

State Of The Markets: Best Long And Short Strategies 2025Q2/3

Is This The End of American Exceptionalism?

Part III: American Exceptionalism Continues And Gains Steam

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May 29, 2025

State Of the Markets: Best Long And Short Strategies 2025Q2-Q3
Is This The End of American Exceptionalism?

Step 2: Fundamental Economic Framework

The Era of America's Economic Exceptionalism Is Not Over

I Will Release My Analysis In Four Parts

- **Part I: Europe's Defense "Big Bang" Goes Bust**
- **Part II: China Goes All In On Trade And Depreciates CNY**
- **Part III: American Exceptionalism Continues And Gains Steam**
- **Part IV: Recommended Asymmetric Trade Ideas**

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Is This The End of American Exceptionalism?

Step 1: Identify A Macro Theme

Will Trump Tariffs And Mounting Debt Growth Derail American Exceptionalism?

Tariff Hikes Similar Tho Those Prior To The Great Depression

Trump's Average Tariff Rate Would Be Highest Since 1937

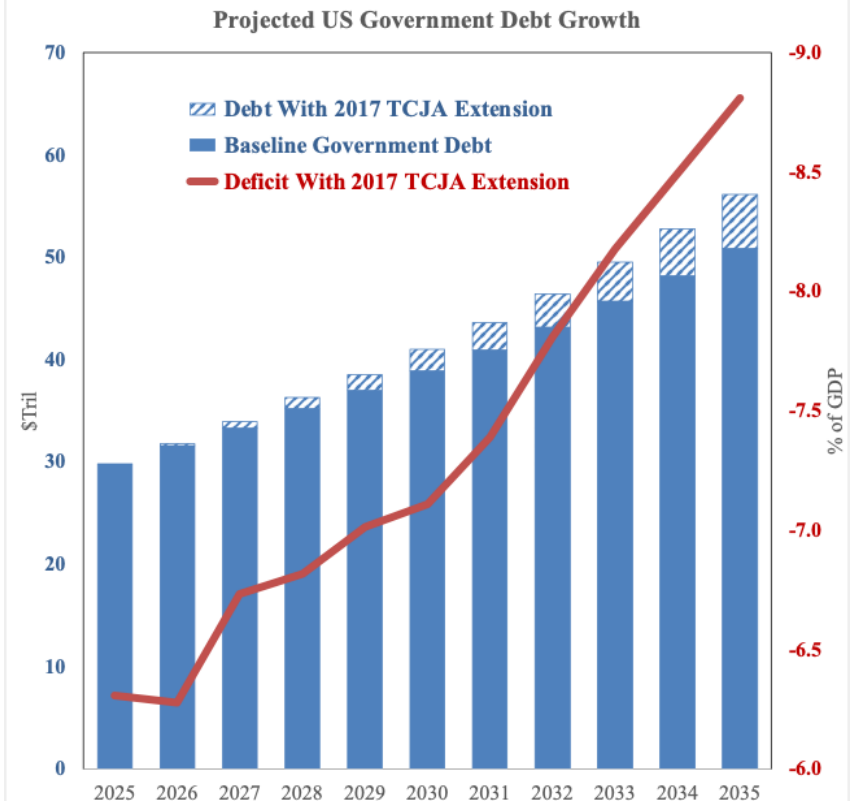
Average Tariff Rate on All Imports, Historical Rates from 1890-2023, Projected Rate for 2024, Estimated Rate for 2025 Under Trump's Imposed Tariffs



Note: Includes IEEPA tariffs on Canada, Mexico, and China (with USMCA exemptions); April 2 "reciprocal" tariffs; and steel aluminum, auto, and auto parts tariffs. Tariff revenue estimate uses an elasticity of -0.997 and a noncompliance rate of 8 percent.
Source: US Census Bureau, *Historical Statistics of the United States: Colonial Times to 1970, Part II*; US International Trade Commission, "U.S. imports for consumption, duties collected, and ratio of duties to values, 1891-2023, (Table 1)"; Tax Foundation calculations.



Debt Is On A Unsustainable Path Even Without. Extension



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Markets Should Have Not Been Surprised Given Trumps Follow Though In 2016

Trump Campaign Promise And Follow Through In 2016

Campaign Promise	Follow Through	What Happened
Impose tariffs on countries that harm U.S. workers	Yes	Imposed tariffs on China and other countries, leading to trade disputes and negotiations.
Build a wall along the U.S.-Mexico border	Yes	Initiated construction of border barriers; approximately 452 miles completed by January 2021
Cut Taxes	Yes	Signed the Tax Cuts and Jobs Act of 2017, which reduced tax rates for individuals and corporations.
Renegotiate or withdraw from NAFTA	Yes	Successfully renegotiated NAFTA, resulting in the United States-Mexico-Canada Agreement (USMCA)
Withdraw from the Paris Accord	Yes	Withdrawal effective 2020
Withdraw from the Trans-Pacific Partnership (TPP)	Yes	Officially withdrew the U.S. from the TPP in January 2017.
Repeal and replace the Affordable Care Act	Partially	Repeal of ACA were unsuccessful; however, the individual mandate penalty was eliminated
Invest \$1 trillion in infrastructure	No	Nothing Happened

