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WALL STREET JOURNAL

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Who Will Pay the Price for Trump's Economic Goals?

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The Wall Street Journal 19.04.2025

Who Will Pay the Price for Trump's Economic Goals?

Slash the trade deficit and the net inflow of foreign money dries up; this will hit share prices and raise the cost of borrowing for companies

Explaining what President Trump really wants has become a thriving industry in its own right, often proved wrong as soon as it is published. Two things are clear about his tariff policy, however: He wants a lower trade deficit and he wants investment to rebuild U.S. manufacturing. True believers who think he might achieve those goals should think through what else has to happen as a result.

The starting point is the balance of payments, the broadest measure of trade and investment in and out of the economy. Its two sides have to balance: the current account, which tallies up trade flows and some other stuff not worth getting into; and the capital and financial accounts, which measure, well, capital and money flowing in and out to buy things such as stocks and bonds and investments in factories.

For years, Americans have imported way more than they exported, thus the trade deficit in the current-account part of the equation. For the balance of payments to balance, there needs to be a corresponding inflow of capital.

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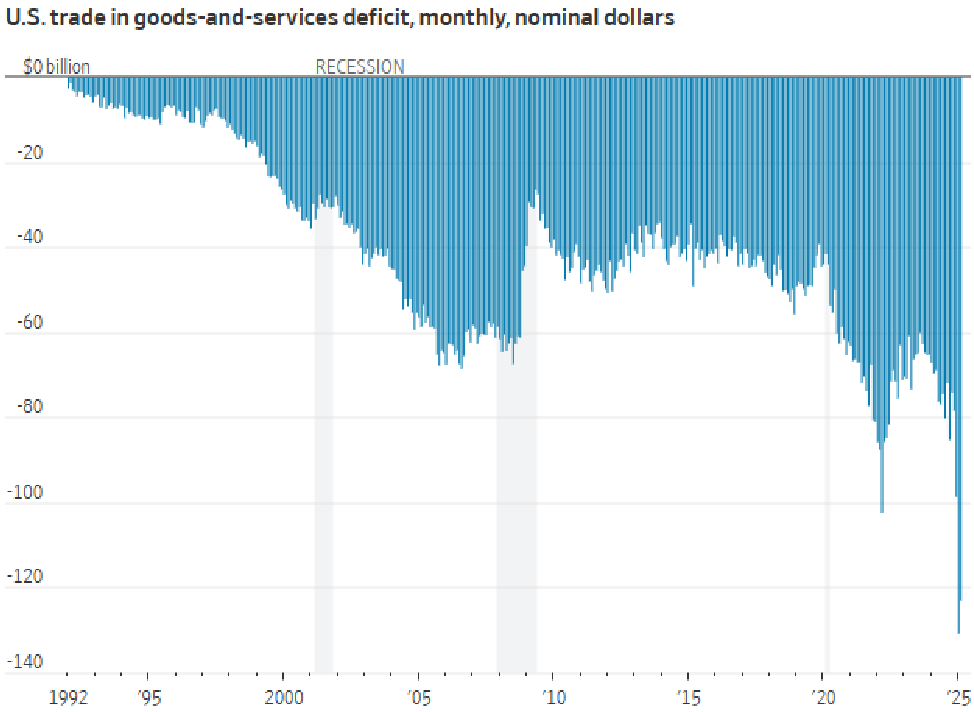
That has largely come from foreigners buying assets, most prominently stocks and government debt in the form of Treasurys.

Trump's plan will disrupt that dynamic. Smaller trade deficits mean smaller inflows of capital.

Trump's obsession is the goods deficit—and there are two ways it can come down.



The first is that the overall goods-and-services deficit remains unchanged, but services—about which Trump doesn't seem to care and in which the U.S. runs a surplus—are sacrificed for manufacturing. To wit: hurt Wall Street and Silicon Valley to benefit Main Street. This, though, world need shifts in domestic tax and regulation.

