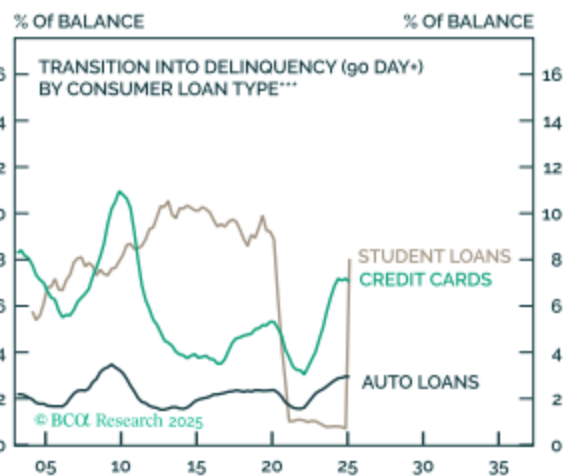
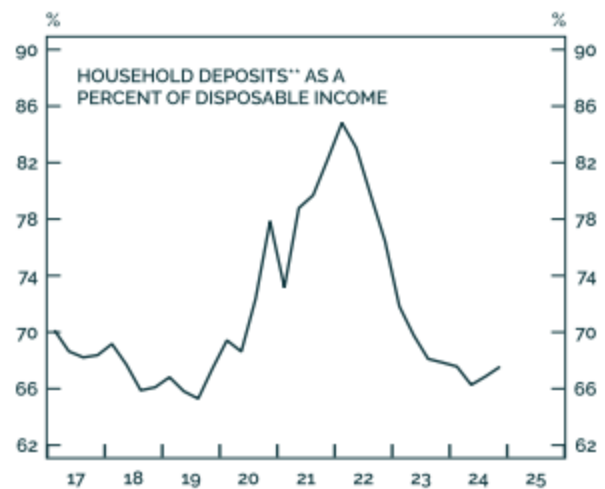
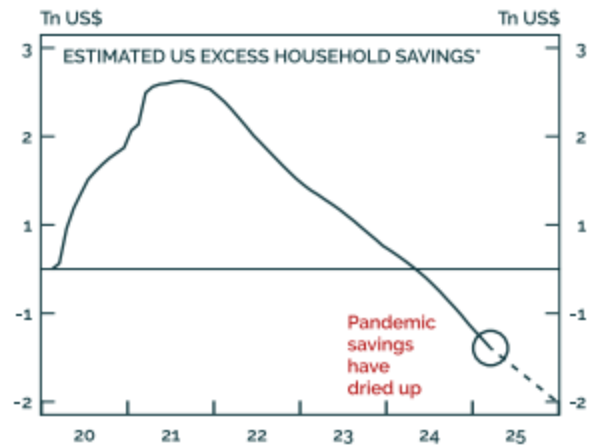
8. Spending growth can only exceed income growth if the savings rate declines. The savings rate was 3.9% in March, well below the 2019 average of 7.3% (**Chart 9**). According to calculations by the San Francisco Fed, excess pandemic savings have been entirely depleted. As a share of disposable income, bank deposits have round tripped back to where they were in 2019 (**Chart 10**). Delinquency rates on credit and auto loans have returned to where they were in 2011, a year in which the unemployment rate averaged nearly 9%. Student loan delinquency rates have also spiked this year following the expiration of payment moratoriums in late 2024. Despite some improvement in recent weeks, the soft data on consumer spending point to a sharp slowdown ahead (**Chart 11**).

9. The latest data on US housing has been on the weak side (**Chart 12**). This is true for homebuilder confidence as well as homebuilder stocks. It is also true for hard data on existing home sales, starts, and permits. The inventory of newly built unsold homes has climbed to the highest level since late 2009. Meanwhile, mortgage rates are rising again. The share of mortgages with a rate above 6% has increased from just 4% in mid-2022 to 20% of all mortgages today (**Chart 13**).

10. This brings us to the title of this report: While the trade war has taken up most of the headlines, the rise in bond yields could ultimately present a bigger risk to the global economy. Part of the increase in yields reflects diminished recession worries, which has lifted expected policy rates. However, most of the increase can be chalked up to rising term premia. The rise in term premia, in turn, mainly stems from the prospect of higher debt issuance.

11. In our December 2024 Annual Outlook, which was written as a retrospective of the events of 2025, we mused that “Without a doubt, the greatest irony of 2025 was that the tax cuts that investors so eagerly anticipated ended up sinking the stock market.” These words still ring true to us. Assuming that the expiring tax cuts in the Tax Cuts and Jobs Act of 2017 are made permanent, the Congressional Budget Office estimates that net government debt will rise from 98% of GDP in 2024 to 149% of

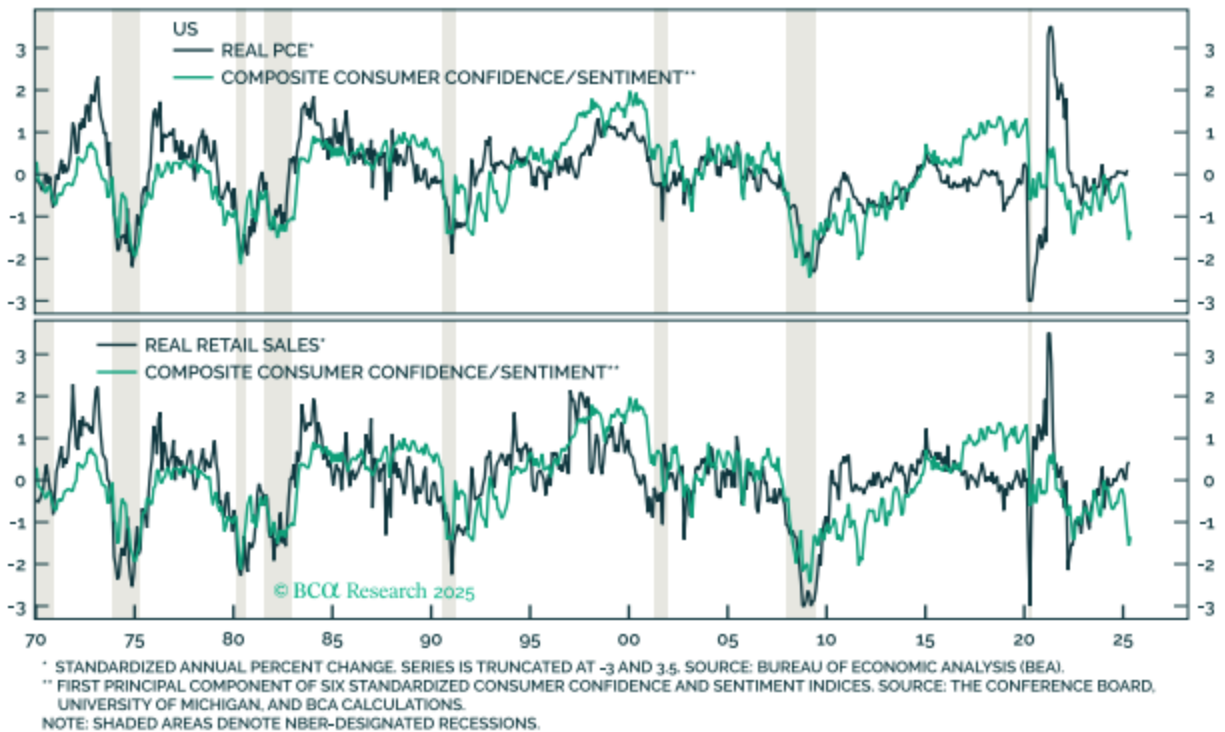
CHART 10
Pandemic Savings Have Been Depleted, Bank Deposits Have Declined, And Delinquencies Are Rising



* SOURCE: "DATA REVISIONS AND PANDEMIC-ERA EXCESS SAVINGS", H. ABDELRAHMAN AND L. OLIVEIRA, FEDERAL RESERVE BANK OF SAN FRANCISCO, NOVEMBER 8, 2023.
** HOUSEHOLD AND NONPROFIT ORGANIZATIONS' CHECKABLE DEPOSITS, CURRENCY, AND TIME AND SAVINGS DEPOSITS.
*** SERIES SHOWN AS A 4-QUARTER MOVING TOTAL.

