BREAKOUT CAPITAL
in strategic partnership with Rockefeller Capital Management

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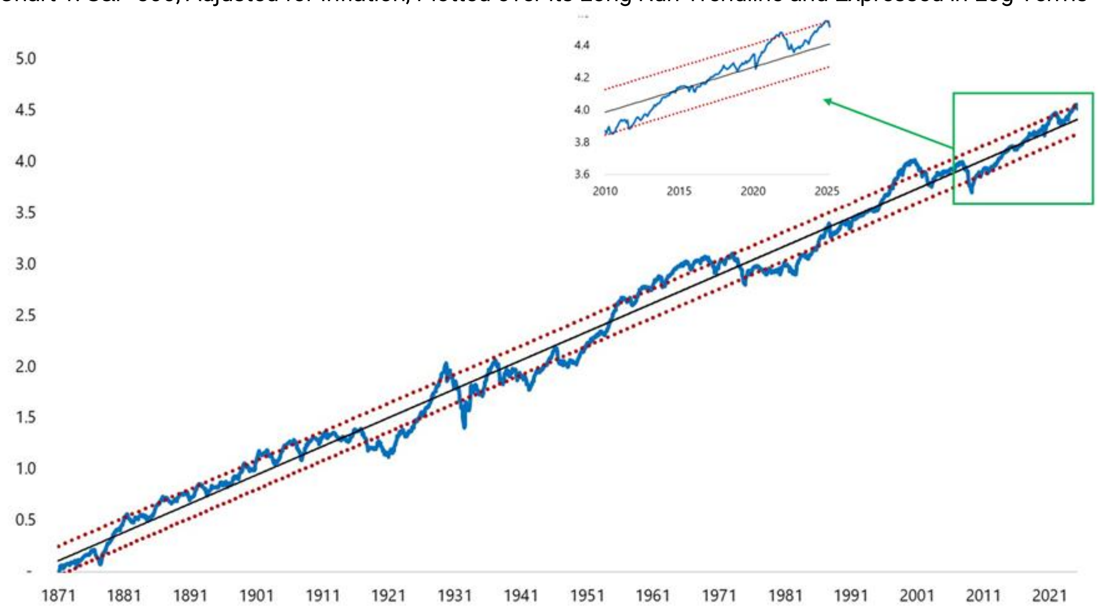
Outlook

We saw the hype for 'American exceptionalism" peaking in the wake of Trump's November victory, as virtually every voice in the market seemed to believe his plans to cut taxes and regulations would send the markets and dollar to new heights. Many even argued that tariffs would have a similarly boosterish effect, by reviving American manufacturing. They thought in short that American exceptionalism was bound to endure indefinitely.

Then came the inauguration, and the tariff offensive. Even after the decline of the last month, the real value of the dollar remains at highs rarely seen since the end of fixed exchange rates in the early 1970s. Despite falling 12 percent year to date, the S&P still trades about 15 per cent above its rising trendline for the last 150 years—leaving plenty of room to fall.

Chart 1: S&P 500, Adjusted for Inflation, Plotted over its Long Run Trendline and Expressed in Log Terms



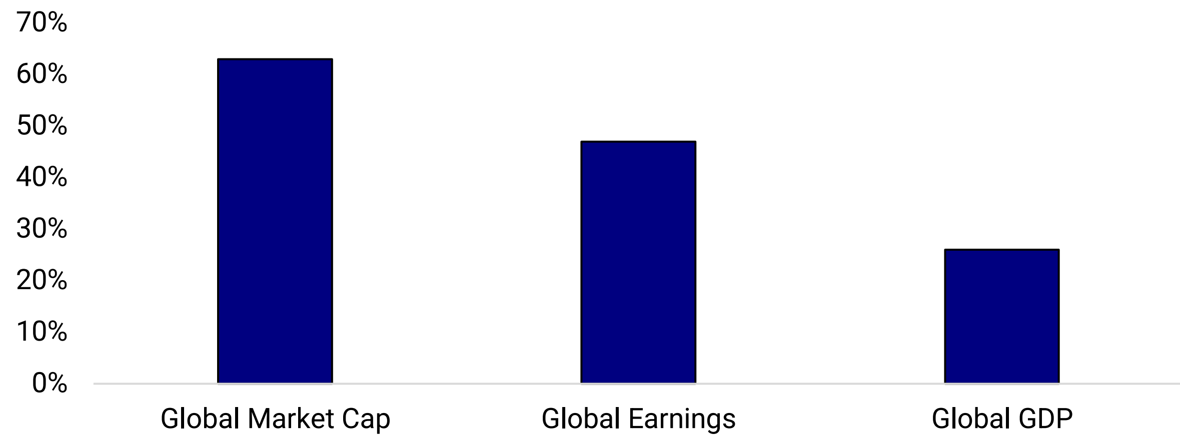
Source: Robert J. Shiller, Breakout Capital

Of course, "American exceptionalism" focuses on US performance versus the world. That too has begun to slip in recent weeks, yet US stocks are valued at a premium of 50 per cent above international markets — still close to the widest leads on record. America's share of the main global market benchmark remains well over 60 percent even though its share of global GDP is well below 30 percent.