The second way for the goods deficit to shrink is to reduce the overall trade deficit. That will mean less foreign money coming in (remember, the balance has to balance). Combine that with more investment in manufacturing—because imported goods are made less competitive by tariffs—and it will mean America has to provide more of the savings to finance new assembly plants, clean rooms and sweatshops.

But domestically things have to balance, too. More savings means less consumption. The flip side of America relying on foreign savings all these years is that it has been able to consume far more. The rest of the world has to work for a living, while America gets stuff in return for promising its full faith and credit.

At the risk of joining the Trumpsplainers, I've long thought of Trump as focused on people as workers rather than as consumers.

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The existing system is focused on delivering stuff to satisfy consumer wants, and let jobs fall where they will, even if that is outside the U.S., rather than delivering jobs and supplying only the stuff that ends up being produced.

Markets are trying to figure out the implications of upending this system. Here are four:

More expensive stuff, and less choice of stuff. Increasing saving means reducing consumption. The tariffs amount to the largest tax increase in decades, which counts as government "saving"—as well as pushing up the price for almost everything imported.

Higher interest rates. The capital inflows that offset the trade deficit help fund a big chunk of federal government borrowing. Slash the trade deficit and the net inflow of foreign money dries up. Bond yields will need to rise to attract domestic savers to buy Treasurys instead of stocks or corporate bonds, which will hit share prices and raise the cost of borrowing for companies.

Lower stock prices. Only a small chunk of foreign investments goes into building factories. If there were more foreign direct investment, it could finance at least some of the reconstruction of manufacturing. But we've assumed Trump succeeds in shrinking the trade and current-account deficits, so there will be less foreign money coming in (remember: balance). So more foreign factory building means less foreign buying of stocks and bonds, so lower stock prices.

A weaker dollar. In economic theory the dollar is the variable that moves when savings and investment don't balance. If the U.S. saves too little to cover its investment, the dollar should weaken to make U.S. investments more attractive to foreigners.

In practice the dollar has been in demand for foreign reserves and for use in trade, as well as a safe place to stash the world's savings. All three are now being questioned: reserve holders worry they could be cut off from their reserves the way Russia was, trade is likely to shrink thanks to tariffs, and investors are worried that U.S. law might no longer be the reliable protector of their assets.

Questions over the independence of the Federal Reserve, and Trump's personal attacks on its chairman, Jerome Powell, have the potential to scare off buyers of both the dollar and Treasurys.

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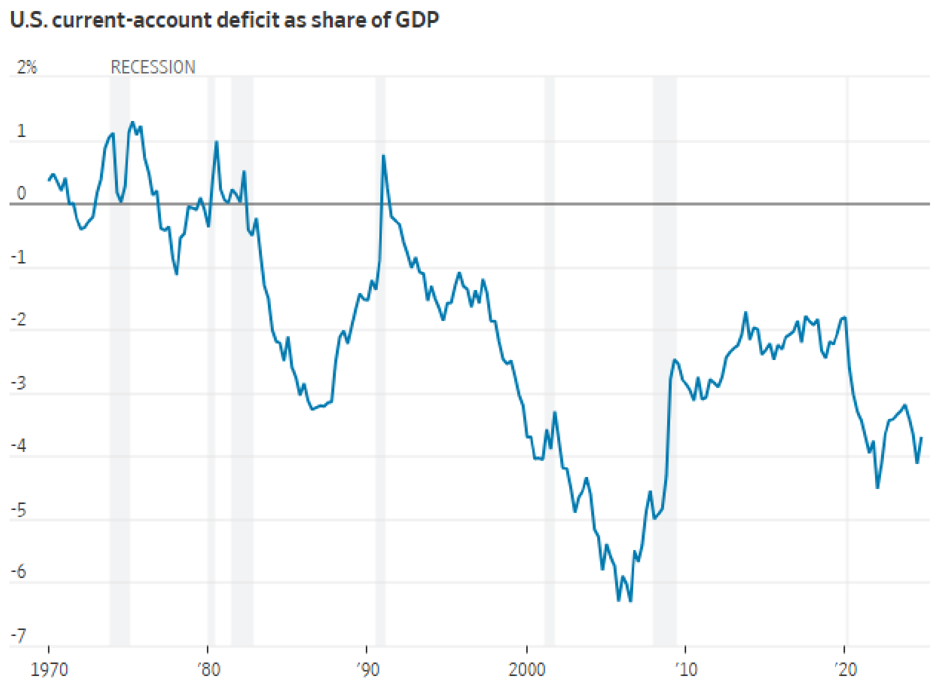