CHART 11

Soft Data Are Flagging The Risk That Consumer Spending Will Slow



GDP in 2040. Interest expense would increase from the current near-record of 3.1% of GDP to 5.3% of GDP over this period (Chart 15).

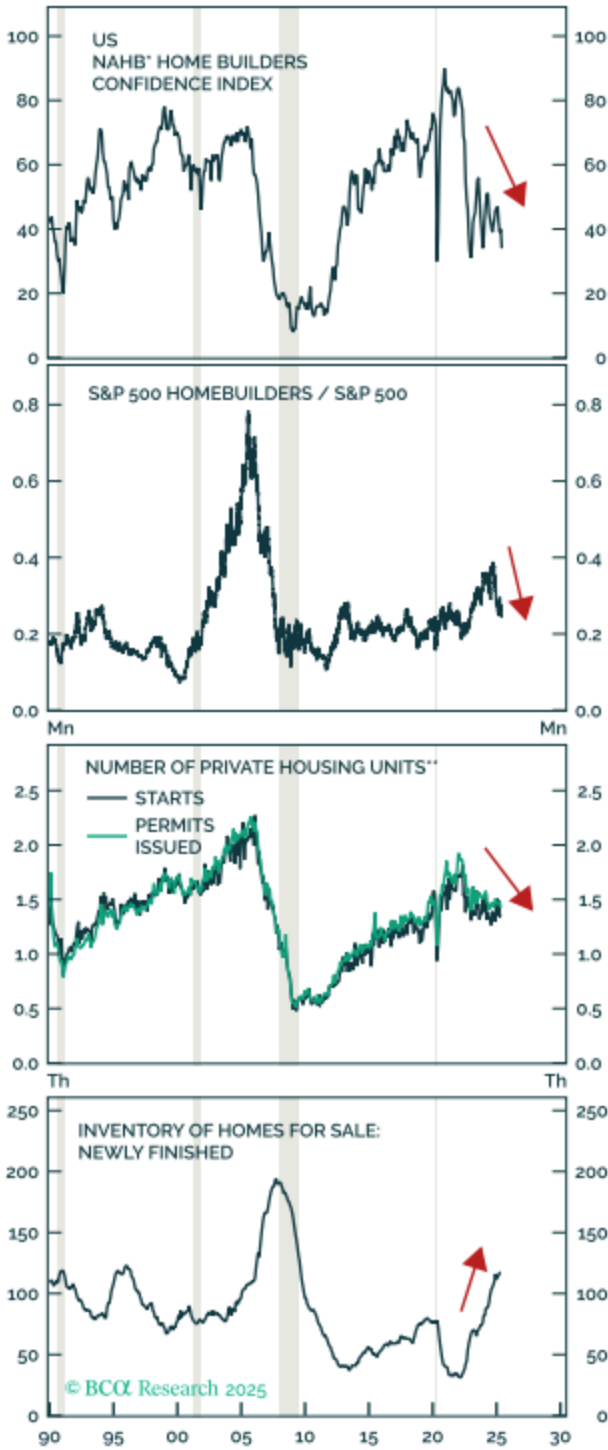
12. The CBO’s estimates are arguably too benign because they assume that none of the other items in the House budget bill – such as no taxes on tips and overtime, or the expanded SALT deduction and the new deductions on interest payments on domestically manufactured vehicles and for people over the age of 65 – make it into the final legislation. The CBO also assumes a lower path of interest rates than what the bond market is currently expecting. Granted, somewhat stronger GDP growth would improve the fiscal picture. That said, most of the new measures target personal income taxes rather than more growth-relevant business taxes. Notably, while the bonus depreciation allowance has been reinstated, there were no additional cuts to corporate profit taxes. In any case, other parts of President Trump’s policy agenda, such as tariffs, tighter immigration restrictions, and steep cuts to scientific research, would reduce trend GDP growth.

13. Although the US government would likely shift its borrowing needs towards the short end of the Treasury curve if bond yields rose further, this would still lead to higher mortgage rates at a time when home affordability is already extremely stretched. In principle, the Fed could buy bonds to keep a lid on yields. However, we suspect that the Fed would see such an action as rewarding irresponsible fiscal policy. As such, we doubt that the Fed would intervene unless the 10-year yield rose to around 6%, by which point a recession would be inevitable. ...

15. At present ... stocks are pricing in very little economic risk. The S&P 500 currently trades at 21.6-times forward earnings, off peak profit margins no less (Chart 18). During a typical mild recession, the forward P/E ratio will drop into the teens. During deep recessions, it often hits single digits.

CHART 12

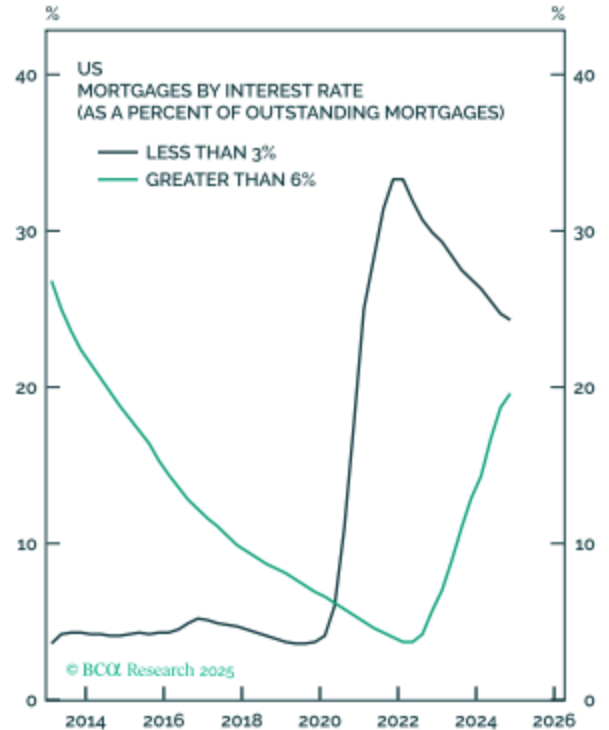
US Housing Data: On The Weak Side



* NATIONAL ASSOCIATION OF HOME BUILDERS.
 ** SINGLE-FAMILY AND MULTI-FAMILY (INCLUDES 2-4 UNITS, AND 5 UNITS AND MORE).
 NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

