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The New Global Order: Implications for Investors

The new global order differs from its predecessor in four ways. First, for decades, the U.S. has been unrivalled in all three domains of power: economic strength, technological prowess, and defense capabilities. However, with the ascendance of China, we have entered into a bipolar era.

Second, the new order is characterized by tariffs and trade wars rather than free trade and hyper-globalization. Third, it features rising geopolitical tensions superseding the protracted era of Pax Americana. Finally, America First and populist nationalism has supplanted the rules-based, multilateral approach that relied on trust in the WTO, IMF, World Bank, UN, and NATO.

This metamorphosis reflects China's expanding economic, technological, and military heft which is auspiciously challenging American hegemony. Of particular import is the "Made in China 2025" strategic plan which was launched in 2015 and confers a roadmap for China to become the global leader in the high-tech industries of the future. This plan has already been a tremendous success.

In response to the China challenge and the domestic backlash against trade and hyper-globalization, the Trump administration has prioritized four policies. First, hiking tariffs and negotiating trade deals. This has four objectives including homeshoring in critical sectors such as manufacturing and healthcare. Second, tax cuts, particularly to incentivize corporate investment.

Third, sweeping deregulation, under the banner "It's time to build," encouraging innovation in energy, finance, construction, and AI. Deregulation also includes a pro-tech agenda favouring semiconductors, physical AI, defense tech, and related industries critical to national security. Finally, curtailing the USD's **extreme** overvaluation which Trump's advisors view as a key driver of global imbalances.

The sequencing of these policy priorities has become clearer. Trump is 90%+ finished with hiking tariffs and is now pivoting to negotiating trade deals. Beginning with the relatively straightforward cases, Japan, UK, Korea, and India, before moving onto the more challenging EU and finally, the high noon duel with China. Tax cuts are the second policy priority and will enter the spotlight this summer as Trump negotiates the "big, beautiful bill" with Congress. Later this year the focus will turn to deregulation and pro-tech policies. However, the timing of the fourth priority, weakening the Greenback, remains unclear.

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The America First agenda places less emphasis on comparative advantage and market efficiency, instead prioritizing supply chain resilience, national security, and industrial policy (including tariffs). This applies to manufacturing, semiconductors, energy, healthcare, and the defense industry. And just as President Biden reversed few of the economic policies implemented during Trump's first term, we expect season two's agenda to remain largely intact regardless of who next sits in the oval office.

The remainder of this note consists of four sections. First, we analyze the transition to the new global order, emphasizing the protagonist role played by a surging China that is propitiously challenging the U.S. in all dimensions of power. Second, we examine Trump's four policies, designed in response to China's rise and the ensuing domestic backlash: tariffs and trade deals, tax cuts, deregulation and a pro-tech agenda, and eradicating the USD's extreme overvaluation.

Third, we discuss two scenarios, one is relatively optimistic (Trump adroitly pivots in the second half of this year from tariffs to his pro-growth agenda), while the second suggests further downside (America First devolves into America Alone, resulting in a world of competing currency blocs and a chaotic breakdown of global trade). We conclude with implications for investors, who face the most disruptive and challenging macro environment since the end of the first Cold War.

I. The Four Dimensions of the New Global Order

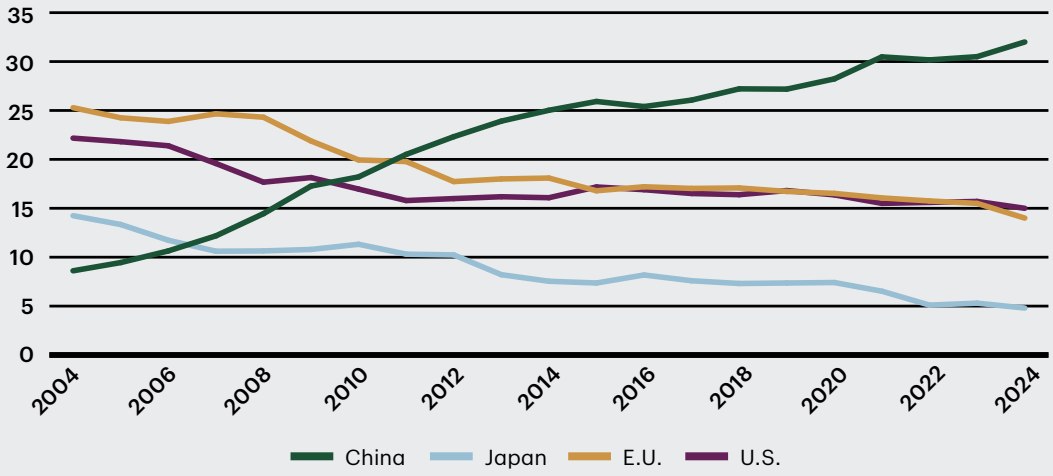
The new global order has four distinguishing features, with the first being the transition from a unipolar to a bipolar world. The next few pages explain how China, in just a few decades, has come to challenge the U.S. in each of the three domains of power: economic strength, technological prowess, and defense capabilities.

How did China become the global manufacturing superpower? Especially for industries of the future such as batteries, electric vehicles (EVs), autonomous vehicles (AVs), robotics, drones, and hypersonics. Of course, this did not just happen organically, as a result of free markets and naturally occurring comparative advantage.

China's economic model: Incompatible with the post-War global trading system

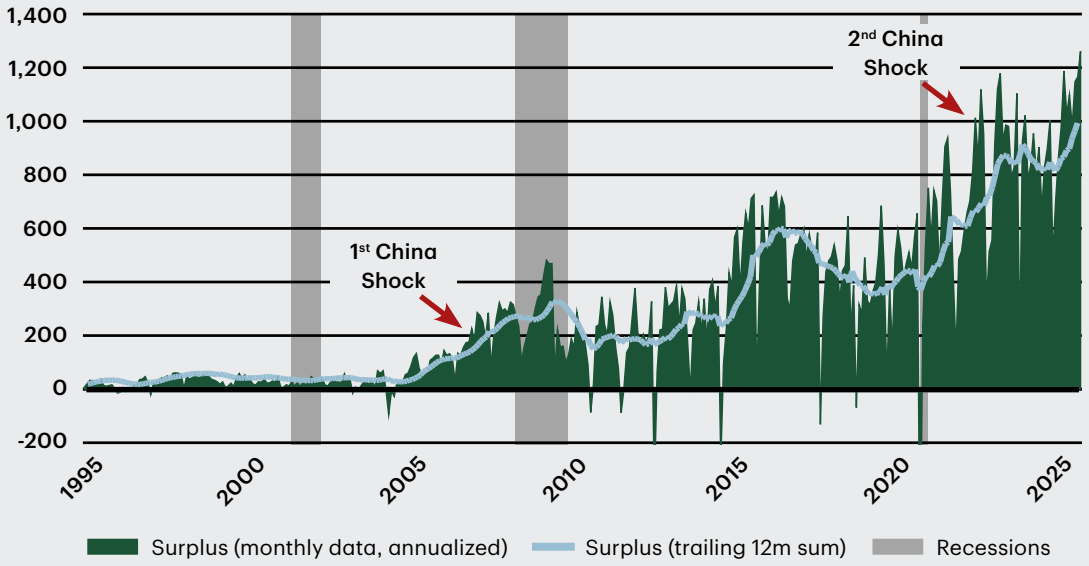
China became the factory for the world through an extreme form of mercantilism, featuring lavish export subsidies, formidable state-directed lending, favorable tax treatment, generous land grants and aggressive strategic plans like "Made in China 2025." Its relentless industrial policy also features onerous import restrictions and is wind-assisted by an undervalued currency. Altogether, these direct and indirect subsidies amount to over $500 bn annually and have driven a quadrupling of China's share of global manufacturing, while America's has declined by a third **(Figure 1)**.