The dollar should also be weaker because the U.S. economy should be weaker. America spent a century at the forefront of technology, gradually abandoning low-wage, low-productivity industries in favor of increasingly complex production and high-value-added services such as chip design.

Bringing back those low-productivity jobs is possible if tariffs are high enough, but will reduce America's economic lead over the rest of the world. Does America really want to bring back sewing jobs from Bangladesh or Cambodia? It looks like it, with the "reciprocal" tariffs set for those nations at 37% and 49%, respectively. Lower productivity, though, should mean a weaker currency, all else equal.

This simplifies somewhat. Interest rates, the dollar and the economy interact, so we get higher rates for any given level of the dollar and growth—with complex interactions as all three move.

Before Trump's economists start spluttering into their coffee, a really good outcome is also imaginable—but seems to me highly unlikely. The deficit could drop because exports rise as demand in other countries rises, especially countries that have suppressed demand. Trump's extreme approach on tariffs and defense shocked Germany into abandoning austerity, and part of China's response to tariffs is to try to boost domestic consumption.

I'm skeptical that Germany and China will quickly welcome consumerism. But even if they did, there is no reason to think they would want to buy American manufactured goods, rather than the U.S.'s highly competitive services, energy and agricultural exports—and that is if they were willing to buy anything American at all, after the insults and unreliability of the past three months.

I doubt that Trump's tariffs will bring much manufacturing back to America. If they do, investors and consumers will suffer.

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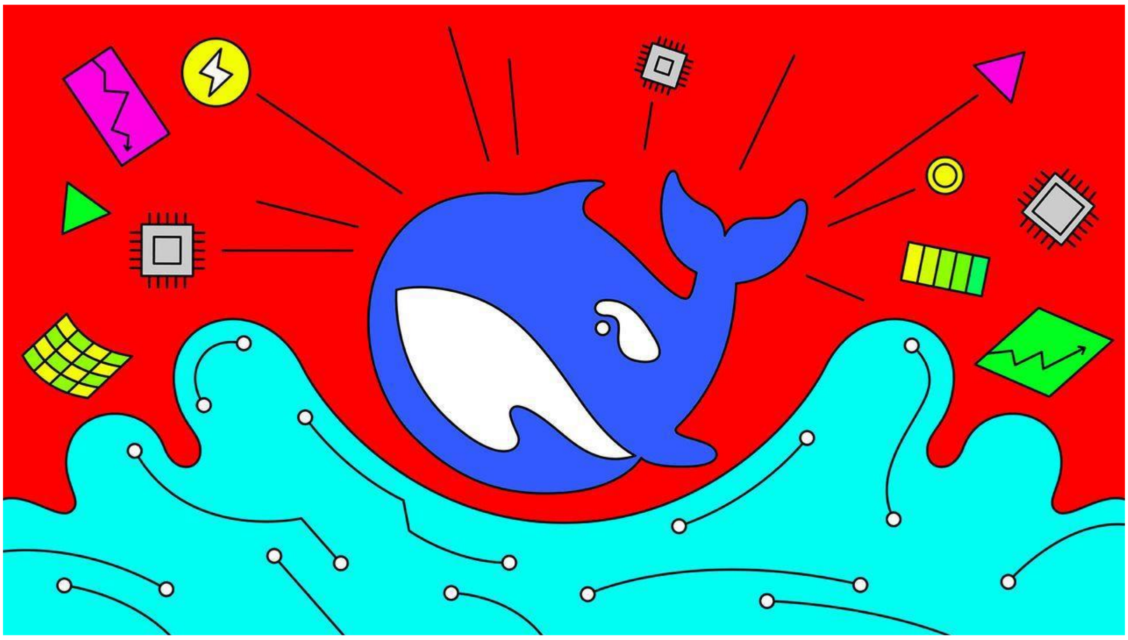
DeepSeek sends a shockwave through markets