CHART 13

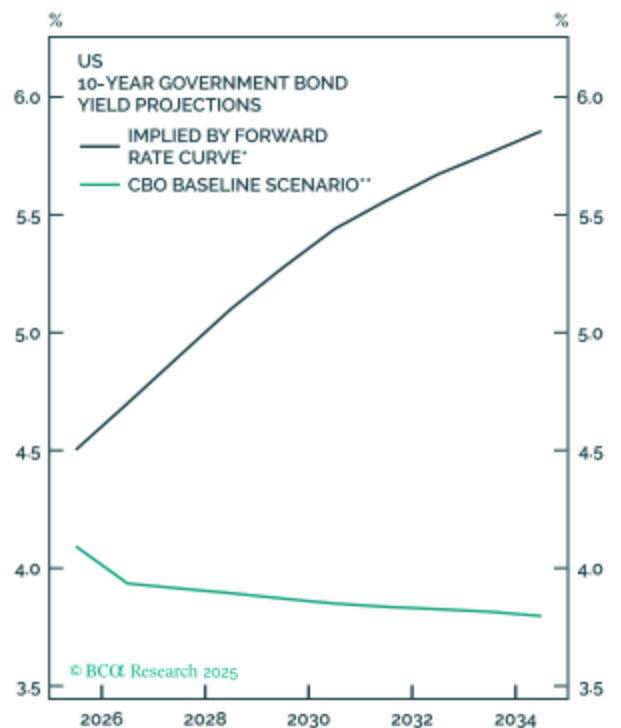
The Share Of Mortgage Holders Paying High Rates Has Been Climbing



SOURCE: FHFA NATIONAL MORTGAGE DATABASE, OUTSTANDING RESIDENTIAL MORTGAGE STATISTICS.

CHART 16

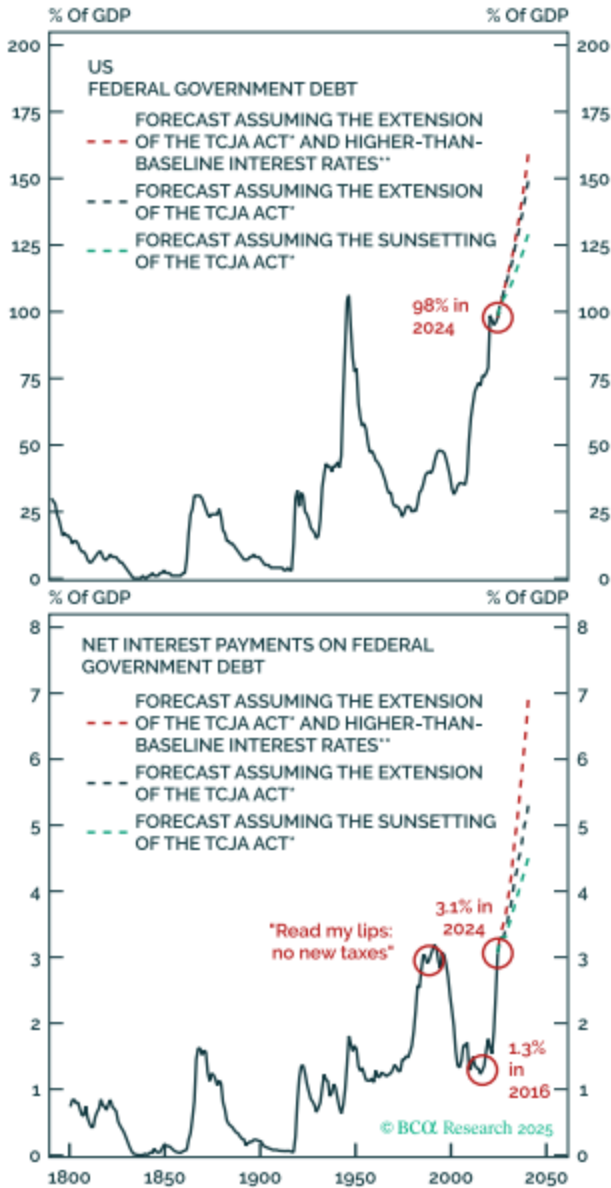
The CBO's Interest Rate Assumptions Are Well Below The Market's



* SOURCE: BLOOMBERG FINANCE L.P.
 ** CALCULATIONS USING THE CBO'S BASELINE PROJECTIONS FROM THE LONG-TERM BUDGET OUTLOOK (MARCH 2025).
 SOURCE: US CONGRESSIONAL BUDGET OFFICE

CHART 15

There Is A Reason “BBB” Is One Notch Above Junk



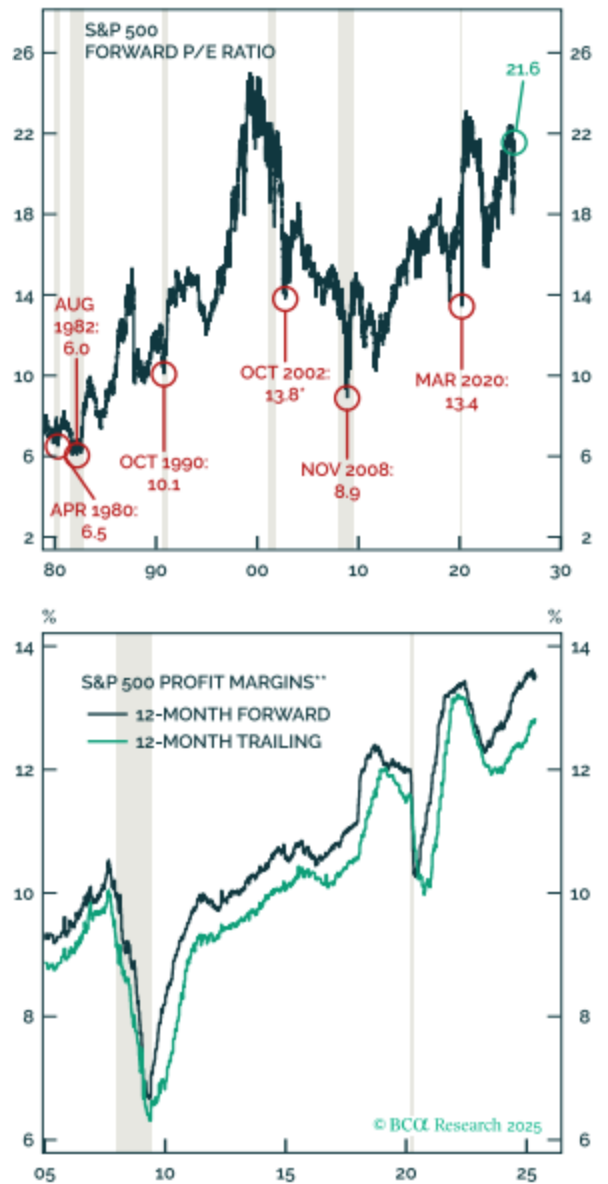
* CALCULATIONS USING THE CBO'S PROJECTIONS OF DEFICITS AND DEBT UNDER ALTERNATIVE SCENARIOS FOR THE BUDGET AND INTEREST RATES RELATED TO THE 2017 TAX ACT (AS OF MARCH 2025).

** REFERS TO THE CBO HIGHER INTEREST RATE SCENARIO THAT ASSUMES THE AVERAGE INTEREST RATE ON FEDERAL DEBT IS RAISED ABOVE THE BASELINE (SUNSETTING OF THE TCJA ACT) BY A DIFFERENTIAL THAT STARTS AT 5 BASIS POINTS IN 2025 AND INCREASES BY 5 BASIS POINTS IN EACH SUBSEQUENT YEAR UNTIL IT REACHES 1%.

SOURCE: US CONGRESSIONAL BUDGET OFFICE, OFFICE OF MANAGEMENT AND BUDGET, AND IMF.