Figure 1: The great leap forward – Share of global manufacturing (%). China's share has soared, from 8% to 32%, and continues to be propelled ever higher.



Source: World Bank

Figure 2: China's $1.2 tn trade surplus (USD bn). De-industrializing the rest of the world.



Source: Bloomberg Finance, L.P.

China only believes in one-way trade: Such extreme mercantilism is unsustainable

China's manufacturing dominance would be much less of a concern if it wasn't for the flip side of the coin. That is, an astronomical trade surplus, currently exhibiting a run rate of $1.2 tn **(Figure 2)**. The surplus has more than doubled from its pre-COVID level, which was already the largest experienced anywhere in history, and is increasingly referred to as the "Second China Shock."[1] In many ways China's big bet on industrial policy has paid off handsomely. However, it has resulted in an enormous and growing backlash from abroad, especially the U.S.

Deindustrialization: America forgets how to make things, creating an enormous vulnerability

The economic rise of China has in many ways been a wonderful development, lifting hundreds of millions of people out of poverty and providing them with opportunities unimagined by their grandparents. However, from America's perspective, it has been at best a mixed blessing, great for consumers but terrible for both factory workers and national security.

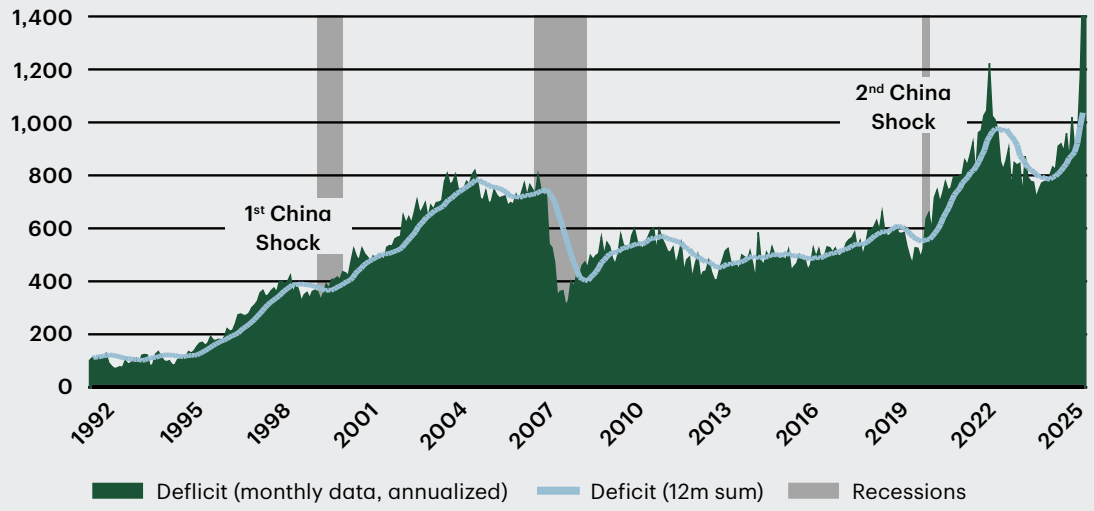
The U.S. needs its own industrial policy otherwise it will end up importing an ever-larger share of China's excess production and becoming increasingly dependent and vulnerable. It is no exaggeration to assert that the industrialization of China has resulted in the deindustrialization of America. Since China joined the WTO in 2001, U.S. manufacturing employment plunged by one-third, its share of global manufacturing production cratered by 40% and the U.S. trade deficit has soared **(Figure 3)**. Further, the COVID experience illuminated the degree of dependence on China, America's biggest adversary, especially for semiconductors and healthcare products.

U.S. plummeting labor share: The rise of national populism

A key reason for America's backlash against Chinese mercantilism is the cratering labor share, the beginning of which coincides with China's entry into the WTO **(Figure 4)**. Since 2000, U.S. workers have been hit by the double whammy of offshoring jobs and digital tech transforming the nature of employment. While offshoring is set to moderate, at least in sectors critical to national security, the AI revolution is accelerating and will further exacerbate income inequality. Unsurprisingly, voters have become increasingly angry about an economy they feel does not work for them.

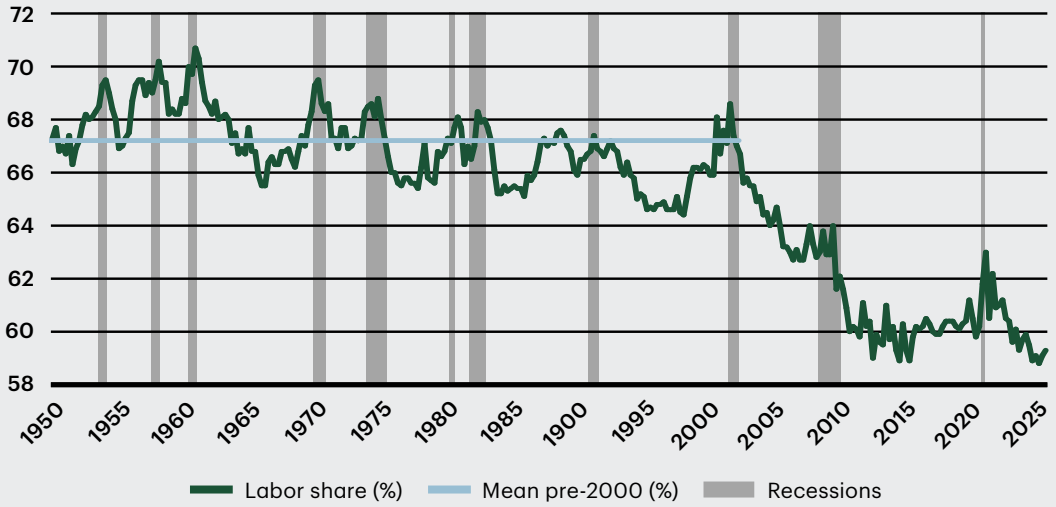
[1] The first "China Shock" occurred from 2000-2007 when rising Chinese exports reduced U.S. manufacturing employment by an estimated 550,000 to 2.4 million jobs. Some sectors and communities were hit particularly hard. For example, furniture industry employment fell by around 300,000, or 45%. The sector was concentrated in the North Carolina piedmont, employing one in every six workers. Source: "China's Very Bad, No Good Trillion-Dollar Trade Surplus," by Paul Krugman, January 2025.