The Economist

The Economist 27.01.2025

DeepSeek sends a shockwave through markets

A cheap Chinese language model has investors in Silicon Valley asking questions



It did not take much for the euphoria over artificial intelligence (AI) to turn into alarm. On January 27th stockmarkets in America and Europe convulsed. The share price of Nvidia, America's AI-chip champion, fell by 17%, erasing $600bn of market value, the biggest one-day loss in the history of America's stockmarket. Other businesses in the AI supply chain, from data-centre landlords to makers of networking gear, suffered a similar fate.

The cause of investors' panic was DeepSeek, an obscure Chinese hedge fund turned AI startup that has blown analysts away with its latest large language model, R1, released on January 20th. Consumers have flocked to DeepSeek's chatbot, which last weekend became the most downloaded app on iPhones. Innovative techniques have allowed the firm to train AI models that perform about as well as the most sophisticated Western ones with only a fraction of the computing power—and therefore a fraction of the cost.

In the following days, calm returned to markets. Share prices halted their descent, and in some cases partially regained their losses. Yet the episode is set to leave a lasting impression on investors, who have been forced to rethink who will profit most from AI, and consider what would happen were the bubble to burst.

The sprawling AI supply chain consists of hundreds of firms. Some of them, such as Nvidia, produce the hardware that sits inside data centres. Others rent out that gear as cloud-service providers (Amazon, Microsoft and Google). Model-makers (OpenAI and Anthropic) train AI systems in the cloud, and software firms (Salesforce and SAP) build applications on top of those models to sell to customers.

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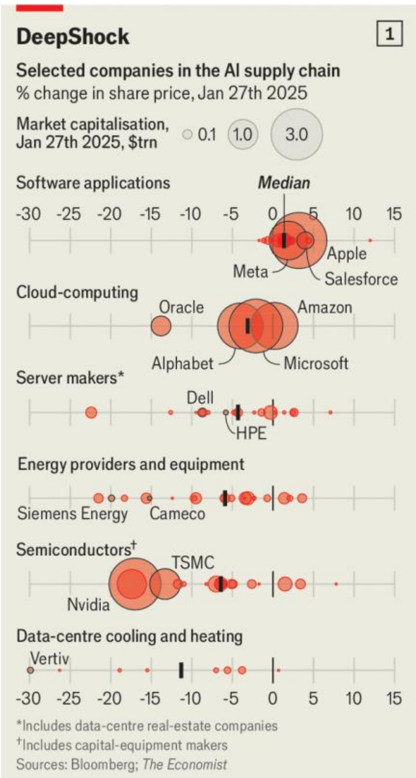
The clearest losers from DeepSeek's breakthroughs are suppliers of AI hardware. If training models requires less computing power, then fewer chips and related equipment will be sold. Nvidia, which before the carnage on January 27th was the world's most valuable firm, looks particularly exposed. Its most advanced chips, which are widely used in developing cutting-edge AI models, are said to generate gross margins in excess of 90%. If demand for them falls, the company's monopoly-like margins will be squeezed.



Nvidia's rivals, such as AMD, will also feel the pressure, though their valuations have not been as frothy. Share prices of AI-chip firms suffered a median decline of 6% on January 27th (see chart 1). The value of TSMC, a Taiwanese firm that makes most of the world's cutting-edge semiconductors, tumbled by 13%.