CHART 18

Equities Are Pricing In Very Little Economic Risk



* THE FORWARD P/E TROUGH IN OCTOBER 2002 OCCURRED AFTER THE 2001 RECESSION, DURING WHICH UNEMPLOYMENT WAS STILL RISING. SOURCE: S&P GLOBAL AND FACTSET.

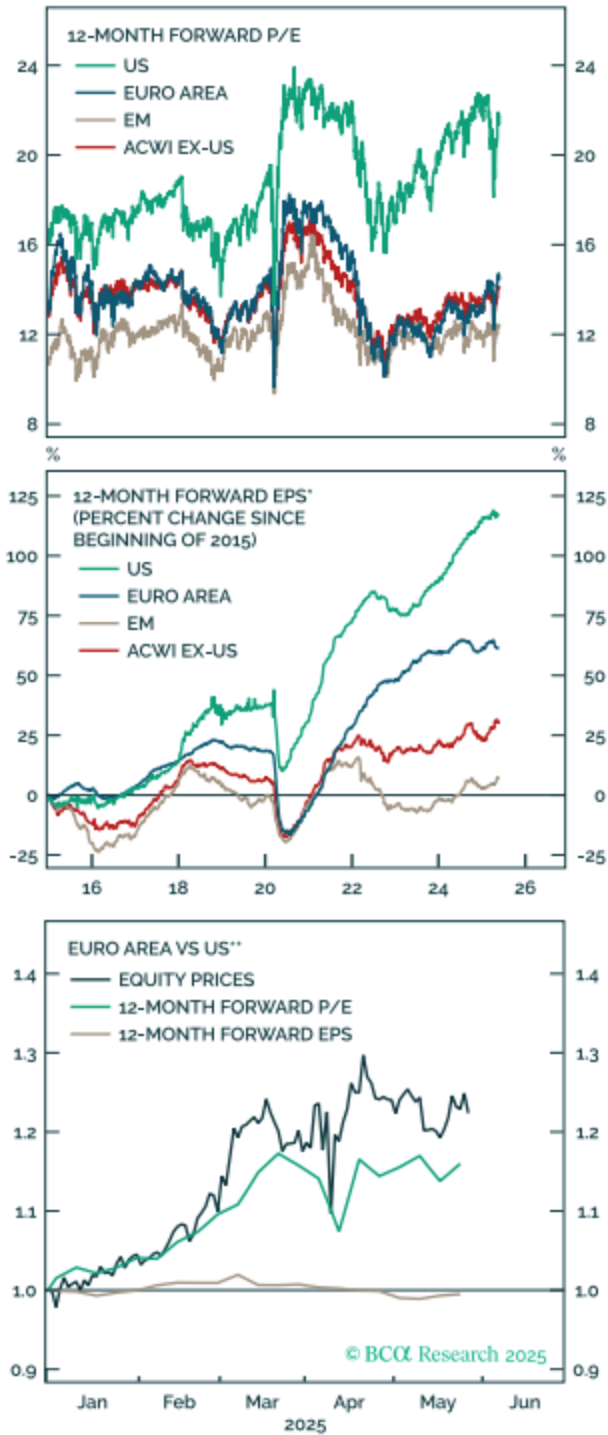
** CALCULATED AS EPS / SPS. SOURCE: FACTSET.

NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

16. Stocks are cheaper outside the US, but the valuation gap has narrowed sharply this year. Euro area stocks now trade at 14.7-times forward earnings, which is modestly above both their 10-year and 20-year averages. Moreover, all the gains in euro area equity prices this year have stemmed from multiple expansion, as earnings estimates have barely budged (Chart 19). Economically, the euro area experienced relatively strong growth of 0.3% (unannualized) in Q1. However, much of this growth came from tariff front-running, as the sharp jump in the region’s trade surplus with the US demonstrates (Chart 20). Outside of Germany, there is little scope for

CHART 19

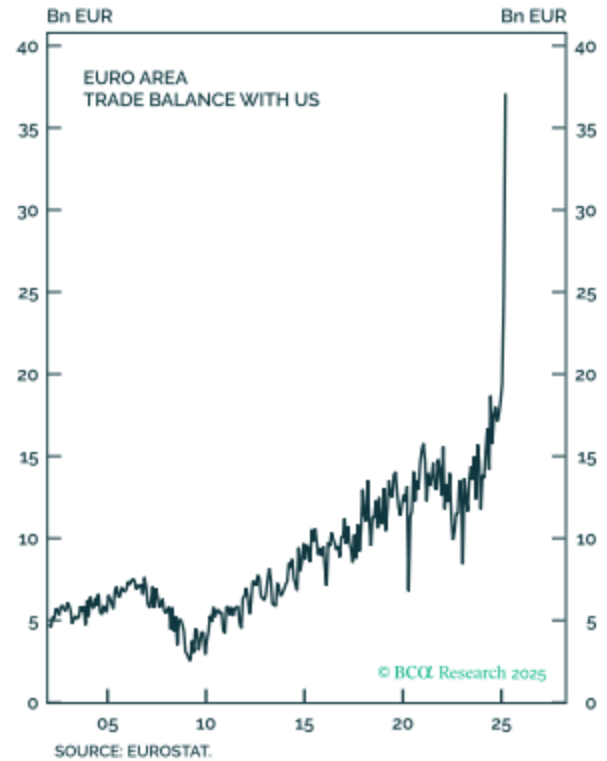
Stocks Are Currently Cheaper Outside The US, But Expect Them To Gap Down Later This Year



* IN LOCAL-CURRENCY TERMS.
 ** REBASED TO JAN 2025 = 1. IN US DOLLAR TERMS.
 SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION) AND REFINITIV / IBES.

CHART 20

Tariff Front-Running Boosted Euro Area Q1 Growth



major fiscal stimulus. The ratio of government debt-to-GDP exceeds 100% in France, Spain, Italy, and Belgium. The bottom line is that while tactically we remain overweight non-US equities, we expect their performance to “catch-down” to the US later this year.

17. What to do with bonds is a tricky question. On the one hand, the risk of a recession would normally argue for a long duration stance. On the other hand, the risk of a fiscal crisis would caution against one. For now, we are neutral on duration risk. (HCM is not, limiting client bond exposure to MINT, a Morningstar Gold rated Ultrashort Bond ETF with 13.3 Billion in Total Assets.) However, we would consider tactically going long duration if clearer evidence emerges that we are entering a recession. Likewise, while we are tactically bearish the US dollar, we would consider moving to neutral later this year given the greenback’s historic countercyclical characteristics.

From The Economist:

American finance, always unique, is now uniquely dangerous

Donald Trump is putting an untested system under almighty strain

May 29th 2025

ALWAYS A HAVEN in dangerous times, America has itself become a source of instability. The list of anxieties is long. Government debt is rising at an alarming pace. Trade policy is beset by legal conflicts and uncertainties. Donald Trump is [attacking the country's institutions](#). Foreign investors are skittish and the dollar has tumbled. Yet, astonishingly, one big danger lurks unnoticed still.

When you think of financial risk, you may picture investment-banking capers on Wall Street or subprime mortgages in Miami. But, as our [special report](#) explains, over the past decade American finance has been transformed. A mix of asset managers, hedge funds, private-equity firms and trading firms—including Apollo, BlackRock, Blackstone, Citadel, Jane Street, KKR and Millennium—have emerged from the shadows to elbow aside the incumbents. They are fundamentally different from the banks, insurers and old-style funds they have replaced. They are also big, complex and untested.

