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# Reflections and Insights\*

*“Alright, but apart from the sanitation, the medicine, education, wine, public order, irrigation, roads, the fresh-water system, and public health, what have the Romans ever done for us?”*

– MONTY PYTHON’S LIFE OF BRIAN

Looking back at the last of these reviews, three months old, instead of finding something relevant, it all seems like old hat. Three months ago, we had become used to politics as reality TV, policies

pulled from the garbage can of history and waking up every morning with a groan as the news unspooled. Still true, but somehow the noise level has risen, perhaps to compensate for the familiarity with chaos.

It is now three months since Trump announced a pause in the implementation of his tariff policies, a period during which, we were assured, huge numbers of deals would be done as nation after nation came begging - ‘90 deals in 90 days.’ At the time of writing, there are two ‘deals’, although these are more frameworks than the finished article. The UK, which runs a deficit in goods with the US, has something that looks like a shrug, while Vietnam has buckled to avoid economic annihilation. The background music suggests that the talks which matter (EU, China, Japan) aren’t really going anywhere, and all of these partners have points of leverage that the UK and Vietnam lack. Yet again, nobody knows what will happen, probably including Trump himself.

Markets, meanwhile, have recovered sharply from the yips they suffered after the satirically named

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'Liberation Day.' This recovery is despite the fact that the level of tariffs now expected is much higher than anybody predicted at the turn of the year. There is also a phenomenon familiar to the followers of BREXIT. When the forecast bad news fails to appear coincident with the announcement of the policy, it is treated as evidence that it was completely wrong.

Indeed, in the US, economic data are OK. Things may have softened a little, but they don't yet show any of the signs of stagflation (sluggish growth and rising inflation), which the experts predicted. With BREXIT, though, the damage has been felt for years, drip by drip, to the point where it has accumulated into real hardship, admittedly compounded by incompetence in the polity.

The threat of tariffs in the US led to the bringing forward of activity as businesses built up inventories in anticipation of rising costs. This has deferred the impact, which is likely to become visible over the next six months, even if the eventual tariff outturn is more benign than it looks today.

What all this means is that the news has been better than expected, but may be on the cusp of being worse than expected. This does not mean that a recession is imminent or that catastrophe is around the corner. Most of the imbalances that lay behind the Great Financial Crisis (GFC) in 2008 are no longer present. What it might mean, though, is a more difficult and volatile market environment as employment falls, prices rise, and economic activity slows.

### **GOOD PROVISIONS + PERIODIC JITTERS**

Investors also have to factor in the One Big Beautiful Bill Act<sup>1</sup>, a name straight out of Monty Python, and a piece of legislation that will expand the budget deficit significantly, despite cutting entitlements to the less well off. There are, naturally, provisions which will be good for the economy, for example, tax breaks for capital investment, but the overall picture scuppers the Republican reputation as the party of fiscal

responsibility. Concerns over the long-term impact on the level of debt the US will face have caused periodic jitters in the bond market and have been a primary source of US dollar weakness, which has been a feature this year. For non-US investors in US assets, this weakness is both unusual and a significant dampener on returns.

All this has also resulted in periodic sniping by Trump at Jay Powell, the governor of the US Federal Reserve, accusing him of incompetence, a charge which has no basis in fact and itself contributes to the undermining of monetary and fiscal credibility. In turn, this raises the prospect of financial repression, where the Government attempts to manipulate interest rates lower in its favour.

### **POSITIVE TRENDS EXIST FOR A REASON**

General market wisdom posits that the markets know more than the experts, and if there is a positive trend, it exists for a reason, even if it's not visible. Maybe. Markets, though, have never had to deal with an administration like this, and for anybody to pretend that they know what will happen is a definition of madness. Markets are not priced for much to go wrong, but yet again, the action is concentrated in the so-called Magnificent 7<sup>2</sup>, where the growth in earnings has remained magical on the promise of Artificial Intelligence (AI).

For now, though, markets are likely to do what market participants call 'grind higher', which means 'generally go up a bit'. The other phrase beloved of the industry is that the 'pain trade' is to be out of the market. This means that it hurts if you're not invested. In practice, most professional investors have a hard time keeping up with the markets as the Magnificent 7 make up nearly half the benchmark, and diversification rules mean that they are almost inevitably underweight these stocks.