Figure 3: The U.S. trillion-dollar trade deficit (USD bn). Damaging American workers, manufacturing capabilities and national security.



Source: Bloomberg Finance, L.P.

Figure 4: The plunging labor share has been a key driver of rising national populism. Unfortunately, Trump's agenda will not reverse this painful trend.



Source: Bloomberg Finance, L.P.

China is also challenging the U.S. in tech and industries of the future

China's economic strength is now conspicuous and indisputable, but most Americans seem unaware of the depth and breadth of its tech prowess. To illustrate its impressive accomplishments, Chinese companies now produce 80% of the world's drones (dominated by DJI) and 70% of batteries (led by CATL). China is also developing leads in EVs (BYD), robotics and hypersonic missiles. Additionally, China possesses 232 times the shipbuilding capacity of the U.S and Huawei is the world's dominant telecoms equipment manufacturer.[2]

A key reason Beijing's industrial policy agenda emphasizes industries of the future is that all technology is dual use, and they zealously promote

[2] In a March interview with the FT, Nvidia's Jensen Huang said Huawei is the "single most formidable technology company" in China.

"Military-civil fusion." China's tech ascendence is reflected in the number of STEM PhDs awarded annually, with an estimated 77,000 this year (up eight-fold from 2000) vs 40,000 in the U.S. (of which 23,000 are considered "domestic"). Further, China authors more research publications ranked in the top 1% or 10% than the U.S., especially in engineering, technology, and physical science topics.[3]

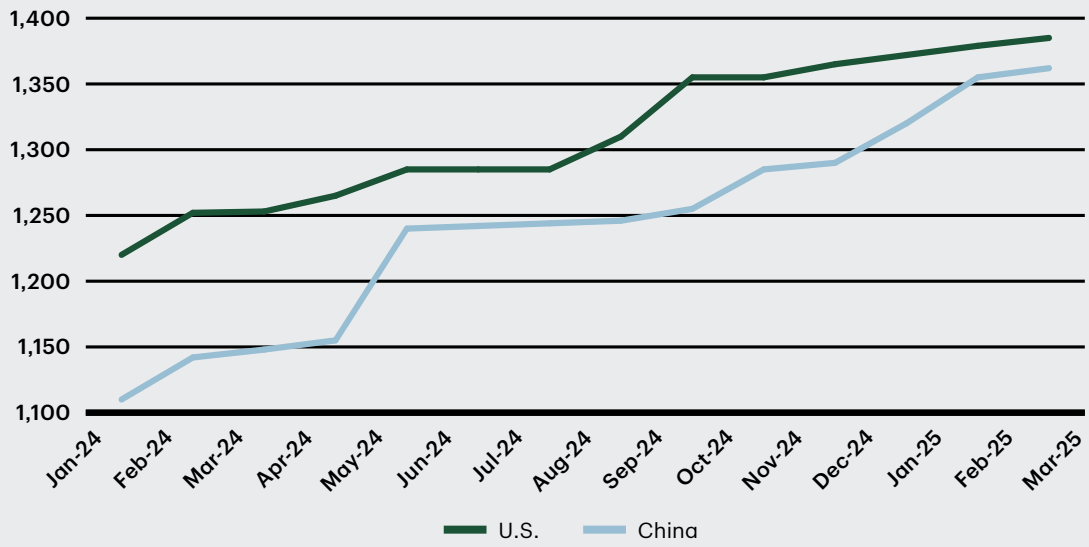
China has also risen to prominence in software and AI. It has 30% more software developers than the U.S. (3.9 mn vs 2.9 mn). Similarly, China was granted 50% more AI patents in 2024 (although American patents are more impactful, cited seven times as often). Further, among the AI models expected to score the best at end-2025, four are American (OpenAI, Google, xAI, and Anthropic) and two are Chinese (DeepSeek and Alibaba).[4] U.S. preeminence in state-of-the-art LLMs is fading and is likely to disappear in 2026 **(Figure 5)**.

The end of Pax Americana: Good-bye to the peace dividend and our holiday from history

The previous paragraphs explained how China has come to challenge the U.S. in terms of economic strength and technological prowess. We now discuss its impressive and widely underappreciated defense capabilities.[5] Since 2000, China's defense spending has risen at an 11% CAGR, more than twice America's 5%, but still well below Russia's 17%. As a result, the two allies together represent 20% of global defense spending, already leapfrogging past the EU **(Figure 6)**. Defense specialists believe official statistics dramatically understate China's actual expenditure. Further, if the data was expressed on a PPP-basis, combined spending by China and Russia would already be on par with America's.[6]

As Chinese and Russian defense spending continues to growth at double-digit rates, the U.S. military is feeling increasingly overstretched. This is especially true given that the U.S. has commitments in three

Figure 5: Performance of top U.S. and Chinese AI models. China has rapidly closed the quality gap.



Source: Stanford HAI 2025 AI Index Report

[3] The latest ranking (updated regularly by the academic publisher Nature) shows that China leads in high-quality research papers. This is a dramatic change from ten years ago when China's research output was modest relative to the U.S..