The financial revolution is now encountering the MAGA revolution. Mr Trump is hastening the next financial crisis by playing havoc with trade, upending America's global commitments and, most of all, by prolonging the government's borrowing binge. America's financial system has long been dominant, but the world has never been as exposed to it. Everyone should worry about its fragility.

The new firms are a magnet for financial talent. They also enjoy regulatory advantages, because governments forced banks to hold more capital and rein in their traders after the financial crisis of 2007-09. That combination has led to a spate of innovation, supercharging the firms' growth and propelling them into every corner of finance.

Three big private-markets firms, Apollo, Blackstone and KKR, have amassed \$2.6trn in assets, almost five times as much as a decade ago. In that time the assets of large banks grew by just 50% to \$14trn. In the search for stable funding, the upstarts have turned to insurance; Apollo, which made its name in private equity and merged with its insurance arm in 2022, now issues more annuities than any other American insurer. The firms lend to households and blue-chip companies such as Intel. Apollo alone lent \$200bn last year. Loans held by large banks increased by just \$120bn. New-look trading firms dominate stockpicking and marketmaking. In 2024 Jane Street earned as much trading revenue as Morgan Stanley.

There is much to like about this new financial system. It has been highly profitable. In some ways, it is also safer. Banks are vulnerable to runs because depositors fear being the last in the queue to withdraw their money. All things being equal, finance is more stable when loans are financed by money that is locked up for longer periods.

Most importantly, the dynamism of American finance has channelled capital towards productive uses and world-beating ideas, fuelling its economic and technological outperformance. The artificial-intelligence boom is propelled by venture capital and a new market for data-centre-backed securities. Bank-based financial systems in Europe and Asia cannot match America's ability to mobilise capital. That has not only set back those

regions' industries, it has also drawn money into America. Over the past decade, the stock of American securities owned by foreigners doubled, to \$30trn.

Unfortunately, the new finance also contains risks. And they are poorly understood. Indeed, because they are novel and untested by a crisis, they have never been quantified.

One lot of worries come from within the system. The new giants are still bank-like in surprising ways. Although it is costly to redeem a life-insurance policy early, a run is still possible should policy holders and other lenders fear that the alternative is to get back nothing. And although the banks are safer, depositors are still exposed to the new firms' risk-taking. Bank loans to non-bank financial outfits have doubled since 2020, to \$1.3trn. Likewise, the leverage supplied to hedge funds by banks has ballooned from \$1.4trn in 2020 to \$2.4trn today.

The new system is also dauntingly opaque. Whereas listed assets are priced almost in real time, private assets are highly illiquid. Mispriced risks can be masked until assets are suddenly revalued, forcing end investors to scramble to cover their losses. Novel financial techniques have repeatedly blown up in the past because financial innovators are driven to test their inventions to breaking-point and, the first time round, that threshold is unknown.

Under Mr Trump, the next upheaval is never far away. The government's excessive borrowing imperils bond markets, alarming foreign investors. Although a court has this week limited the president's powers to wage trade wars, the administration is appealing and Mr Trump is unlikely to abandon tariffs altogether. A toxic combination of uncertainty, institutional conflict, volatile asset prices, higher capital costs and economic weakness threatens to put the new-look financial system under almighty strain.

A crisis would test even the most capable policymaker. Much about the risks of the superstar firms, and their linkages to the wider financial system and the real economy, will become clear only when trouble strikes. New emergency-lending schemes would be needed. Rescuing banks last time was politically toxic. Saving billionaire investors would be an altogether harder task. And yet if the biggest of these giant firms were left to fail, it could lead to a global credit crunch.

Under Mr Trump a rescue would be unpredictable. In 2008 the Treasury and the Federal Reserve acted quickly to save the banks, and set up swap lines to offer dollar funding to much of the world. Mr Trump might decide to bail out everyone. But imagine the panic if he started to pick his favourite financiers, threatened to abandon or charge countries that displeased him and changed his mind every five minutes on Truth Social.

There will be another financial crisis—there always is. Nobody knows when disaster will strike. But when it does, investors will suddenly wake up to the fact that they are dealing with a financial system they do not recognise.

From the WSJ:

The Ditch-America Trade Now Has Its Own Acronym: ABUSA

‘Anywhere But U.S.A.’ poses questions: Are U.S. markets in a long, painful decline or was American exceptionalism overdone?

By *James Mackintosh*

May 18, 2025

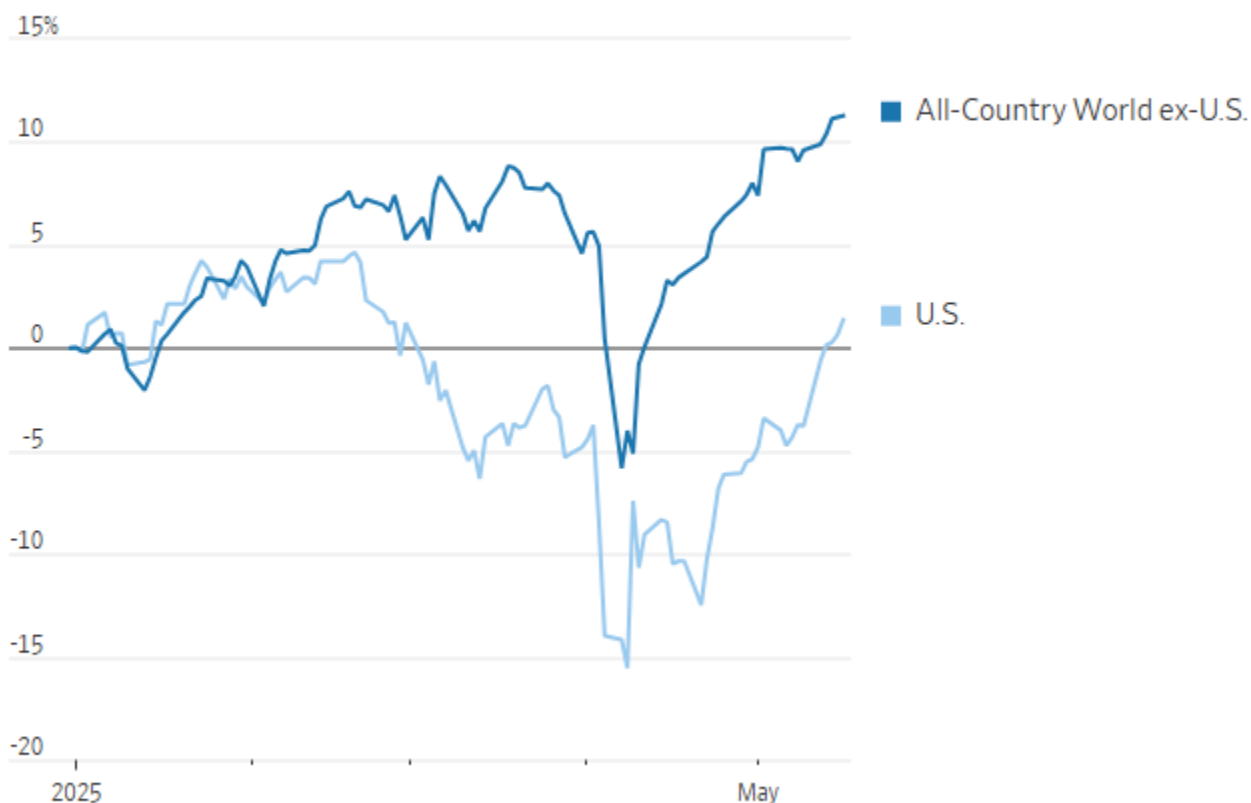
An investment theme is only complete when it gets [its own acronym](#), and the brokers that gave us BRIC, FANG, PIGS and TMT have captured the latest trend perfectly: ABUSA, or Anywhere But U.S.A.

