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Macro Picture - Chart Story

IS THE US NOW UNINVESTABLE?

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Clickbait title I admit, but the market gods clearly don't take kindly to hubris, which is why US equity strategists suddenly find themselves on TV having to admit that there might be "interesting opportunities" in the rest of the world. My latest Macro Picture looks in detail at why the US exceptionalism trade has broken down, but it comes down to 3 things:

i. Pundits were too bullish about the US
ii. There was too much bearishness about the RoW
iii. Investors underestimated the global response to Trump 2.0.

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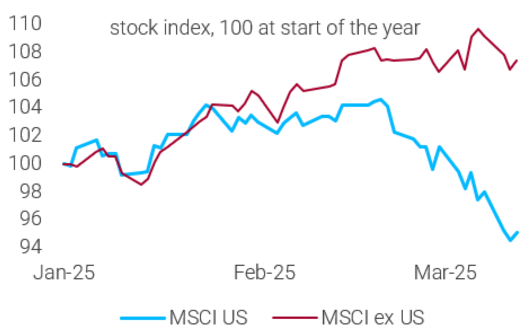
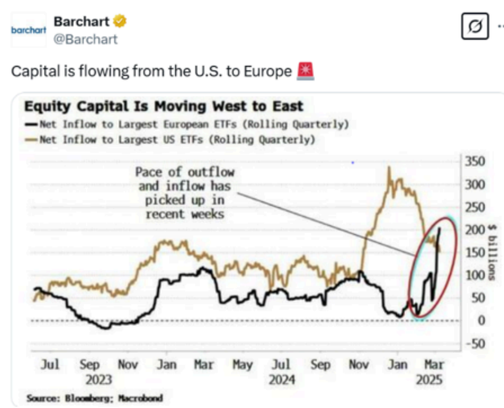
Post-election, it was clear that most investors had a very selective view about what Trump 2.0 would mean for the US economy and the stock market. They assumed the parts of his agenda that were good for stocks (deregulation & tax cuts) would definitely happen, and the bad stuff (tariffs & DOGE) was just a bluff. Three months on, the bad stuff is not only happening – probably – but it is happening BEFORE the good stuff. This has transformed animal spirits, but not in the way we were promised.





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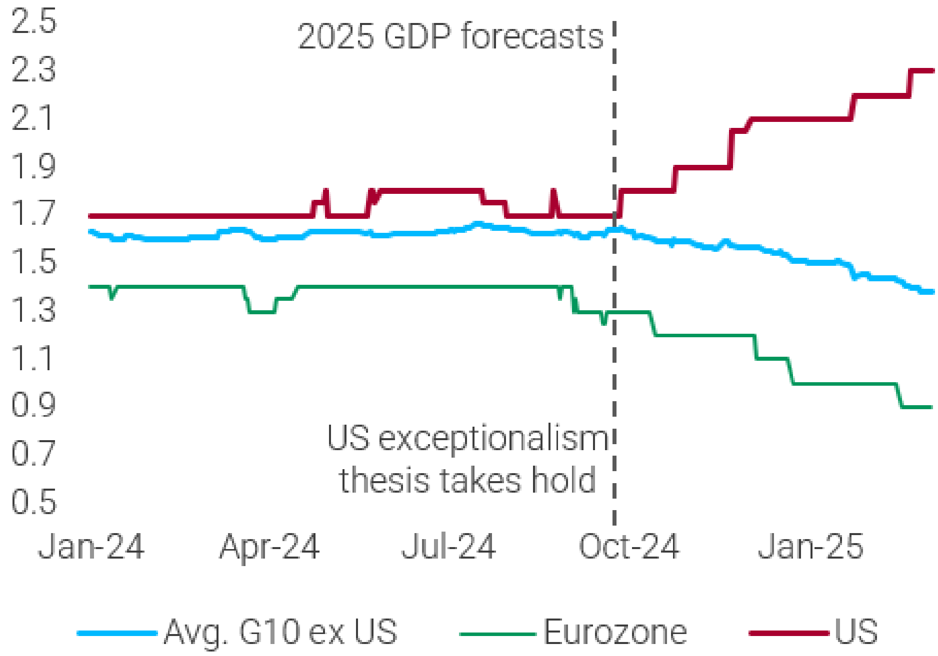
The US administration admits that its policies might be painful in the short term, but ask us to focus on a brighter “long term”. That's a tough sell. First, most investors have a hard time looking beyond the short term, especially if it is going to be painful. Second, the promised long-term gains are fuzzy, perhaps ideological. Third, history shows that short term pain often just leads to more short-term pain. Far from stocks acting as an “arbiter” on Trump 2.0, officials don't seem to care.