Trump Campaign Promise And Follow Through So Far In 2024

Campaign Promise	Follow Through	What Happened
Impose tariffs on imports to stop outsourcing and reduce trade deficits	Yes	Increase tariffs on imports to the highest levels in almost 100 years
Pledged to seal the U.S.-Mexico border to prevent illegal immigration	Yes	Deployed 13,000 troops to the border, started up building the wall, border crossing down 95% vs average of last four years
Cut Taxes	Yes	Congress is passing an extension of the 2017 tax cuts
Carry out the largest deportation operation in American history	Yes	In first three months, US has deported over 100,000 migrants and arrested approximately 113,000 individuals
Make the U.S. the dominant energy producer globally	Yes	Passed legislation to allow drilling in the arctic preserve, approved Keystone and Dakota pipelines
Promised to cut bureaucratic waste by shutting down multiple government departments	Yes	Shutdown Dept of Education, USAID agency. Mass firings across many other departments, Created the Department of Government Efficiency (DOGE), led by Elon Musk.
Promised to end prolonged military engagements abroad	Partially	Pushing Europe to spend 2% on defense, starting peace process in the Ukrainian war
Committed to ending inflation and making America affordable again.	No	Tariffs will push inflation higher again.

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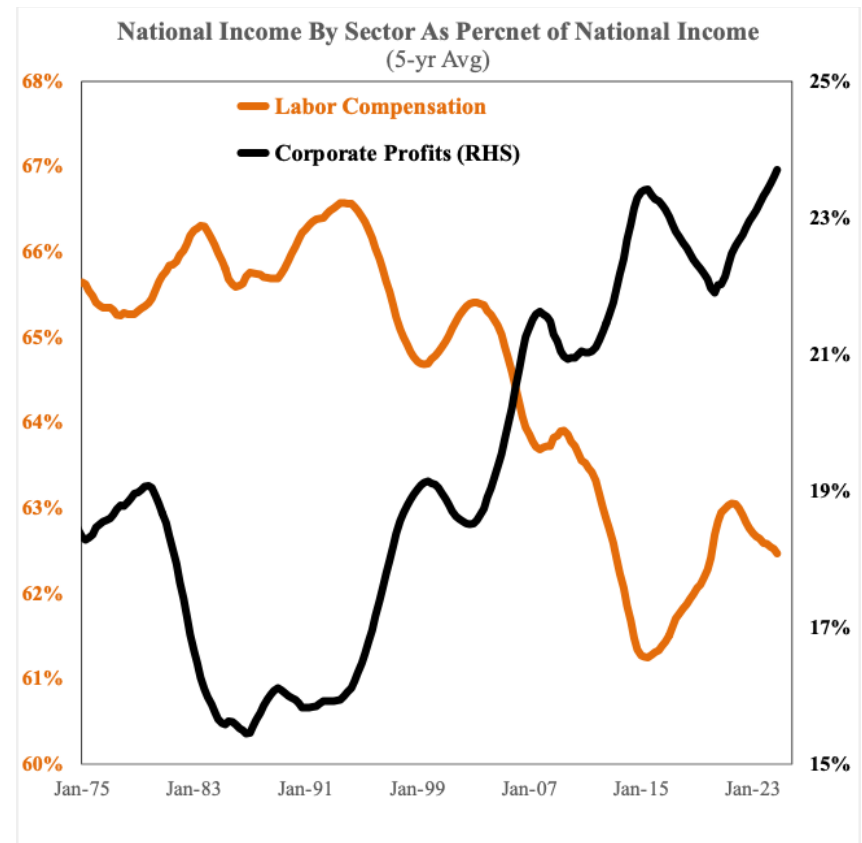
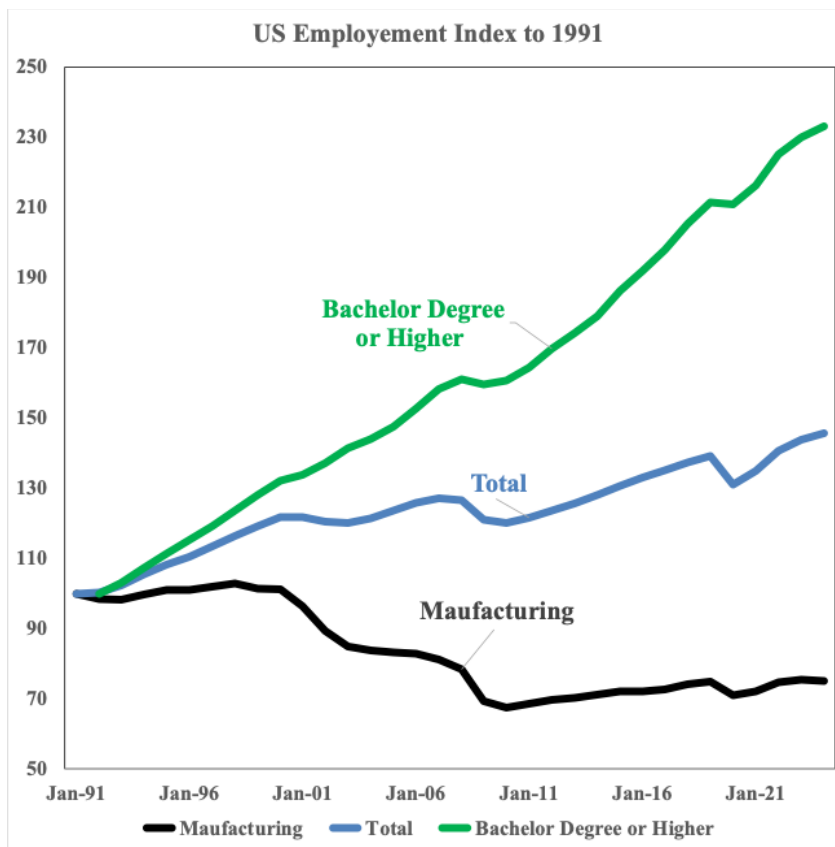
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Look through the Noise: The Tariffs Are Next Shot In The Economic War With China