[4] https://polymarket.com/event/which-company-has-best-ai-model-end-of-2025

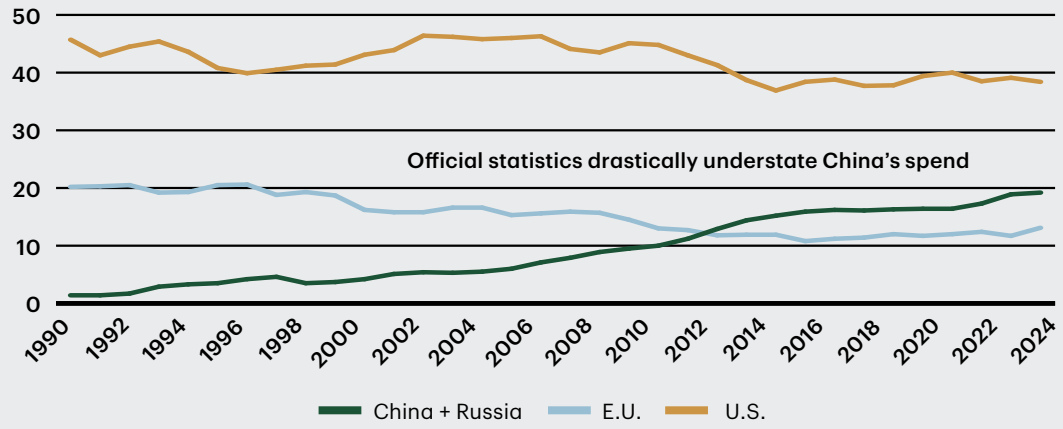
[5] The U.S. perspective is detailed in the DoD's annual report to Congress: https://media.defense.gov/2024/Dec/18/2003615520/-1/-1/0/MILITARY-AND-SECURITY-DEVELOPMENTS-INVOLVING-THE-PEOPLES-REPUBLIC-OF-CHINA-2024.PDF The report emphasizes that "China is the only competitor to the U.S. with the intent and, increasingly, the capacity to reshape the international order."

[6] Cross-country comparisons using purchasing power parity (PPP) are often more useful than those using market prices because PPP takes into account the relative cost of local goods and services. For example, at market exchange rates a haircut in China costs one-third of what it does in America. At a macro level, the IMF estimates nominal 2025 GDP at $30 tn for the U.S. and $20 tn for China. However, on a PPP-basis, China's GDP is $39 tn, 30% larger than America's. A similar boost would result from expressing defense spending on a PPP-basis, which we believe is overall more meaningful.

major theatres, while its rivals have only one each. This is why America is demanding its allies step up **(Figure 7)**. NATO is the most successful military alliance in history, but that is largely because the U.S. has represented an unsustainable 64% of total spending. Although several NATO countries remain below the 2% of GDP commitment, the good news is that combined spending ex-U.S. rose by 18% in 2024, and there exists significant support for raising the NATO target to 3.5%.

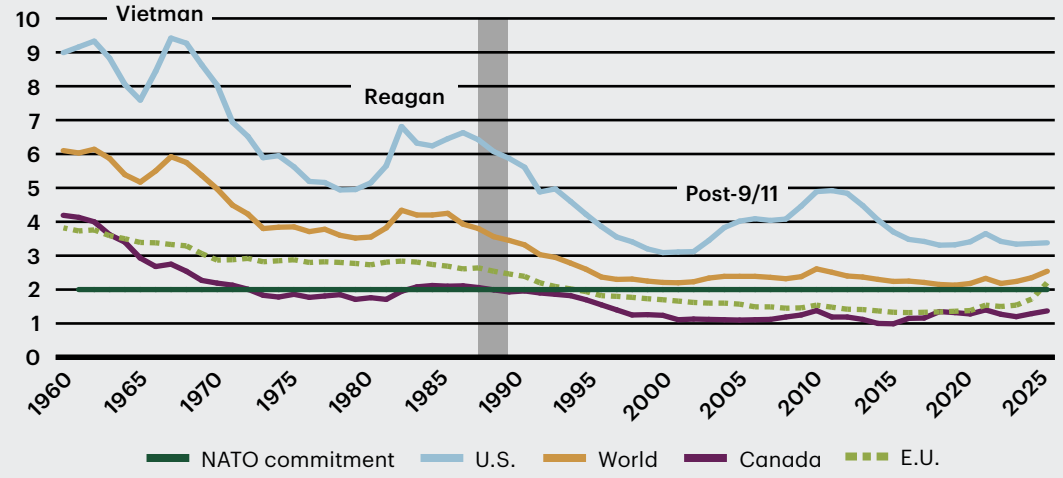
Earlier we explained that the new global order is characterized by four transitions, with the first two being from unipolar to bipolar, and from free trade and hyper-globalization to tariffs and trade wars. The third transition is from the long era of Pax Americana to rising geopolitical tensions. From that perspective, in what year do we estimate the old world order ended? Some commentators believe it was with the GFC in 2008 when global exports/GDP peaked. Others suggest it was 2012 with President Xi's ascendency, or 2016 with both Brexit and Trump's first electoral victory, or 2020 with COVID. Those are all reasonable views, but we favour 2010. Tragically, that is when the number of state-based conflicts soared after having been stable in the 5 to 10 range since the end of WWII **(Figure 8)**.

Figure 6: Share of world defense spending (%). On a PPP-basis, China and Russia's combined expenditure is already comparable to the U.S. but is growing much more quickly.



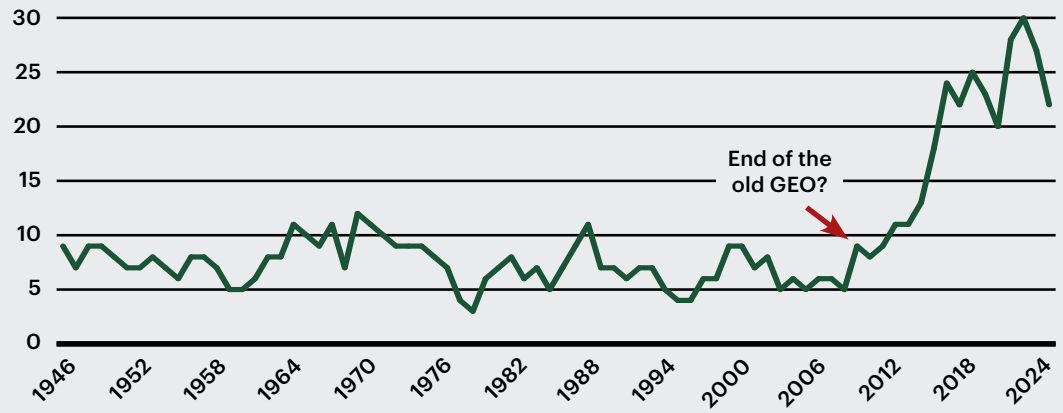
Source: World Bank

Figure 7: Military expenditure (% GDP). For the first time in decades, it is set to rise everywhere, especially on defense tech (e.g., drones and advanced information systems).



Source: World Bank, Bloomberg Finance, L.P.