Last week, global stocks made a new all-time high—so long as the U.S. is excluded. True, U.S. stocks rose above where they started the year for the first time since February, on the back of a strong recovery from the post-[Liberation Day](#) lows. But being flat for the year isn't much to boast about when stocks elsewhere are up 11% in dollar terms.

The big question for investors is whether U.S. underperformance is just the unwinding of last year's overdone bets on U.S. exceptionalism, or whether the U.S. is beginning a long and painful decline relative to the rest of the world.

Flat Here, Up Big Over There

Change in MSCI indexes this year



Note: In dollar terms

Source: LSEG

My guess is a bit of both, but I'm most confident about the first.

The bet on U.S. exceptionalism was everywhere at the end of last year. As well as the [wild excitement about Donald Trump](#) taking the White House again, there was a widespread belief that America had an unassailable lead in innovation, productivity and finance.

U.S. stocks made up two-thirds of the MSCI All-Country World index by value, and all 10 of the world's most valuable companies were American. The U.S. economy grew way faster than other big industrialized nations

over the past five years. And the dollar reached a value not seen since the Plaza Accord to weaken the greenback in 1985. Put another way: [Exceptionalism had gone too far](#).

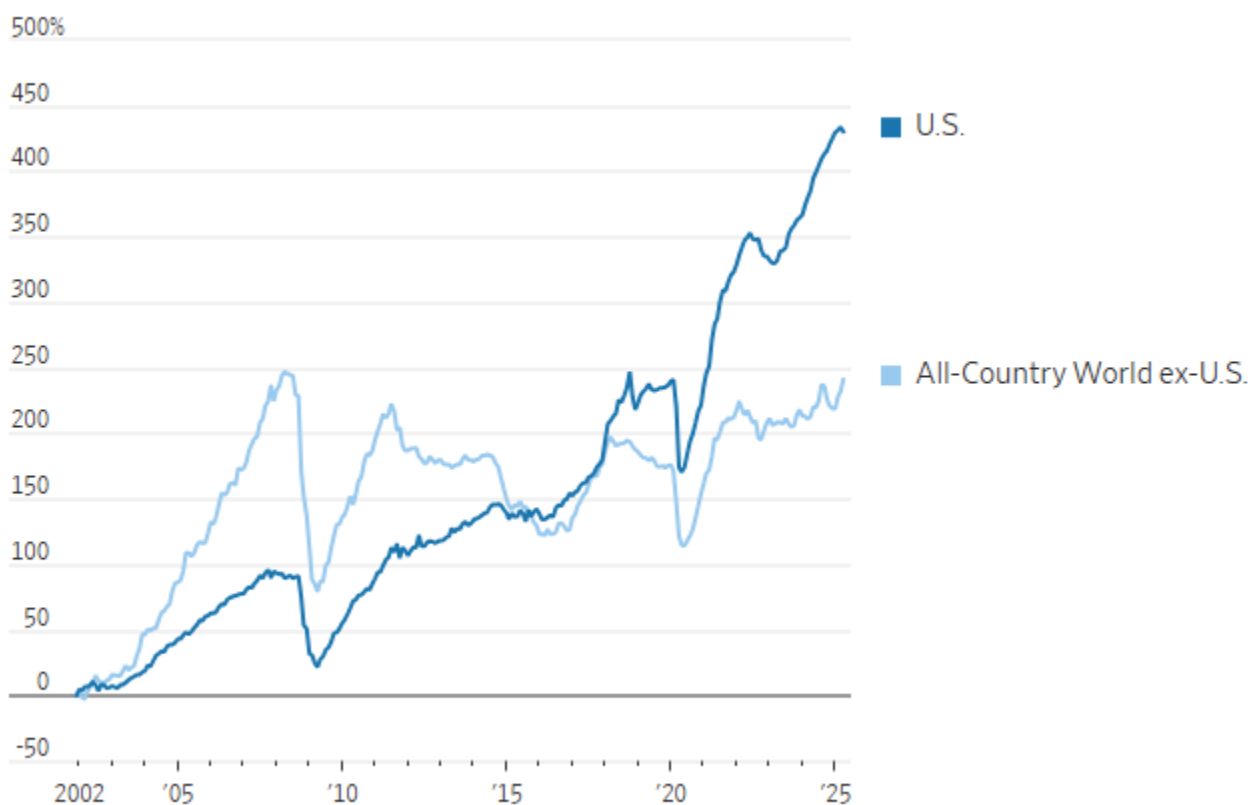
There's no need to argue that the U.S. is a basket case in order to think that investors were paying too little attention to stocks elsewhere. Sure, [Microsoft](#), [Amazon](#), [Apple](#) and many others are great companies, profit margins are much higher, and the U.S. deserves to trade at a valuation premium. Just not such a big premium.

By the end of December, the U.S. market was by far the most expensive relative to the rest of the world in data that goes back to 2001, trading at 23 times forward earnings against 14 times elsewhere. Even adjusting for the U.S.'s having more companies in go-go growth sectors, this was too much. A rebalance was needed.

That rebalance was triggered by both the shock of [Trump's tariffs](#) and changes elsewhere—themselves partly driven by fear of Trump's tariffs and partly by the need to respond to U.S. exceptionalism.

Exceptional Earnings

12-month forward earnings per share forecasts for MSCI indexes, change since 2001



Note: Monthly data

Source: LSEG

The argument that the U.S. will now lose its exceptionalism—rather than that investors got ahead of the actual exceptionalism—isn't as strong. But several U.S. advantages have been eroded, one is purely temporary, and other regions have at least woken to the need to change.

The erosion is most obvious in areas where the Trump administration has been most aggressive: America's soft power has suffered internationally, tariffs damage cross-border supply chains, trade deals will be relied on less by companies after being repudiated or breached, and elite U.S. universities find it harder to attract foreign students and researchers. Yet, America retains the most powerful military hard power, shorter supply chains

should increase resilience, countries still need trade deals to preserve access to the voracious U.S. consumer, and top U.S. universities will still be among the world's best, even if a bit less dominant.

This isn't the instance and total loss of U.S. exceptionalism, just a bit less of it.

The temporary advantage was from massive deficit spending that boosted the U.S. economy. The U.S. grew fast during the postpandemic recovery, but it increased government debt even faster. This can't continue forever and, when it stops, so will at least some of America's faster growth rate compared with those of other developed countries. Congress, though, shows no sign of wanting to rein it in soon.

Meanwhile, Europe has finally realized that its high-regulation, high-tax, weak-military model needs to change. Germany plans to spend big on rearmament and infrastructure, while the European Commission has loosened its fiscal shackles and says it will cut the red tape that has been strangling business. If followed through—a big “if” on deregulation—it should help growth.

In China, investors are hopeful that the country will respond to the shock of tariffs by finally boosting consumption, something it has talked about for more than a decade with little to show for it. ...

China also showed that U.S. tech leadership wasn't as special as many believed, with DeepSeek demonstrating a lower-cost approach to artificial intelligence, while the country advanced further in electric car batteries.

Investors with long memories will recall that for all the benefits of Silicon Valley, Finland's [Nokia](#) and Canada's [BlackBerry](#) were the tech wunderkinds before the launch of the iPhone in 2007. Farther back, there was near-panic about Japan's leadership in manufacturing and miniaturization of electronics in the 1980s. These things go in cycles.