China's MFN Status Unleashed A Tsami Of Exports To The US

Started Offshoring And the Growth Of the Knowledge Economy



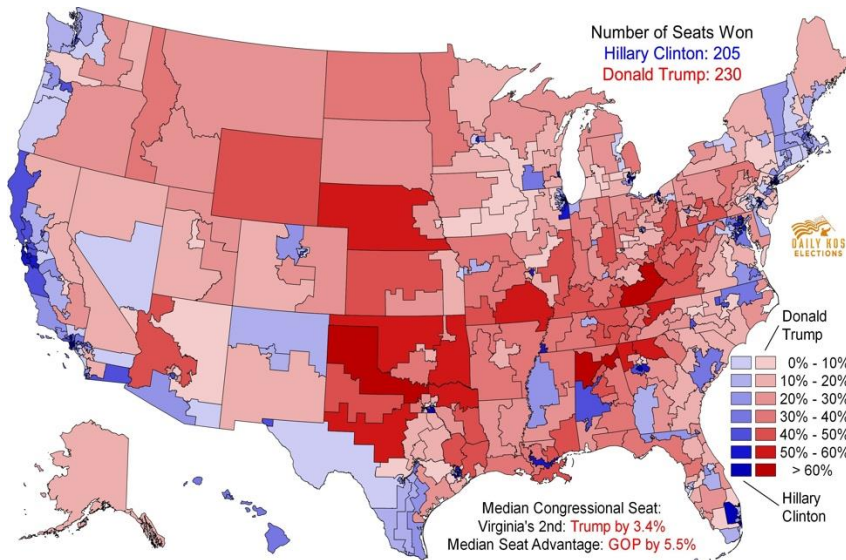
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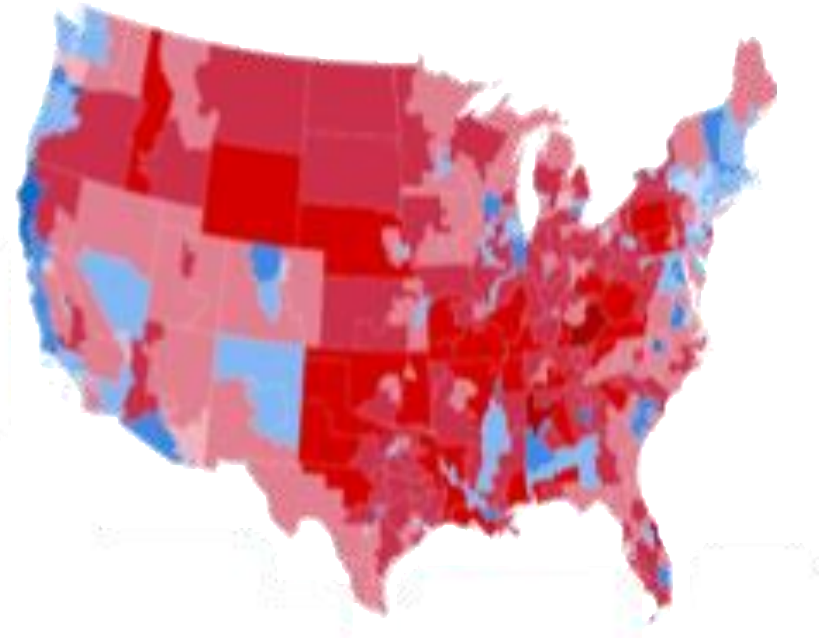
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Impact Of China Imports On the Rust Belt Drove Trump Victory in 2016 And 2024

Election Margin In 2016 By Congression District



Election Margin In 2024 By Congression District



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Trump Tariffs Are Substantial And Will Act As A Tax On The Economy

As It Stands, Trump Tariffs Are 5 to 500 times Current Tariffs

Country	Tariffs			Effective Tariffs	
	Universal	Country-Specific	Auto-Specific	Universal + Country	Universal + Country+
UK	10%	0	0	10%	10%
Japan	10%	0	25%	10%	35%
European Union	10%	50%	25%	65%	106%
China	10%	30%	25%	43%	79%
Japan	10%	0%	25%	10%	38%
South Korea	10%	0%	25%	10%	38%
Mexico & Canada	10%	25%	0%	38%	38%
Vietnam	10%	46%	25%	61%	101%