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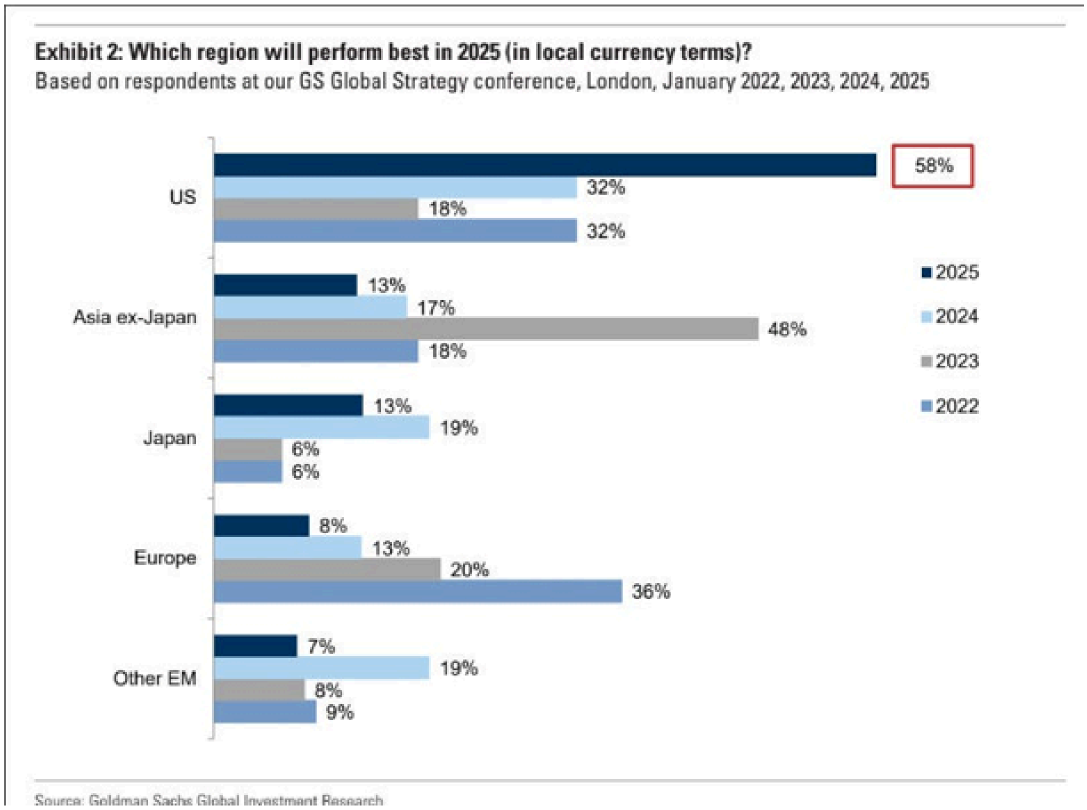
The consensus wasn’t only too bullish about the US, it was also too bearish on the RoW. Indeed a big part of the US exceptionalism thesis looked like a mere extrapolation of post-COVID economic trends. The US will certainly retain its edge, but several forces have flattered its relative performance since 2020: (i) bigger US fiscal stimulus; (ii) less exposure to the COVID manufacturing hangover; (ii) relatively easier US monetary policy, and (iv) less exposure to the cost-of-living crisis.



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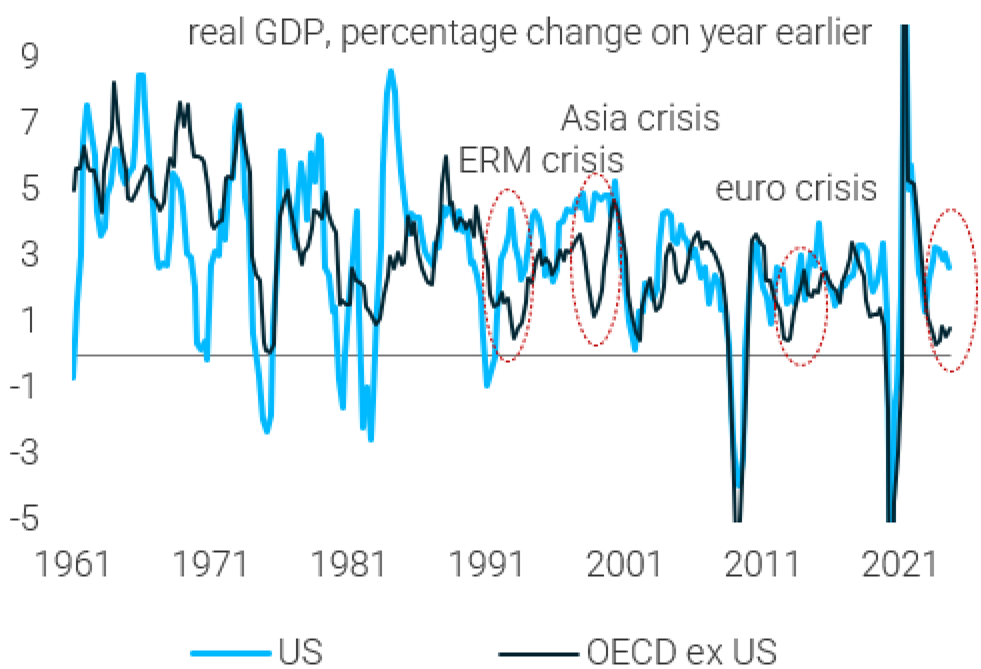
Cyclically, the US-RoW growth differential isnt going to be as wide as everyone thought, and markets have now adjusted. But there is also a chance that something more substantive is shifting. Three months ago, investors were convinced that Trump 2.0 would make a bad situation in Europe and China even worse. Instead, Trump has become a catalyst for big policy changes. Germany and China have already announced a sizeable fiscal response, and other governments are sure to follow.