Other suppliers of AI hardware are also being reassessed by investors. HPE and Dell, two American electronics firms that make server racks that sit inside data centres, saw their share prices sink by 6% and 9%, respectively, on January 27th. Chips need to talk to each other to train leading-edge models, which is why the value of Arista, a maker of networking gear, plunged by more than a fifth during the rout. Vertiv and Modine Manufacturing, two firms that make cooling equipment to stop AI chips from overheating, both lost over a quarter of their value.

Energy firms, too, have been caught up in the bloodbath. Many investors had assumed that training cutting-edge AI models would require ever greater amounts of electricity. But DeepSeek has thrown this into doubt. The share prices of Siemens Energy, a maker of electrical equipment, and Cameco, a producer of uranium used for nuclear power, fell by 20% and 15%, respectively, during the rout.

Another group of losers are the model-makers, such as the privately held OpenAI and Anthropic, whose businesses risk being undercut. They have been burning through cash, and could find it harder to raise capital now that DeepSeek has shown it is possible to do more with less.

Yet cheaper AI models will also create winners. Firms that build software applications on top of them, such as Salesforce and SAP, will benefit from falling costs. Many of these companies saw their share prices jump this week as others plunged. Apple, maker of the iPhone, may be another winner. It has not invested as heavily in AI infrastructure or model-making. Cheaper AI may also lead to a wave of new consumer apps, which could help perk up sluggish sales of its iPhones.

What all this means for the cloud giants is harder to predict. Alphabet, Amazon and Microsoft operate across the AI supply chain. Their software applications, such as Microsoft's Copilot, may become more profitable as cheap models become more prevalent. But they have also invested in model-making, both directly (Alphabet has a large in-house team) and indirectly (through their stakes in startups such as OpenAI and Anthropic).

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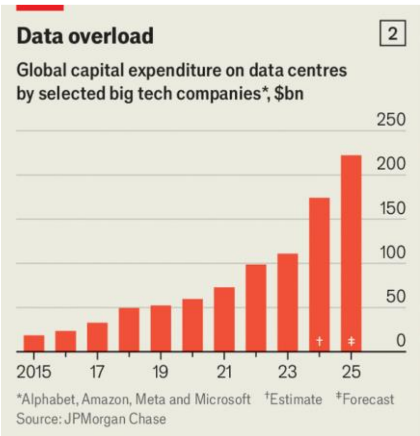

They have poured vast sums into AI infrastructure, too. Last year the combined spending on data centres by the cloud trio and Meta (which has also been developing AI models) reached about $180bn, an increase of 57% on 2023 (see chart 2). Although shareholders might welcome a reprieve from further capital spending, they may now be wondering what will become of the investments made to date.

The cloud giants have also been venturing into chip design, in an effort to reduce their reliance on Nvidia. Mario Morales of IDC, a research firm, notes that their semiconductor-engineering teams are each now roughly as big as that of a large chipmaker. Investors seem to think that these ambitions will be cut back. During the rout the share prices of Broadcom and Marvell, two firms that help the cloud giants design their own chips, fell by 17% and 19%, respectively. That contrasts with the share prices of the cloud giants, which fell slightly (in the case of Alphabet and Microsoft) or not at all (for Amazon).

Plenty in the industry remain bullish. SoftBank, a spendthrift Japanese investor, is reportedly in talks to plough $15bn-25bn into OpenAI. On January 29th Mark Zuckerberg, Meta's boss, said his firm would invest "hundreds of billions" of dollars in AI over the long term.

One reason is that so-called reasoning models, including OpenAI's o3 and DeepSeek's own R1, are deploying much more computing power at the inference stage, where the model responds to questions, to generate better answers. That could help offset decreases in the use of computing power for training.

Another source of optimism relates to demand. On January 29th Microsoft said that the growth of its AI cloud revenue— 157%, year on year, for the quarter—was constrained by supply, not demand. Some have argued that as AI models become cheaper to train, usage will rise further.