Even With Shifting Demand, Tariffs Still Be A Tax of 1% of GDP

Year	Import Value	Static Tariff Revenue	Import Value After Demand Response	Tariff Revenue After Demand Response	Static Revenue (% of GDP)	Tariffs Revenue After Demand Response (% of GDP)
2026-2035	27,628	7,850	18,736	3,390		
2026	2,523	717	2,100	409	2.26%	1.29%
2027	2,574	731	2,031	388	2.22%	1.18%
2028	2,625	746	1,964	369	2.18%	1.08%
2029	2,678	761	1,901	350	2.14%	0.98%
2030	2,731	776	1,840	332	2.10%	0.90%
2031	2,786	792	1,782	314	2.06%	0.82%
2032	2,841	807	1,727	298	2.02%	0.75%
2033	2,898	824	1,762	304	1.99%	0.73%
2034	2,956	840	1,797	310	1.95%	0.72%
2035	3,015	857	1833	316	1.92%	0.71%

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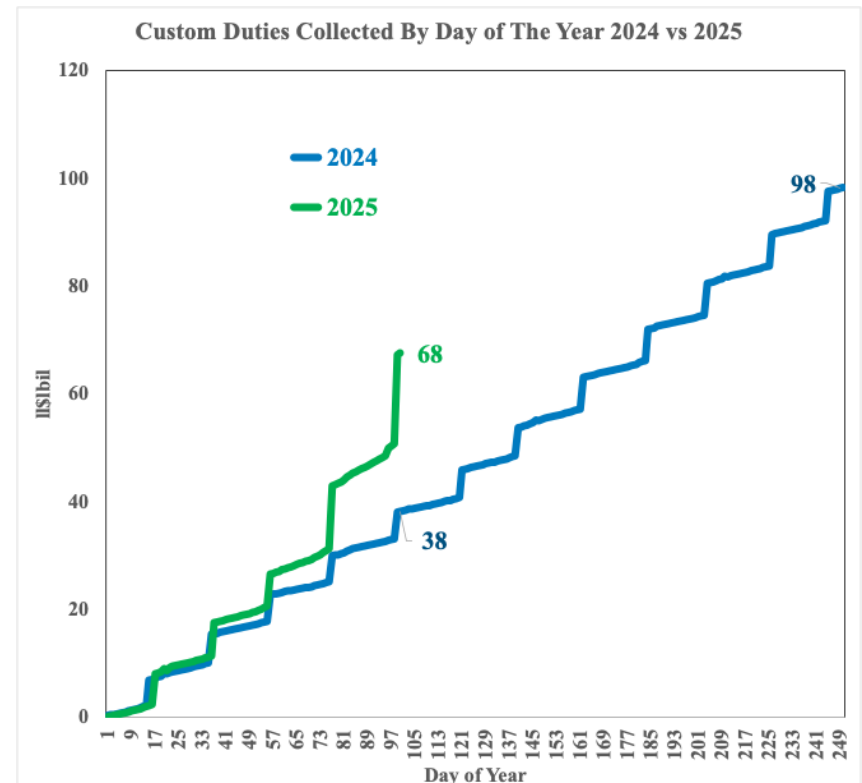
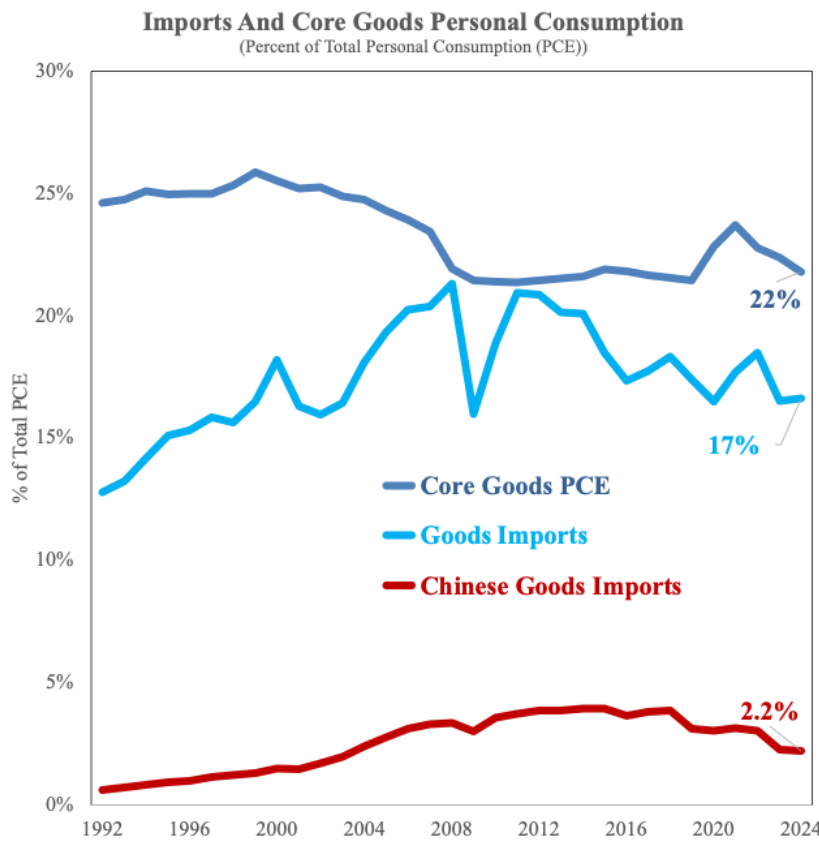
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Customs Duties Are Rising But Not As Fast As Projected