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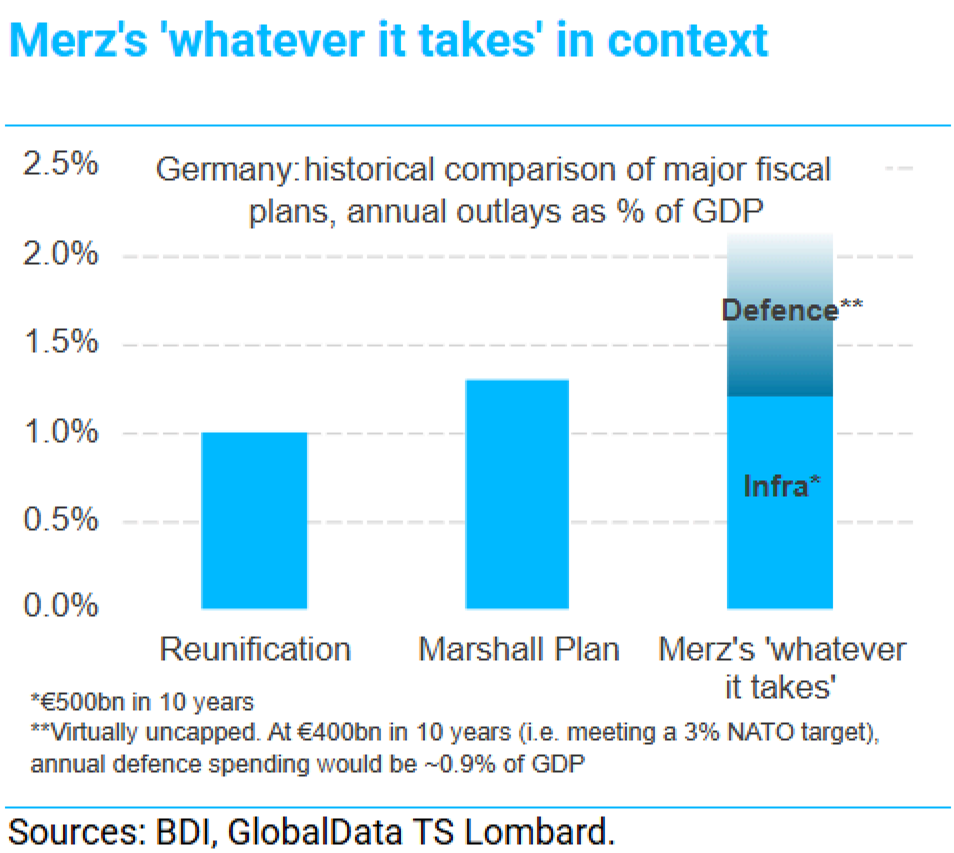
Trump is forcing countries to do things they should have done years ago. For example, institutions like the IMF and the OECD have literally spend decades urging Germany to increase its fiscal spending. These pleas were ignored - until now. Trump has forced Germany to open the fiscal taps in less than two months. It is still early days, and there may be setbacks, but these policy shifts could mark the start of a major realignment in international trade and a genuine rebalancing of global demand.



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Of course, most investors only really want to know whether this recent bout of RoW outperformance can continue. I think it can, but on one condition – that the situation in the US doesn't deteriorate too far. That may sound odd, but there is a fine line between global investors relocating capital from the US to the RoW, against the backdrop of OK-ish US growth, and a generalized risk-off move that sends all risky assets lower. Make no mistake – a US recession would bring down the entire world.

Table 1: Global markets never shake off US bear markets

	SPX	Eurostoxx	FTSE 100	Nikkei	Fra CAC	Ger DAX
1987	-32.7	-31.4	-27.3	-10.2	-30.5	-32.8
1998	-19.0	-33.0	-23.2	-22.1	-32.1	-36.1
2001	-46.1	-59.0	-45.9	-49.0	-58.4	-64.6
2018A	-9.1	-7.0	-5.8	-7.5	-6.0	-7.8
2018B	-16.5	-13.2	-9.2	-15.5	-15.4	-15.5
2022	-23.3	-18.9	-6.2	-6.2	-15.1	-19.6

Source: Datastream, TS Lombard, 2018A – Volmageddon, 2018B – US trade war with China

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