Yet other hurdles remain to adoption. America's Census Bureau surveys firms about their use of AI. Of those that have no plans to use it in the next six month, only 4% cite cost as the reason. The vast majority think that AI simply does not apply to their business.

If DeepSeek's innovations lower the cost of AI by orders of magnitude, companies may well discover new applications for the technology. Reasoning models will help, too, by improving the performance of AI models. Any effect on demand, however, will take time to materialise. And as the market turbulence demonstrates, investors are getting jittery. Their patience may not last for ever.

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How Wall Street got Trump wrong

FINANCIAL TIMES

Financial Times 15.04.2025

How Wall Street got Trump wrong

Markets soared as the fi nancial elite envisioned an era of unleashed animal spirits and light regulation. But thetables have turned with the trade war — and cheerleaders are now in damage-control mode.

In mid-February, some of Wall Street's most powerful investors and business titans — controlling hundreds of billions in personal wealth and trillions in assets — lined up liketeenagers before a rock concert.

The headliner was Donald Trump. In a cramped Miami Beach auditorium, plutocrats andCEOs waited up to three hours for the president's first in-person address to the businessworld at a Saudibacked conference.

The crowd, which included Vista Equity's Robert Smith, Bridgewater CEO Nir Bar Dea andApollo co-founder Josh Harris, roared when the US president finally strode onstage, anhour late.

"If you want to build a better future, push boundaries, unleash breakthroughs, transformindustries and make a fortune," the president said. "There is no better place on Earth thanthe current and future United States of America under a certain president named Donald JTrump."

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The soaring financial markets seemed to bear that out. The “animal spirits” of America’sfinancial elite were set to be unleashed after four years of feeling scrutinised and needledby the Biden administration.

Few were worried by the edgier elements of Trump’s speech, like his threat to imposereciprocal tariffs on any country he felt treated the US unfairly. “Not a single person men-tioned the word recession or depression,” said one attendee connected to Trump at thetime. “I think it sends you a very strong signal of the optimism and the realism of businessleaders and investors.”

Less than eight weeks later, the tables have turned. Those who witnessed Trump’s speechare now in damagecontrol mode as the trade war he unleashed on April 2 has destabilisedfinancial markets and caused fears of inflation and a looming recession.

But even before then, the finance sector was reeling. Corporate takeovers are down themost in about a decade, elite law firms have come under fire from the White House andconsulting giants have lost their government contracts. Companies from Delta to Walmarthave scrapped their profit outlooks. Many fear the tariffs will now dramatically slow Amer-ica’s economic engine.

“We didn’t believe him. We assumed that someone in the administration that had an eco-nomic background would tell him that global tariffs were a bad idea,” one Wall street exec-utive says. “We are in for a roller-coaster ride.”

It is a recognition that even many of Trump’s most ardent supporters in the businessworld misread how determined the 78-year-old president was to radically overhaul USeconomic policy and reverse decades of globalisation. Countless times on the campaigntrail, Trump and his closest advisers had said they would not craft policies to satisfy thecountry’s wealthiest residents.

JD Vance, his pick for vice-president, made it clear during the Republican convention inJuly: “President Trump’s vision is so simple and yet so powerful. We’re done, ladies andgentlemen, catering to Wall Street. We’ll commit to the working man.”

Meanwhile, US Treasury secretary Scott Bessent, himself a former hedge fund manager,has also repeatedly echoed that sentiment. In March, he said on CNBC that “Maga doesn’tstand for ‘Make M&A Great Again’”.

The tariff announcement proved to be a critical juncture for Wall Street. Over the course ofjust two days, the S&P 500 lost more than $5tn in value. The president at times shruggedoff reporters’ questions, stating he had not checked in on markets as a sea of red washedover Wall Street.

When the stocks of powerful financial institutions like BlackRock, Apollo and JPMorganbegan to fall, the narrative coming from the White House changed. Karoline Leavitt, theWhite House press secretary, said: “To anyone on Wall Street this morning I would saytrust in President Trump.”