Impact of Tariffs Will Be Small If It Is Only Focused On China

Customs Duties Have Risen But Not To Levels Given Tariff Hikes



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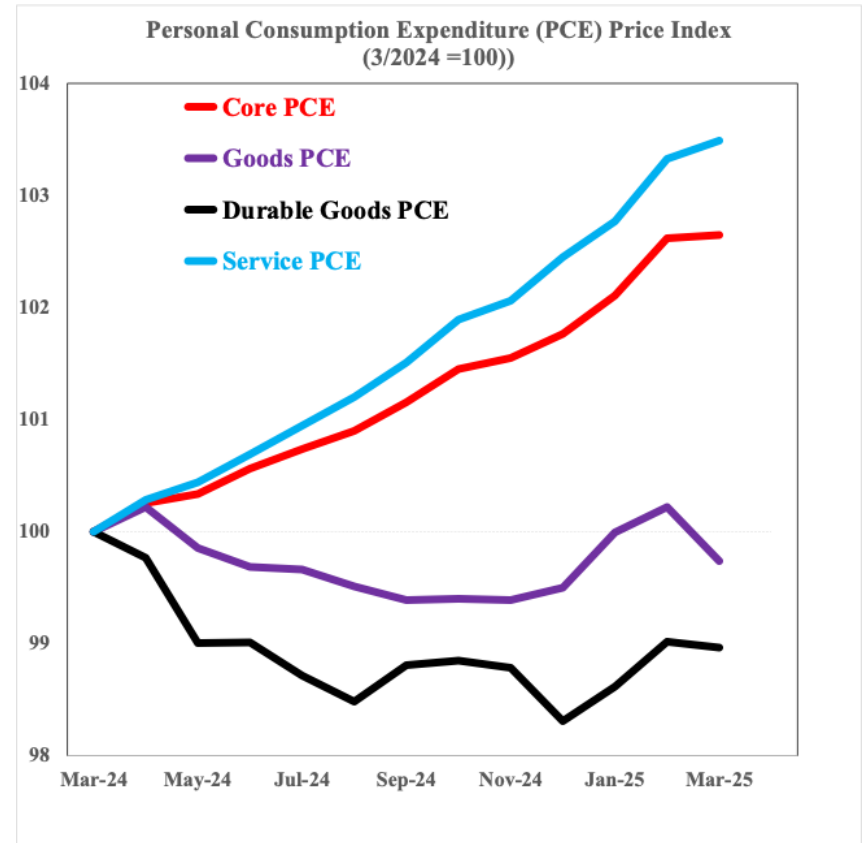
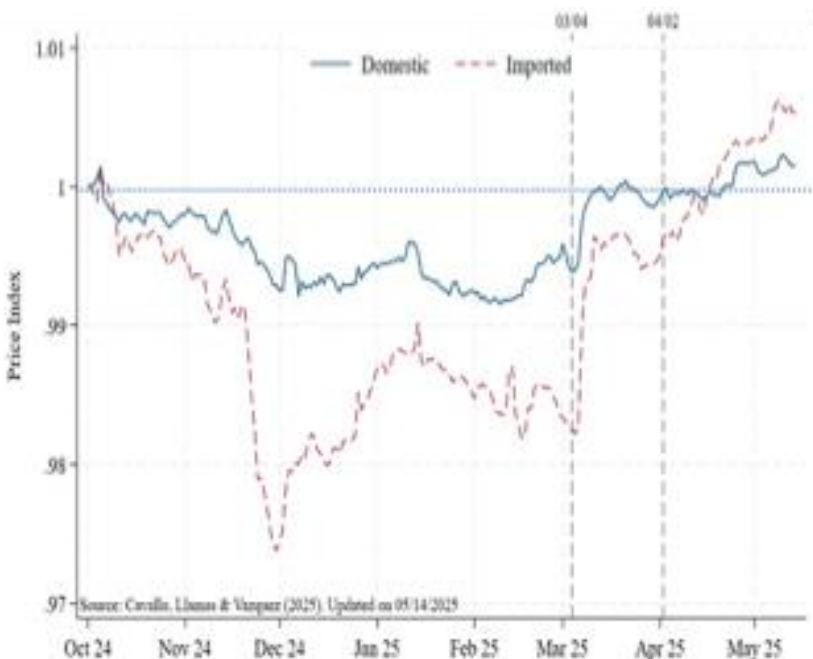
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Large Retail Businesses Are Not Passing Through All Of The Hikes To The Customer

Reported Prices From Large Retail Business Show Little Change

PCE Goods Inflation Is Actually Falling



1. Cavallo, Llamas, Vazquez, "Tracking the Short-Run Price Impact of US Tariffs", Working paper, May 17, 2025
 2. Federal Reserve Bank of St. Louis, Fred Data Base