As the year progresses, the picture could well darken somewhat, and the pain trade may not be diversified enough.

<sup>1</sup> [Congress.gov, H.R.1 - One Big Beautiful Bill Act, 119th Congress \(2025-2026\)](https://www.congress.gov/bill/119th-congress/house-bill/1/text), <https://www.congress.gov/bill/119th-congress/house-bill/1/text>

<sup>2</sup> Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla

Over the last fifteen years, investors really only had to make one decision. That was to be invested in the US equity market. Everything else was incidental. Over that period, the US market has gone from being 40% to 70% of the global benchmark. The US market rose by over 600%, of which 55% was Price Earnings (PE) expansion (i.e. the market got more expensive), and 248% was attributed to earnings growth. To put all this in perspective, the rest of the world rose by 132% in US dollar terms (the strong US dollar meant that local currency returns were higher). PEs didn't move, and earnings grew by 41%. Given this, it is hardly surprising that the US left everything else in the dust.

### SO WHAT HAPPENS NEXT?

It is quite easy to make a case that the concept of US exceptionalism in capital markets is over;

1. Politics. That morning groan.
2. Returns on the massive investment in capital to support AI are going to have to come from somewhere, and that is going to depend heavily on the productivity improvements offered by AI. The likelihood, though, is that these returns will fall, partly through the mechanism of competitive pressure and partly through the failure of hubris.
3. Who is left to buy? The US equity market is heavily owned domestically and internationally.
4. The growth of the fastest-growing businesses has been helped by network effects (the linking together of products, e.g. Facebook/WhatsApp) and monopoly power. The reality is that most of the revenue of these businesses comes from advertising, a category which they now dominate, and which grows roughly in line with GDP. How much more is there to go for? This helps explain the AI investment rush.
5. Tariffs are an unequivocally stupid policy. A manufacturing revival in the US is not going to happen. The share of employment in the US in manufacturing fell from 25% in 1970 to about 9% now. In the meantime, the share of output of manufacturing remained steady at 12%. It will continue to fall.

### A CREDIBLE INVESTMENT STORY ex-US?

Just because you can make an argument doesn't mean that it is correct. One aspect to consider is whether there is a credible investment story outside the US.

1. A genuine change in Germany points to a loosening of fiscal discipline, which could unlock 20% of GDP for investment in infrastructure and defence. At the same time, the Draghi prescription for improving EU competitiveness may be implemented. Maybe the UK comes in from the BREXIT wilderness.
2. Policy in China becomes more consumption-oriented. Safety nets need to be built.
3. Technology is not just a US preserve. DeepSeek, renewable energy, battery technology, and electric vehicles (EVs) are all world-leading developments at a time when the US is doubling down on fossil fuels. Europe needs to step up on tech, although a lot of small-scale innovation is happening.
4. Emerging market equities have lagged developed market benchmarks by 40% in the last five years. The US dollar is weak, and growth is strong, although some of these countries are potentially tariff victims.
5. Antipathy to science and research, particularly at the university level in the US, is handing a potential advantage to the rest of the world. Does it have the imagination to grab it?

### TRENDS SHAPING THE AGENDA

None of this is a prediction. It is merely illustrative that the runes are shifting, albeit quite slowly. The world does seem set on a different path from that which those of us who grew up in a 'globalist' post-'70s environment are familiar. The trends shaping the agenda have been moving for a long time. It's not just about Trump. Demographics, inequality, migration, and climate change – all of these are changing the political landscape and with it the

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economic opportunity and relative predictability we are all accustomed to.

The new era seems likely to be marked by greater populism on both left and right, less stable alliances, greater self-sufficiency and pressure on welfare states in wealthy countries.

The possibility of greater uncertainty in policy, politics and economics suggests that the one-way street for markets in the post-GFC era may be coming to an end. This is not a good era for rationalists, and forecasts are not worth the electricity and water AI uses to produce them. All this underlines the virtue of not running with the herd but relying on a diversified multi-asset approach across geographic regions.

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