It began to dawn on the country’s highest-paid bankers, lawyers and executives that thenew administration did not care if the gilded palace of high finance suffered cracks to its foundation from the country’s new trade policy.

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Most kept quiet. But billionaire hedge fund managers like Bill Ackman, Dan Loeb, andCliff Asness aired their frustrations on X, while Trump's former commerce secretary Wil-bur Ross told the FT: "It's a fairly unconventional way of measuring tariffs."

Some spoke more plainly. "He wants to end the global trading system and weaken the US.He wants to Brexit the United States from the rest of the world," Anthony Scaramucci, thefounder of hedge fund SkyBridge Capital who was briefly Trump's White House commu-nications director during his first term, says. "This is the stupidest economic policy thatthe United States has ever come up with."

The business elite initially saw tariffs as the price to pay in order to gain other benefitsfrom a Trump White House, including lax antitrust enforcement and big tax cuts.

Yet Trump's readiness to rattle Wall Street by escalating a trade war has sown lasting dis-trust and raised fears that the financial models guiding business can no longer predictwhat comes next, more than a dozen investors and executives tell the FT.

"Given our state of ignorance and all we don't know, [investing now] is like betting on theoutcome of the Super Bowl when you don't know which teams are playing or who any oftheir players are," Howard Marks, the co-founder of Oaktree Capital, says. "Investing islargely based on the assumption the future will look like the past and that assumptionappears to be more tenuous than usual."

As the son of a real estate developer in New York and a graduate of Wharton businessschool, Trump has long cultivated a personal relationship with Wall Street. But it has oftenbeen fraught.

Trump regularly felt sidelined by Wall Street's uppermost echelons, say those who knowhim. The financial elite shunned him in the 1980s when he needed their help to financereal estate projects, or mocked him for being a lightweight celebrity, says a person close tothe president who is not allowed to speak on the record. "Trump was never going to beWall Street's president."

Yet in his first term, Trump brought the finance sector into the heart of his administration.He appointed Goldman

Sachs veterans Steven Mnuchin and Gary Cohn as Treasury secretary and chief economicadviser respectively.

He also convened a group called the Strategic and Policy Forum that included Wall Streettitans like JPMorgan's Jamie Dimon, BlackRock's Larry Fink, and Blackstone's StephenSchwarzman. Trump regularly held court with them, often under the spotlight of TV cam-eras.

But that relationship soured after the Capitol riot on January 6 2021. Schwarzman, whochaired Trump's business forum, called the insurrection "appalling". Other financiers

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echoed his condemnation, and the industry began to distance itself. In 2022, Schwarzmansaid it was time for "the Republican party to turn to a new generation of leaders", sig-nalling he would not back Trump in 2024.

Trump allies noticed the snub. "These guys never took him seriously," one veteran finan-cier close to Trump says.

"Where was most of Wall Street when Trump was getting attacked by judges over the pastfour years? Who did Wall Street pick during the campaign? Kamala Harris, not Trump.Why should he care about Wall Street now?"

That opposition to Trump only vanished once it appeared he could win in 2024. Schwarz-man came back on board in May that year, calling a vote for Trump "a vote for change".Others followed.

After the 2024 victory, Goldman CEO David Solomon said he was "quite optimistic" aboutTrump's pro-growth agenda. Dimon defended the new tariffs as a national security meas-ure, telling CNBC that people should "get over it".

Private equity firms that had backed Trump's rivals donated millions to his inaugurationfund in the hope of regaining influence.

But few today have the president's ear. "Trump has surrounded himself with an echochamber," says the head of a private investment firm. "Except for Bessent, there are noreal people, no opposing views. It's a far cry from when Gary Cohn brought balance."

Trump himself has shown he is willing to target those perceived to have shown insufficientloyalty. His instinct for retribution is clearest in his battle with top law firms. The FTestimates that Paul Weiss, Skadden Arps and others have been pressured into providingalmost $1bn in pro bono work for causes favoured by the administration, worried thatcrossing the White House could cripple their businesses. Top executives are now particu-larly careful with their words, given an offthe-cuff comment could inspire a rebuke fromthe White House.