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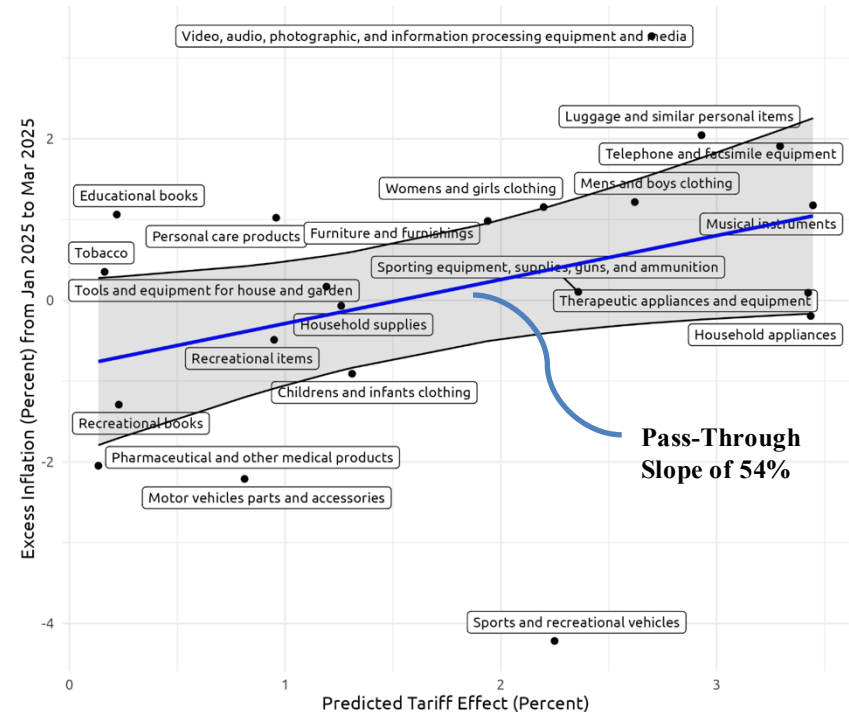
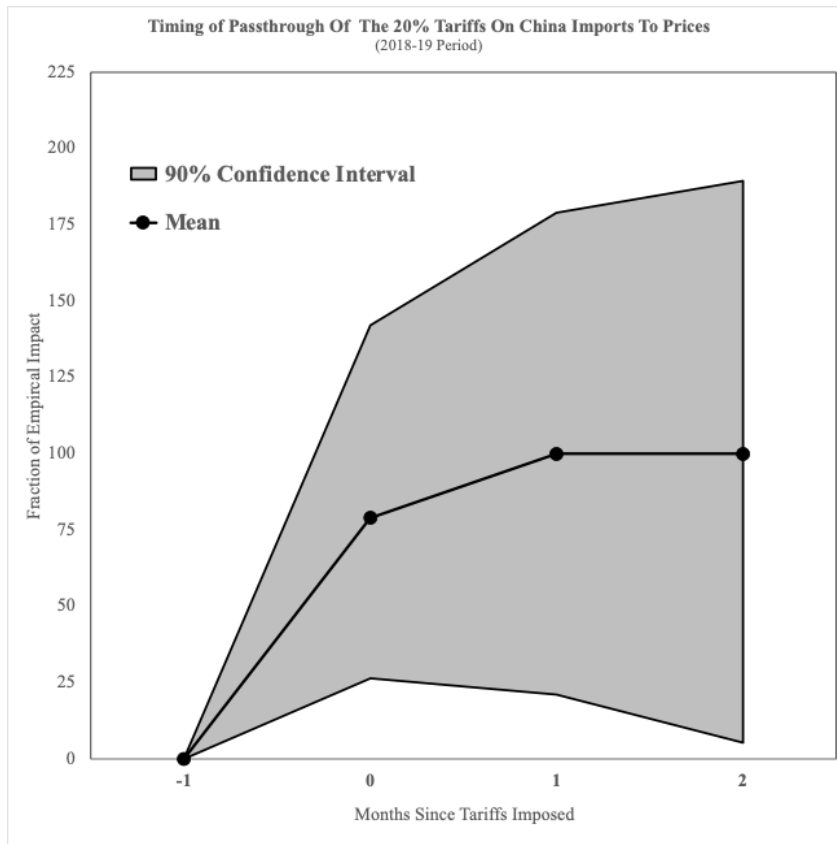
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A Federal Reserve Study Also Shows The Same Pattern, With About 50% of Hikes Are Being Pass-Through

On Average, Tariffs Are Fully Reflected In Prices In Two Months

So Far, Only About ½ of Tariffs Hikes Have Been Pass-through



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Net Impact Of Higher Tariffs Could Be Small After Factoring In Extension of Tax Cuts