Figure 8: Number of state-based conflicts tripled after 2010, marking the end of Pax Americana



Source: Our World in Data, Uppsala Conflict Data Program. Figure excludes "intrastate" conflicts

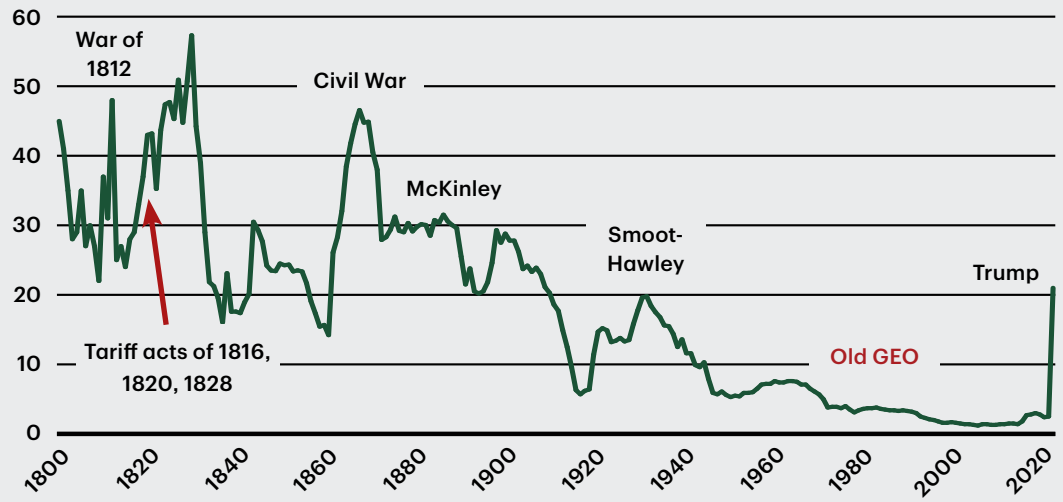
II. A Transformational, America First Presidency: Four Policy Priorities

The first section of this paper demonstrated that China is now challenging the U.S. in economic strength, technological prowess, and defense capabilities. Building on that vantage point, this section examines Trump's response to China's rise and the ensuing domestic backlash. We do this by analyzing the policies prioritized by his administration: tariffs and trade deals, tax cuts, deregulation and a pro-tech agenda, and curtailing the USD's extreme overvaluation.[7]

From free trade and hyper-globalization to tariffs and trade wars

Trump has hiked tariffs to the highest level in over a century **(Figure 9)**. There are four reasons why Trump loves tariffs. First, he has unilateral power with enormous discretion, so he does not need approval from Congress. This makes tariffs by far the easiest form of industrial policy to implement.

Figure 9: U.S. average effective tariff rate (%)



Source: Bloomberg Finance, L.P., Census.gov

[7] We skip over taxes because, beyond extending the 2018 cuts, we won't know for a couple months which specific proposals are likely to become law. The betting sites Kalshi and Polymarket provide probabilities on a wide range of blueprints passing in 2025: SALT tax deduction raised (81%), no tax on tips (64%), cut long-term capital gains tax (61%), reduce corporate tax rate (41%), and expand child tax credit (34%).

Second, tariffs are a tempting source of funds, especially as Trump and Congress negotiate over tax policy and 2025's "big, beautiful bill." He could make a credible case that tariffs will add $300 bn to government coffers, which would go a long way to fund policy priorities, such as reducing the corporate tax rate to 15% for companies producing in the U.S.[8]

Third, tariffs provide Trump with a great deal of bargaining power to negotiate on both trade and non-trade issues. This is important as trade representatives in previous administrations complained loudly and bitterly that they had little in the way of leverage. Finally, tariffs incentivize companies to home shore jobs and investment, and can target sectors that are critical to national security.

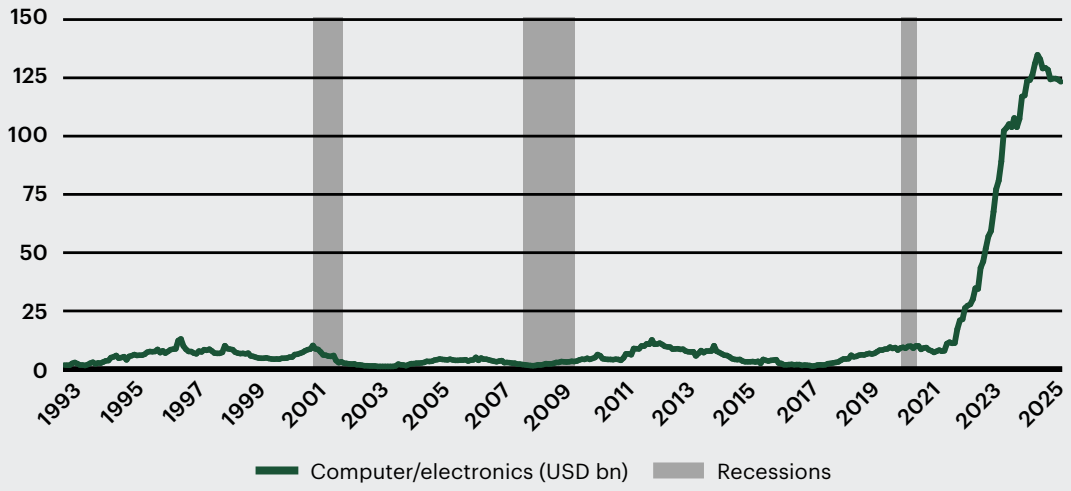
Beyond arms and farms: What sectors are critical to national security?

Bringing factories back to America is a priority because manufacturing jobs are special, and the industrial base withers without them. Even if digital tech is the source of most innovation and value creation in equity markets, we still live in a world of atoms. Further, Wright's Law suggests manufacturing costs decline by about 20% with each doubling of output. This implies that, once you exit an industry or out-source production, reentering and catching up is fiendishly difficult, at least without the benefit of tariffs and massive subsidies.

Regarding onshoring, the sector that has received the most press and the biggest wallop of cash is semiconductors **(Figure 10)**. Other potential vulnerabilities or chokepoints include medical supplies, defense equipment and critical minerals. The latter are required for America's industrial and defense sectors, and for which U.S. import dependence on China is often 80%. The bad news is that Beijing's countermeasures to "Liberation Day" tariffs include export restrictions on these critical minerals.[9] The good news is that America has achieved energy independence, agriculture vulnerabilities are manageable, and policies are being drafted to eliminate critical mineral chokepoints.