"They're afraid of him . . . They don't want to end up with any legal action against theirbank or their family. And they've been told by their boards: keep your mouth shut," saysScaramucci. "By the way, we don't even have law firms that can defend you because everymajor law firm just got dunked on by the president."

Michael Cembalest, the chair of market and investment strategy at JPMorgan, hinted atthis chilling effect during a presentation to clients this month. "This is the first time I'veever had to do a call where I had to think about the things that I was saying, not just interms of how they reflect our views on markets and economics," he said at the end of thepresentation.

"I had to think about how they might reflect on the firm and some of its colleagues at atime when people are being held accountable

for their views and the things that they say in ways that they probably shouldn't be."

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The chilling effect has raised the spectre that Trump, a president known for his unpredict-ability and dealmaking, is impervious to influence.

Those who know Trump say the finance sector simply misunderstands what is driving hisagenda this time around. “He wants to do all of that stuff — cut taxes, deregulate, facilitatedeals — but he wants to do it to help the people who got him elected, people who live intowns that guys in New York don’t even know exist,” says one person close to Trump, whois not permitted to speak publicly.

“He’s a populist serving the people."

When Trump decided to backtrack on the tariffs, it was not because Wall Street royaltyhad pulled his strings. By sunrise on April 9, global financial markets were in freefall andthe president had noticed. Bond markets “were getting a little bit yippy, a little bit afraid”,Trump later said, admitting that he had been closely watching the growing turmoil.

One powerful financier did manage to reach him. That morning, JPMorgan chief Dimonmade a gentle but ultimately convincing argument as to why the president should pausehis trade war. But Dimon had connected with Trump not in a private conversation, but viaFox Business News.

Market conditions had gone beyond adverse to hostile. “The fact that the bond market wasmoving in the alarm direction rather than the insurance direction was the big patternbreaker that had everyone on Wall Street at a very different level of worked-up,” saysLawrence Summers, the former Treasury secretary and ex-president of Harvard Uni-versity.

US government bonds were suddenly trading in a pattern that resembled the debt of anemerging market, he adds.

Cracks were showing elsewhere. Lending markets typically used by lowly rated companiesand private equity firms froze over, and even bluechip conglomerates got shut out of thebond market — a rarity.

After a week of turmoil, the president hit partial pause on his reciprocal tariffs. “Trump isfine with Wall Street taking a hit, but he doesn’t want the whole house to come down,” asecond person close to Trump tells the FT.

The fact that it was the markets that forced Trump’s hand underscores that his fateremains closely linked to the fortunes of the financial elite.

Even as Trump moves to reshape global trade, he faces other landmines in the financialsystem. The $13tn private capital industry, which controls a rising share of the US eco-nomy and employs more than 10mn Americans, is built on debt. Years of leverage have leftswaths of small and mid-sized companies fragile and highly exposed to shocks.

With growth slowing and inflation rising, private equity firms are likely to respond byslashing costs and jobs, deepening the economic pain. Default rates are climbing and couldsoon trigger a wave of bankruptcies. Large pension funds, heavily invested in private mar-kets, may also come under stress.

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Trump says he's willing to endure the economic pain to see his plans through. "THIS ISAN ECONOMIC REVOLUTION AND WE WILL WIN," he posted on social media on April5.

But markets are already pushing back: bond yields remain elevated, the dollar hastumbled, and his financial footing looks increasingly shaky.

"It's very clear that reassurance has not been achieved," says Summers. "The dollarplummeted on [April 10 and 11], yields are at very high levels. People are waiting for moreshoes to drop."

The future, for now, looks volatile. "['Liberation day'] was a sort of fundamental hit to WallStreet's trust and confidence that they could predict at all what the administration woulddo," says Joseph Foudy, an economics professor at NYU Stern School of Business. "Theynow realise that all of it is fundamentally uncertain and unpredictable."