All this shows up in the analyst consensus for U.S. earnings growth over the next 12 months. It has plunged from 13% to 8% this year, while expected growth in the rest of the world has risen from zero to match that of the U.S. ...

Go back to those earnings, and it is clear just how far ahead the U.S. already is. Forecast earnings in the rest of the world are still below their 2008 peak, and not much higher than in 2011. In the U.S., earnings over the next year are expected to be about four times what they were in 2011 or 2008.

The problem for investors is that there is both a lot of U.S. exceptionalism still priced in and a lot of opportunity for the rest of the world to catch up. One doesn't have to accept the sentiment behind ABUSA to think that the rest of the world looks a lot more attractive now.

Two from the WSJ's Markets A.M., the first on 5/12:

'You Better Go Out and Buy Stock Now'

By Spencer Jakab

There's an old saying on Wall Street: “Those who say don't know and those who know don't say.”

Let's go ahead and make an exception for President Trump. That isn't because he's the greatest stock analyst who ever lived: He has almost complete control over the thing that has been weighing on investors.

Five weeks ago we were on the cusp of a bear market. Now that tariffs on Chinese goods have been reduced sharply following “substantial progress” in weekend talks in Switzerland, the S&P 500 is set to begin trading slightly higher than on Liberation Day.

This was a short-term buying opportunity, but don’t expect Wall Street analysts, strategists and economists to say “never mind” and go back to their pre-trade war forecasts. Sure, these are the people who say but don’t know, but they can tell us a few useful things.

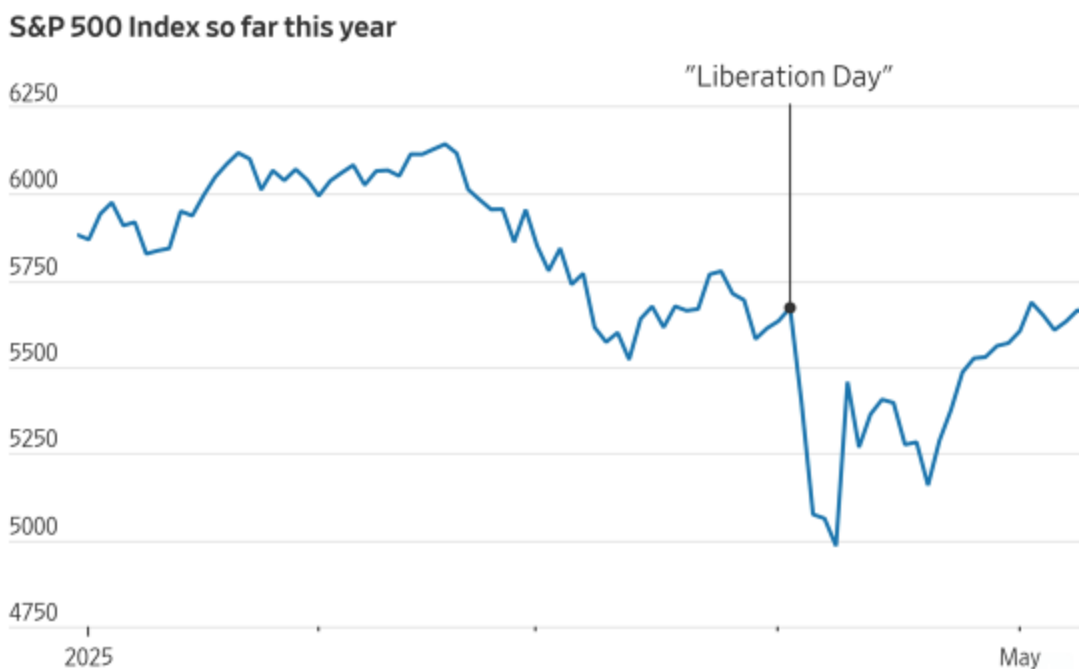
Foreigners’ diminished faith in the dollar, lower earnings estimates and the highest tariffs in decades are still with us. A complete economic decoupling from China wasn’t Wall Street’s base-case scenario, and at least some pain is already coming the global economy’s way.

Multinationals’ executives are breathing sighs of relief this morning. Unfortunately, they still aren’t sure where or whether to build factories or order inventory. Global investors, who have lost more than Americans in their home currencies, are spooked.

It’s tempting to dismiss strategists as worrywarts, and not just because your 401(k) looks about like it did at the beginning of April: You’re probably still employed, shelves are stocked and most of the economic data you’ve seen looks normal.

But the right way to think about your portfolio isn’t to decide whether you trust the President of the United States or pointy-headed Wall Streeters. This morning’s gains notwithstanding, the economy and job market rarely turn on a dime and nobody ever really knows what will happen to stocks. Instead, weigh what can go right and what can go wrong.

Strategists’ forecasts for growth in earnings per share for the S&P 500 this year have been cut in half to around 4%. That reflects a slowdown, not a recession, and the odds of both have risen. Goldman Sachs says that the latter would likely mean an eventual 10% drop in earnings. Since 1950 the average S&P 500 peak-to-trough decline during a recession has been 31%.



Source: FactSet

We're now back to the 96th percentile in terms of cyclically adjusted price-to-earnings ratios for the S&P 500. That means the market has only been more expensive 4% of the time. Given such valuations, prices have a lot more room to fall than rise, even if trade headlines remain positive.

Things look calm now. More profit warnings, supply-chain snafus or currency chaos could change that.

on 5/7:

You Have a Message From Taiwan

By Spencer Jakab

What do you think of Taiwan? Do you at all? Maybe it's time to start.

With about the same population as Florida, and a fourth of its land area, the island democracy is a small and faraway place. Americans mostly know it for two things—as a possible military flashpoint between the U.S. and China, which considers it a rogue province, and as the dominant force in semiconductors.

But something else entirely raised alarms this week. The Taiwanese dollar had a seemingly nuclear melt-up, rising so quickly and unexpectedly against the U.S. dollar that some strategists described it as a more than one-in-a-trillion event.

Maybe. But it isn't hard to trace this and many other recent, unusual moves to the trade war. The flip side of the deficits President Trump seeks to erase is that trading partners have recycled much of their earnings in dollars into U.S. investments.

Taiwan punches way above its weight in that respect, and its huge insurers mostly left themselves exposed to currency moves. With the greenback weakening in recent months, and the Taiwanese currency then surging, that has hurt. A Taiwanese life insurer that bought a boring 10-year Treasury note in September had lost as much as 17% on paper in its own currency at one point this week.

In the past week or so, something close to panic selling of dollars apparently set in among Taiwan-based investors. Other holders of U.S. investments, such as in Japan, will view it as a “warning shot,” according to George Saravelos, who runs foreign-exchange research at Deutsche Bank. He warns of “self-fulfilling moves.”

U.S. Treasury debt, in particular, is thought to be so safe that default isn't even seen as a one-in-100 trillion possibility by foreign investors. America borrows in dollars and has a printing press, after all. But the trade war naturally focuses attention on the elephant in the room—what the real value of those dollars will be in the future.