Another sector that has received a lot of attention lately is shipbuilding, with headlines asserting "Ships are the new chips." The U.S. accounted for 0.1% of global shipbuilding in 2024, de minimus relative to China's 54%, South Korea's 29%, and Japan's 13%. This chokepoint has caught the attention of the White House, which released an executive order on April 9.[10] America's inability to build is especially concerning if hostilities result in ships being sunk, particularly given the elevated risk of a blockade of Taiwan and China's emergent naval capabilities.

Figure 10: Construction spending, primarily on semiconductors. Increased 12x since late-2021, primarily due to subsidies from the Chips and Science Act of 2022.



Source: Bloomberg Finance, L.P.

[8] The U.S. imported goods worth $3.3 tn in 2024. An average tariff of 10% would raise $300 bn assuming import volumes decline by 10%.

[9] https://www.csis.org/analysis/consequences-chinas-new-rare-earths-export-restrictions

[10] "Restoring America's Maritime Dominance" https://www.whitehouse.gov/presidential-actions/2025/04/restoring-americas-maritime-dominance/ Also see the terrific analysis from CSIS, https://www.csis.org/analysis/unpacking-white-houses-executive-order-restoring-us-shipbuilding-industry

Is reshoring likely? Yes, but more jobs for robots than people

Tariffs and other forms of industrial policy can stop America's manufacturing heartland from atrophying even further. There is already compelling evidence of an investment renaissance **(Figure 11)**. However, little of this can be attributed to the 2018 or 2025 tariff hikes. Rather, the revival has been driven by industrial policies, such as the Chips and Science Act, as well as the perception that supply chains have become riskier and more vulnerable (due to COVID, the Ukraine War and tensions in the Taiwan Strait).

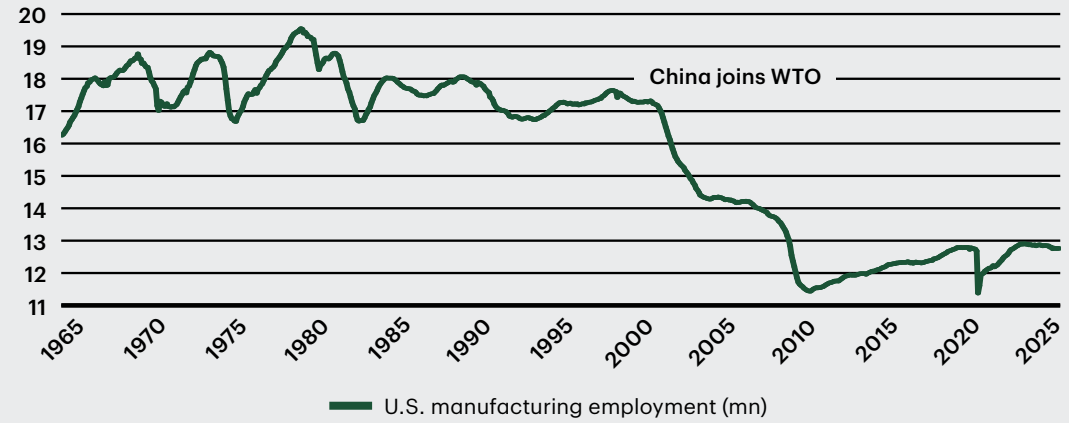
How many jobs is the manufacturing revival likely to create? Employment in the sector averaged 17.5 million from 1965 until 2000, when China joined the WTO **(Figure 12)**. However, employment then plummeted, with one-third of manufacturing jobs eliminated within a decade, wreaking havoc in communities across America.

Manufacturing today is a vastly different activity than it was in the 1980s when I was an unskilled laborer on a TV assembly line. Most plants are now highly automated, and the majority of jobs require advanced skills such as machine operators or programmers. That is why, even with significant homeshoring, the manufacturing share of employment is unlikely to rise above today's 8% (it peaked at 30% in the 1950s and has been declining steadily ever since).

Figure 11: Investment in manufacturing facilities has rebounded since 2022, after having languished for decades

Source: Bloomberg Finance, L.P.

Figure 12: Manufacturing employment will never approach the 17 mn jobs that existed prior to the first China shock but is likely to hold steady at around 13 mn through 2030



Source: Bloomberg Finance, L.P., Federal Reserve Economic Data (FRED)

Art of the deal: Trade negotiations with most countries are straight forward but the EU is challenging, and China is exceedingly difficult

In addition to incentivizing homeshoring, tariffs provide the Trump administration with bargaining power to negotiate trade deals. Agreeing on the contours of a deal is relatively straightforward for most of the fifteen countries the White House is focused on. To illustrate, as of April 21, 2025, the betting site Polymarket believes a trade deal can be reached before July with Japan (76% probability), India (75%), Vietnam (74%), UK (72%), Argentina (70%) and South Korea (67%).[11] Even the most challenging negotiations, those with the EU (65%) and China (55%), receive a more optimistic take from betting sites than you would infer from doom scrolling the news headlines.

Although negotiations with China will be extremely difficult, we believe a narrow trade deal is possible. It could include increased imports (of energy, agriculture, and aircraft), promises to reduce select non-tariff barriers and possibly build factories in the U.S. (e.g., batteries). However, China will not make significant concessions, primarily because President Xi is not constrained by an election timetable, and he believes time is on his side.[12]

Last year, China exported $440 bn of goods to the U.S. but imported only $140 in return. This massive imbalance will decline in 2025, but largely through less bilateral trade and reduced interdependence. Fair, balanced, and reciprocal trade is not in the cards until China jettisons its neo-mercantilist economic model and there is a near zero chance of that happening this decade. Rather, the current battle just marks the beginning of a long war in which the two superpowers increasingly weaponize the chokepoints at their disposal. Unfortunately, such trade skirmishes are an integral part of the new order.

Tech trumps tariffs: The AI arms race

The above paragraphs discussed various aspects of tariffs and the trade war, but it is a mistake to think that is what the new Global Order is primarily about. Over the next decade, tech innovation will prove even more important and transformative than the trade war. That is why a second focus of the Trump administration is maintaining global leadership in digital tech and AI.

Three tech policy developments are especially important. First, AI safety concerns are being dialed way back. President Biden's executive order on AI safety was rescinded within hours of Trump assuming office on January 20. Similarly, Vice President J.D. Vance's speech at the AI Summit in Paris in February proclaimed to the world that U.S. policy would be all about innovation, not safety.[13]

The second advance involves deregulation measures to fast-track the buildout of AI infrastructure and physical AI. This will include data centers, semiconductor fabs, and energy (natural gas, and even nuclear). The future of AI is physical AI, according to Nvidia's Jensen Huang, so there will also be a focus on robotics, drones, and AVs. For these measures, the President is being closely advised by America's tech heavyweights, virtually all of whom are regular visitors to Mar-a-Lago.