Trump Tariffs						Trump Tax Personal Income Tax Extension			
Import Value	Static Tariff Revenue	Import Value After Demand Response	Tariff Revenue After Demand Response	Static Revenue (% of GDP)	Tariffs Revenue After Demand Response (% of GDP)	Extending Personal Income Tax Cuts	Extension (% of GDP)	Net Funding Tariffs Revenue - Tax Cuts	Net Funding (% of GDP)
27,628	7,850	18,736	3,390			-3,672			
2,523	717	2,100	409	2.3%	1.3%	-346	-1.1%	63	0.2%
2,574	731	2,031	388	2.2%	1.2%	-382	-1.2%	6	0.0%
2,625	746	1,964	369	2.2%	1.1%	-397	-1.2%	-28	-0.1%
2,678	761	1,901	350	2.1%	1.0%	-397	-1.1%	-47	-0.1%
2,731	776	1,840	332	2.1%	0.9%	-400	-1.1%	-68	-0.2%
2,786	792	1,782	314	2.1%	0.8%	-414	-1.1%	-100	-0.3%
2,841	807	1,727	298	2.0%	0.7%	-429	-1.1%	-131	-0.3%
2,898	824	1,762	304	2.0%	0.7%	-446	-1.1%	-142	-0.3%
2,956	840	1,797	310	2.0%	0.7%	-461	-1.1%	-151	-0.4%
3,015	857	1833	316	1.9%	0.7%				

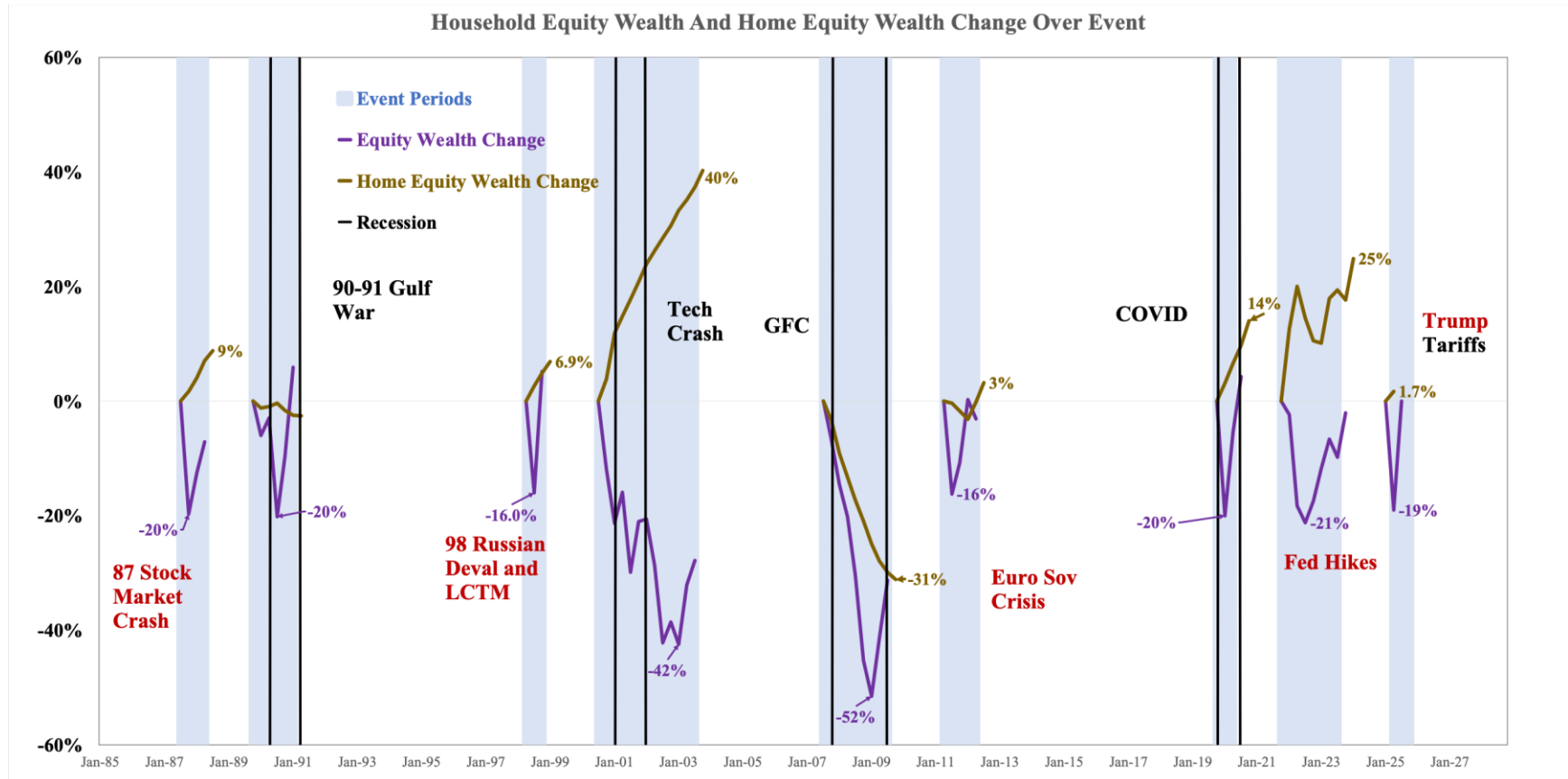
1. Penn Wharton Budget Model
2. CBO
3. The CBO does not include tariff revenue raises in its Reconciliation analysis