Not everyone has gotten the memo that American exceptionalism is dead. Foreign investors, from Australian pension funds to Japanese insurance companies, keep moving money into the US. In recent years, more than 80 per cent of the assets invested in stock market funds worldwide went to the US. Having more than tripled their American equity holdings to $20tn over the past decade, foreigners now own 30 per cent of the US stock market, a record high.

In short, the overdue rebalancing of global markets has just begun, and is likely to play out for a long time.

Chart 2: US as a Share of Global Indicators



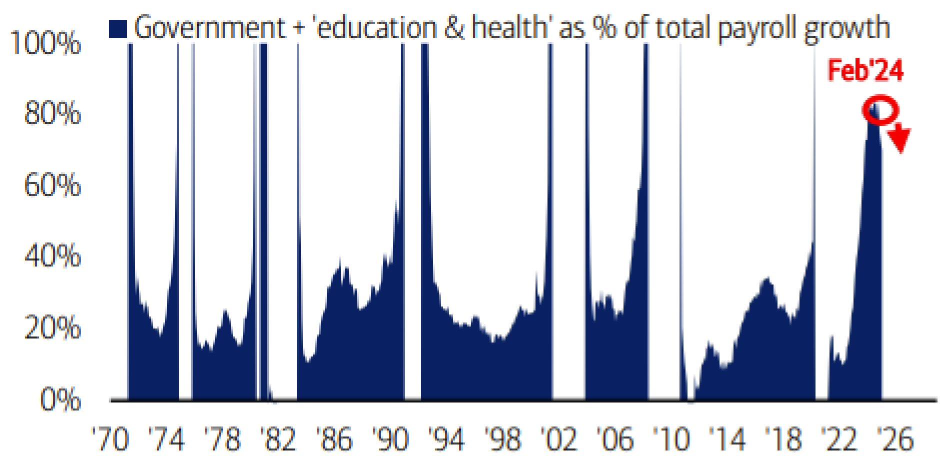
Source: Bloomberg, Haver, Breakout Capital Calculations

Why the US remains deeply vulnerable: Much of the recent commentary suggests that Trump's tariffs have disrupted a US economy that was otherwise in great shape, growing far faster than its peers. The assumption is that, were it not for the new president, the US would have continued to outperform. But this overlooks the many underlying flaws, including the fact that US growth had become overly and unsustainably dependent on spending by the government and by the very rich. Many Americans wanted major change, or for the system to be "torn down."

The US economy had never been this government-dependent before (with government and related sectors accounting for almost 85% of job growth in 2024), and running budget deficits of 6 per cent or more. The top 10% of earners drive almost 50% of the spending, a record in data going back to 1989. Strikingly, new analyst estimates suggest that the only country in which Trump tariffs are likely to trigger stagflation—lower growth and higher inflation—is the United States.

Meanwhile, in our opinion the rest of the world is getting its act together. Reacting in part to the potential damage from Trump tariffs, Germany has overcome its fear of debt to launch a big fiscal spending plan. China is considering a serious domestic stimulus plan, while launching low-cost alternatives to America's expensive AI models. Across many emerging markets, far from turning inward like America under Trump, governments are looking to cut trade deals beyond the US and promote growth at home.