The third development concerns defense tech and applying lessons learned in Ukraine. The Department of Defense is beginning to pivot away from aircraft carriers and stealth bombers toward drones, hypersonics and advanced information systems. Enabling this pivot requires a transition away from the prime contractors and toward Silicon Valley-type startups such as Anduril, Shield AI and Skydio, as well as more established firms like Palantir and Space X.

Deregulation and the abundance agenda: It's time to build

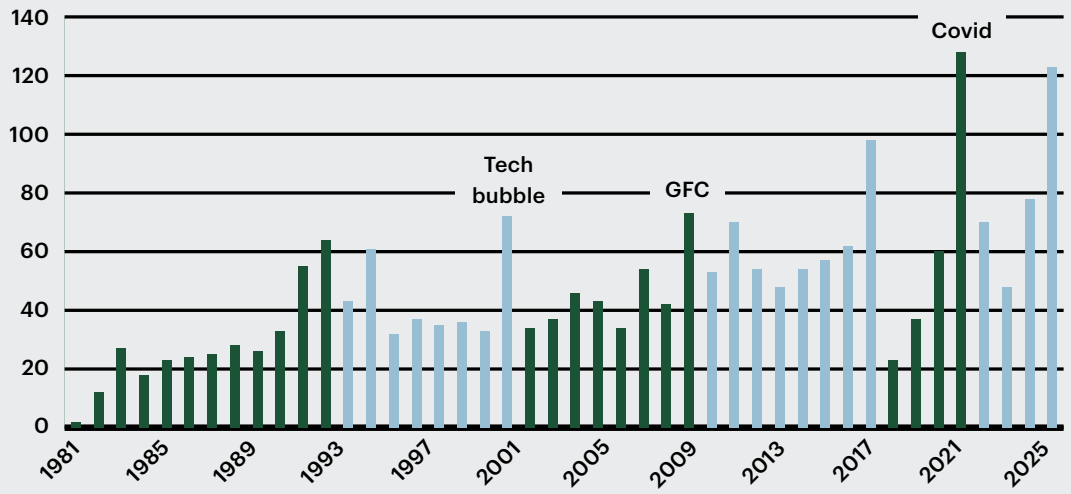
Moving on from pro-tech policies, a second non-trade focus is deregulation, with Trump's declared goal of removing ten regulatory rules for each new regulation implemented. This is critical for the economy's dynamism as the number of regulations has grown with every administration, regardless of party **(Figure 13)**. Sectors impacted include tech (discussed above), energy, construction, and finance, all of which are crucial for homeshoring and reducing America's vulnerabilities.

[11] Speed is of the essence and our primary concern is the U.S. lacks state capacity to negotiate even the outline of so many deals in so little time. On average it takes 18 months to negotiate a bilateral trade accord and even longer to implement. This reflects the inherent complexity when the U.S. has 2.6 mn import categories. Further, a larger customs bureaucracy is required for administration and enforcement, and this will not transpire in market time.

[12] U.S. imports from China include smartphones, laptops, and lithium-ion batteries. All are in highly competitive sectors and are easily replaceable. However, as Christopher Balding emphasizes, not within three months.

[13] https://www.presidency.ucsb.edu/documents/remarks-the-vice-president-the-artificial-intelligence-action-summit-paris-france

Figure 13: Economically significant rules (regulations). Ratcheting higher with each new administration.



Source: federalregister.gov, George Washington University

The reserve function of the dollar has caused persistent currency distortions and contributed, along with other countries' unfair barriers to trade, to unsustainable trade deficits. These trade deficits have decimated our manufacturing sector and many working-class families and their communities

– Stephen Miran, Chair of the Council of Economic Advisors[14]

The Trump administration wants a weaker Greenback: Mar-a-Lago Accord?

The Trump administration's fourth policy priority is to weaken the USD and repudiate its role as the primary global reserve currency. This is a corollary of relinquishing America's vocation as the global policeman and disavowing its status as the world's primary export market. These are the burdens of modern hegemony, and the U.S. intends to purge all three, perceiving the costs now far exceed the benefits. With the rise of China, they have simply become too heavy a load to bear any longer.

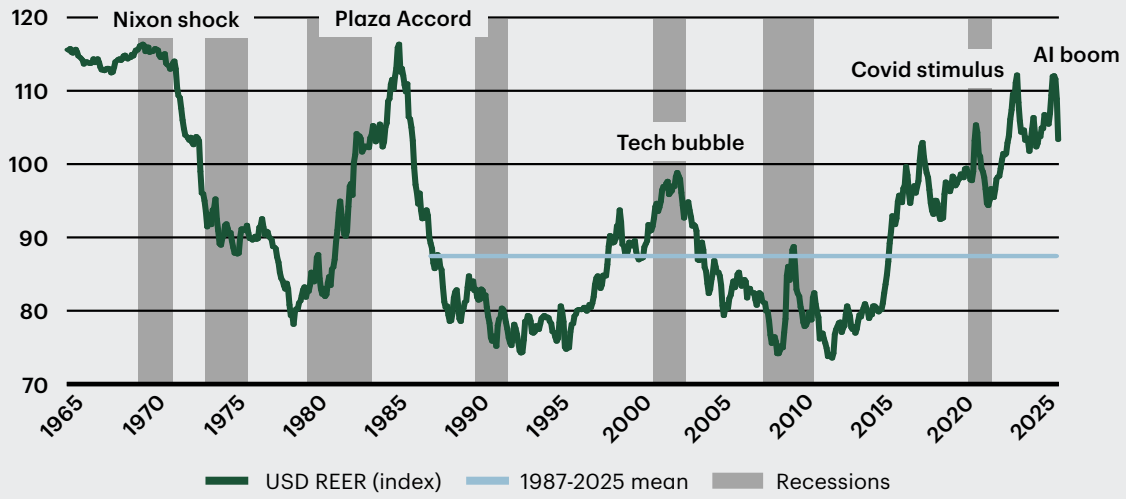
Miran argues that the root of U.S. economic imbalances (trade deficits, de-industrialization, wealth inequality) lies in persistent dollar overvaluation **(Figure 14)**. Further, he asserts that excessive USD strength is driven by demand for reserve assets, especially by countries like China that intervene to keep their own currencies artificially weak.

In response, Miran's November 2024 paper describes potential policies for both multilateral and unilateral currency adjustment. The article is thoughtful and emphasizes potential risks, including severe and highly disruptive market volatility. For this reason, Miran stresses that policy makers need to proceed gradually, in baby steps. He also posits that forward guidance is critical so that markets and central banks understand where policy is headed and why.