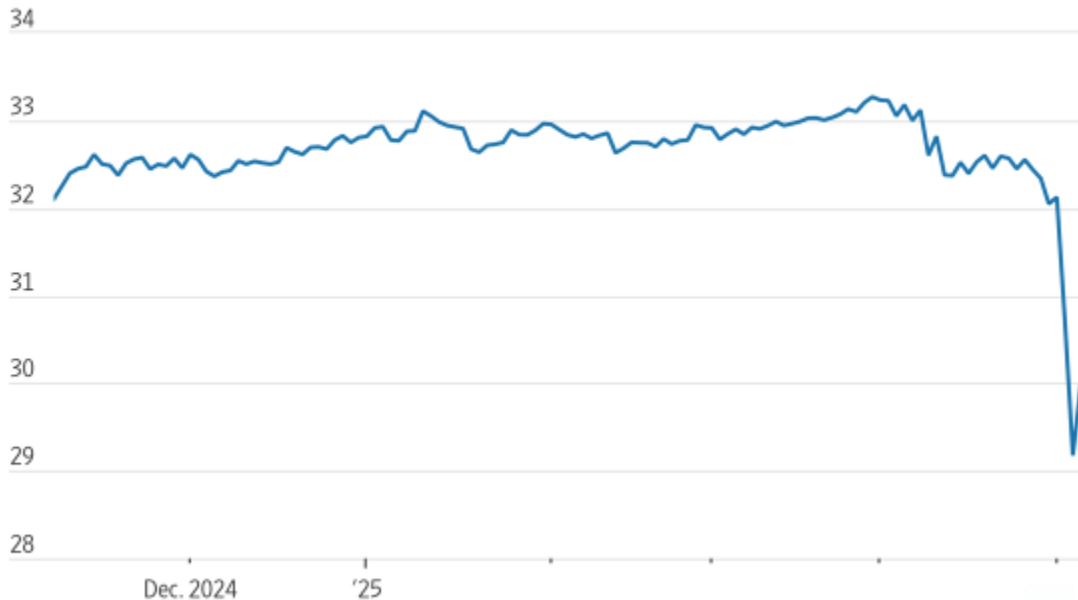
That matters as much to ordinary American investors and consumers as it does to an Asian bank or insurer. U.S. interest rates are the bedrock of every investment on the planet and have underpinned a mostly golden era for American investors and consumers.

Would it be possible to keep interest rates on things like car loans and mortgages reasonable if foreigners decided one day that unsustainable federal debt and unpredictable policies made the U.S. a risky place to invest—sort of like an emerging market?

Yes, but it might require forceful steps from the Fed that stoke inflation, weakening the dollar even more. Regardless, Americans' savings could take on a decidedly emerging-market flavor, too. This would likely lead to a big drop in stock valuations and the sort of lifestyle they would finance.

That's a nightmare scenario, not a prediction. But the horror show that unfolded in markets halfway around the world this week should remind Americans what they have to lose.

How many New Taiwan Dollars \$1 buys



The news set off a frenzy of buying, and the winners—an eclectic group of crypto luminaries, MAGA fans and speculators—are now set.

One attendee plans to fly in from Asia to promote a blockchain startup that aspires to “power the next generation of meme culture.” Another one, from New York, is a supporter of the president who has used crypto to buy Trump-branded watches. Yet another is a masked sleuth who tracks down digital assets stolen by hackers.

Blockchain data suggests that many of the attendees of the VIP reception will be foreigners.

Government-watchdog groups have condemned the dinner, saying it potentially violates federal rules that bar officials from soliciting gifts. If any attendees are linked to foreign states, the dinner could also violate the Constitution’s emoluments clause, which bars federal officials from accepting gifts from foreign governments, they say.

“It’s an ethics nightmare,” said Norm Eisen, a former White House special counsel for ethics and government reform under the Obama administration.

Four months into Trump’s second term, he and his family have promoted their private business interests in unprecedented ways. Beyond the memecoin, their forays into crypto include a bitcoin-mining company and World Liberty Financial, a venture promoted by Trump’s sons. Such efforts pose conflicts of interest, critics say, given that the president has [reined in crypto regulation](#).

“President Trump only acts in the best interests of the American public—which is why they overwhelmingly re-

Price of \$TRUMP since launch



Source: CoinGecko

elected him to this office,” White House spokeswoman Anna Kelly said. Administration officials have previously denied any conflict of interest, saying the memecoin dinner is an outside business engagement, not an official White House event.

Memecoins are novelty tokens typically associated with celebrities or internet memes. They often enrich insiders or savvy traders who buy early and sell before the inevitable crash.

The price of \$TRUMP soared after its Jan. 17 debut, then collapsed. Fifty-eight investors in the coin made profits in excess of \$10 million each, while some 764,000 digital wallets that held \$TRUMP lost money, many of them likely belonging to small investors, according to blockchain forensics firm Chainalysis.

Insiders close to Trump are sitting on a stash of \$TRUMP worth around \$10 billion. Some 80% of the coin’s supply is held by an affiliate of the Trump Organization, the president’s family business, and by a Delaware LLC registered by entrepreneur Bill Zanker, who previously launched Trump-themed digital trading cards. Insiders also make money by collecting fees when \$TRUMP coins are traded.

The Trump Organization and Zanker didn’t respond to requests for comment. A spokeswoman for World Liberty Financial said the venture had “zero conflicts of interest” and no connection to the \$TRUMP dinner.

Since the dinner announcement, [the price of \\$TRUMP](#) is up about 30%, although at about \$12.50 in recent trading, it is still far below its January peak.

The May 22 event will take place at the Trump National Golf Club outside Washington. Initially, the coin’s website said the top 25 coin holders would get a White House tour, but the reference to the White House later disappeared from the site.

This week, organizers asked prospective guests to take part in background checks, according to messages seen by The Wall Street Journal.

“If he goes ahead with it, it will be one of the most outrageous uses of the office for self-enrichment in American history,” Sen. Richard Blumenthal (D., Conn.) said of the memecoin dinner in an interview.

Out of the 25 wallets eligible for the reception, at least 17 have received funds from non-U. S. crypto exchanges that are off-limits to Americans, according to data from Inca Digital, a blockchain analysis firm.

Crypto circles have been abuzz with speculation that a wallet labeled “Sun” containing \$17.9 million of \$TRUMP—the most of anyone registered for the dinner—belongs to Chinese-born crypto entrepreneur [Justin Sun](#).

Sun drew attention last year when he paid \$6.2 million for “Comedian,” an art project consisting of a banana taped to a wall. After the election, he invested \$75 million in World Liberty Financial. In February, U.S. regulators took steps to resolve a Biden-era lawsuit against Sun accusing him of market manipulation. Sun has denied the allegations.

Blockchain analysts say the “Sun” wallet is part of HTX, a crypto exchange with close ties to Sun. The wallet also contains \$18 million worth of Comedian, a memecoin inspired by the banana artwork. Representatives of Sun and HTX didn’t respond to requests for comment.

MemeCore, a Singapore-based startup developing a platform for memecoin creators, registered for the dinner with a wallet containing \$17.4 million worth of \$TRUMP. The startup is seeking to “build bridges” with the U.S. memecoin community, said Cherry Hsu, its chief business development officer.

As the company piled up coins, it posted on X: “TRUMP! TRUMP! TRUMP!” Hsu denied that the startup was endorsing Trump. She said one of MemeCore’s co-founders would attend the dinner.

One attendee planning to attend the VIP reception is a cybersecurity specialist known by the pseudonym “Ogle,” who is an adviser to World Liberty Financial. Ogle, who gives video interviews with a bandanna and sunglasses covering his face, says he hides his identity to protect himself from cybercriminals.

Blockchain data shows he amassed \$3.1 million worth of \$TRUMP to notch his spot at the reception. In an interview, Ogle pushed back against the dinner’s critics. “This is open to people who are willing to pay, rather than some kind of self-appointed elite,” Ogle said. ...