Chart 3. Government + 'Education and Health' as a % of Total Payroll Growth

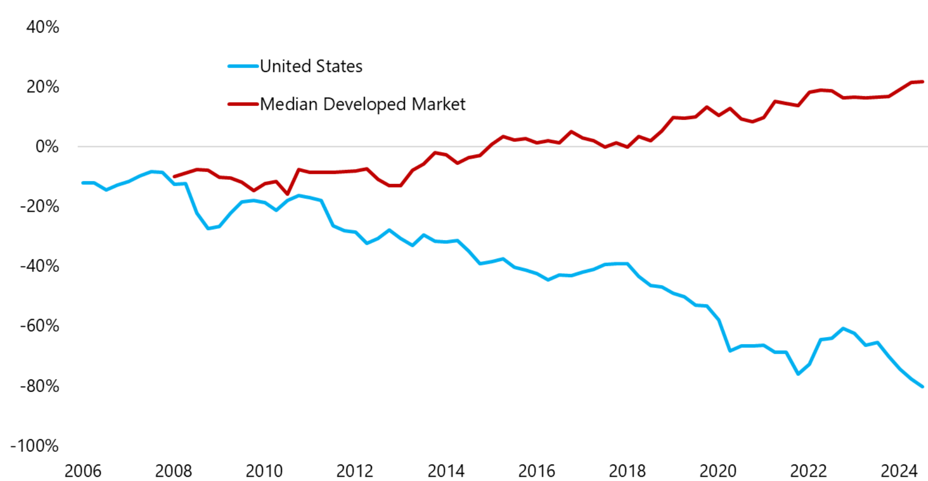


Source: BofA Global Investment Strategy, Bloomberg

US Dollar at the cusp of a multi-year-bear market: The US has been able to run such high deficits thanks in part to the exorbitant privilege afforded by the dollar's status as the reserve currency. Given foreign investors' bullish views on the dollar, they have barely hedged their exposure, leaving the dollar as vulnerable as ever in our view.

For decades, the United States has run a large international investment deficit, meaning Americans own far fewer assets abroad than foreigners own in the US. At the beginning of this decade, that deficit topped 50 percent of US GDP, a level that has often signaled currency decline in the past. And today the deficit is even wider, an astonishing 80 percent of GDP, while most other developed economies are running surpluses.

Chart 4. Net International Investment Position (as a percent of GDP)

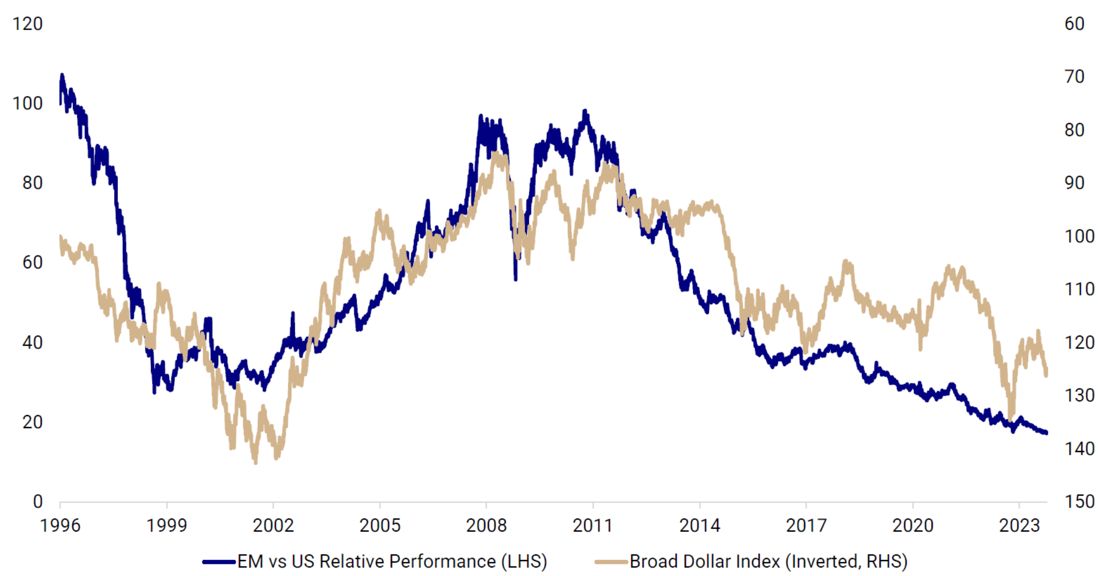


Source: Haver, IMF, Breakout Capital Calculations

Make International Great Again: In the past, stocks around the world tended to do well when the US market did well, and poorly when the US did poorly. That tie has broken in recent times, as the hype around America sucked the money and life out of other markets. The link remains broken, only now we believe the US is faltering and the rest of the world is not. Capital flow has started to head for other international markets, with the European stock market having its best month for foreign inflows in a decade in March. While the recently announced tariffs by the US have resulted in tremendous global uncertainty, international markets including emerging markets and other global markets outside of US have outperformed the US month to date.

These shifts, combined with a falling US dollar, could presage a comeback for international markets after 15 years of extreme underperformance.

Chart 5. Emerging Market Equities' Relative Performance to United States; Inverted Broad Dollar Index



Source: Bloomberg, Breakout Capital Calculations

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