Miran and other key advisors to Trump contend that America's financial dominance comes at a cost. While it is true that demand for dollars has kept our borrowing rates low (by an estimated 25-75 bps), it

[14] From Miran's April 7 speech. https://www.whitehouse.gov/briefings-statements/2025/04/cea-chairman-steve-miran-hudson-institute-event-remarks/. Also see his widely discussed November 2024 paper, https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf. Miran's view that the trade deficit is determined by structural factors, such as the capital account, is also a key theme of Michael Pettis, as expressed in his April 11 FT article, "The US Would Be Better Off Without the Global Dollar."

Figure 14: USD is 20% over-valued vs. 1990-2020 mean and is viewed as a key driver of global imbalances



Source: Bloomberg Finance, L.P.

has also kept currency markets distorted and the USD extremely overvalued. Following the unilateral Nixon shock of 1971 and the multilateral Plaza Accord of 1985, the last six presidents have taken a hands-off approach to the USD. Trump is determined to take a Nixon-like route and unceremoniously dump the 1944 Bretton Woods agreement into the dustbin of history.

What policies could America implement to discourage capital inflows? They are all some variant of taxing holdings of U.S. Treasuries by China (and other reserve managers). This would intensify efforts to create competing currency blocs and find alternatives to the USD-based financial system, and drive a structural increase in market volatility.

In a recent poll undertaken by the University of Chicago, 86% of prominent economists agreed that "The USD's status as the dominant reserve currency substantially raises its value."[15] Further, 84% agreed that U.S. policy measures to discourage overseas central banks from holding U.S. treasuries would substantially diminish the USD's reserve currency status. However, 64% also warned that such policies would not only weaken the USD but also damage the government's ability to finance its deficits.

III) Two scenarios for 2025-2026

The first section of this paper analyzed China's rise and demonstrated why this has been the key catalyst for the new global order. The second section examined Trump's response to China's newfound heft and the ensuing domestic backlash, explaining the four policies prioritized by his administration. The purpose of this section is to outline two scenarios regarding how the transition could unfold in the months ahead of next November's house election, beginning with the more constructive plot.

Our optimistic scenario has Trump's policies progressing in four chapters. First, announcing aggressive tariff hikes, a phase that is, thankfully, 90%+ behind us. Second, negotiating trade deals, beginning with relatively straightforward countries (Japan, India, UK, Argentina, and South Korea), before moving onto the more challenging EU and finally, the critical test with China.

Chapter three pivots toward promoting the pro-growth elements of Trump's agenda, including tax cuts, pro-tech policies and deregulation. The fourth stage, weakening the Greenback, is still the subject of active debate within the administration, so its timing is less clear.

The biggest surprise so far this year has been the sequencing of policies. During his first term, Trump began by emphasizing his pro-growth agenda, including massive tax cuts, and did not start to hike tariffs until mid-2018. Tariffs are always controversial, so the timing was unfortunate for the president. A few months later the Republicans suffered an

[15] April 9, 2025. https://www.kentclarkcenter.org/surveys/debt-and-the-dollar/

electoral disaster with the Democrats gaining forty-one seats (their biggest improvement since 1974, just after Watergate) and taking control of the House.

Yearning to avoid the fate of his first term, Trump is now leading with tariffs to get the bad news in early. That way the focus should have moved onto his pro-growth agenda well before next November, increasing the GOP's chances of keeping the house and maintaining control of Congress. That is our optimistic scenario, and we now turn to an outcome we all hope is avoided.

Downside risk: How to lose friends and alienate people

"It takes a generation to grow a forest and an hour to burn it down," as Lawrence Summers from Harvard has been emphasizing lately. The Bretton-Woods system has prevailed since 1944 but is quickly unravelling. Countries that have been staunch allies for decades are being treated even worse than some adversaries. With a transactional modus operandi, America has no permanent friends or enemies, only permanent interests. This threatens to destroy trust and isolate the U.S., resulting in a world of competing currency blocs and a chaotic breakdown of global trade.

This downside scenario is one in which America First devolves into America Alone. Such an outcome is plausible, especially as the U.S. ditches rules-based multilateralism, adopts populist nationalism, employs tariffs as a weapon and degrades the dollar's role. However, it is not our base case as it is so contrary to U.S. interests. America still needs allies, among other reasons to ensure the vibrancy of its tech sector. An isolated America cannot win the mission critical AI race. It takes a global village; America needs to attract talent and ideas from all corners. It also needs to ensure its AI innovations diffuse across the planet and define the new global standards. Ten trillion dollars of market cap are at risk if America slips into isolationism.

IV) Conclusions: Implications for Investors

The America First agenda prioritizes national security, supply chain resilience, and state-directed industrial policy, placing less emphasis on comparative advantage and market efficiency. This especially applies to manufacturing, semiconductors, energy, healthcare, and the defense industry. And just as President Biden reversed few of the economic policies implemented during Trump's first term, we expect season two's agenda to remain largely intact regardless of who next sits in the oval office.

We also emphasize that Trump's policy agenda is not primarily about tariffs. Rather, it is about responding to the rise of China and preparing America for the new global order. We expect his pro-growth agenda to start driving markets from the second half, beginning with a mid-year tax cut, and then an emphasis on his pro-tech policies and deregulation. In our optimistic scenario this transition proceeds smoothly, and markets are significantly higher at year-end. The pessimistic scenario is one in which America First devolves into America Alone, resulting in a chaotic breakdown of global trade and severe supply-side disruptions. This would be much worse than the COVID 2020 experience.

Our base case view is closer to the optimistic scenario. Regardless, the transition to the new global order is necessarily going to be highly disruptive. This is doubly true given it is occurring in parallel with the acceleration of digital tech and AI. Also, the only real law of history is the law of unintended consequences. It is fiendishly difficult to foresee second and third order effects.

We expect elevated volatility in equities, rates, and FX, reflecting the transition to the new global order and the acceleration of AI. To our eyes, this is the most disruptive and challenging macro environment since the end of the first Cold War. At minimum, investors need to diversify beyond the Mag7, U.S. equities and the USD, which were the big, concentrated bets at end-2024.

Among asset classes, infrastructure looks especially compelling, followed by select commodities and subsets of real estate. We also recommend a significant allocation to Tech. It will remain the key market driver over the long term, as that is where the lion's share of innovation is occurring. Additionally, we believe the USD is overvalued by more than 20% and is likely to weaken against most pairs.

Finally, we recommend an emphasis on quality. For equities that means companies with sustainable free cash flow and a demonstrated track record in capital allocation and shareholder return.

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