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Trump Tariffs Do Not Point to A Recession, Given The Equity Rebound And The Strong Housing Market



1. Federal Reserve Bank of St. Louis, Fred Data Base
2. Bloomberg

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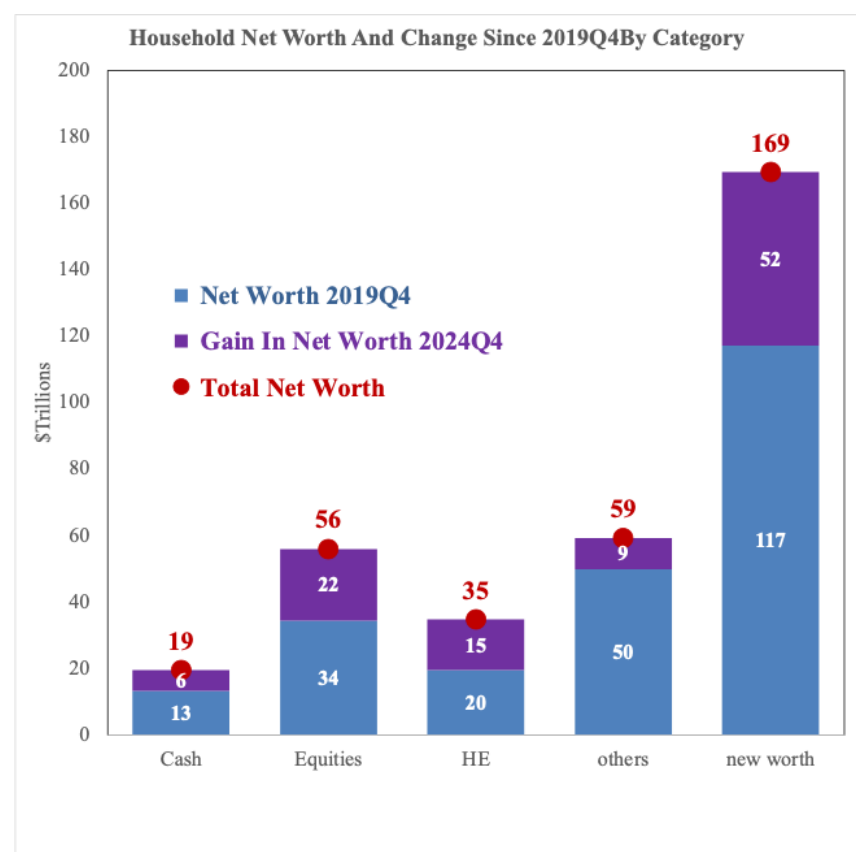
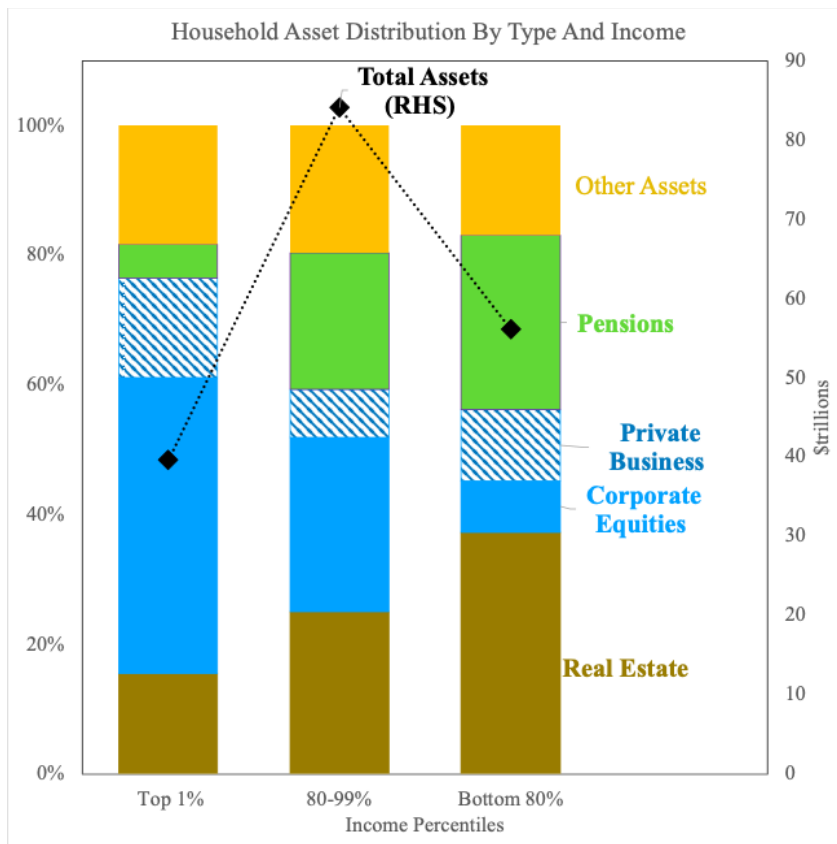
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Trump May Not Reverse Tariffs As Long As The Housing Market Stays Firm

Only The Top 20% Own Equities, The Bottom 80% Own Homes

Wealth Growth Since 2019 Will Also Offset The Impact of Tariffs



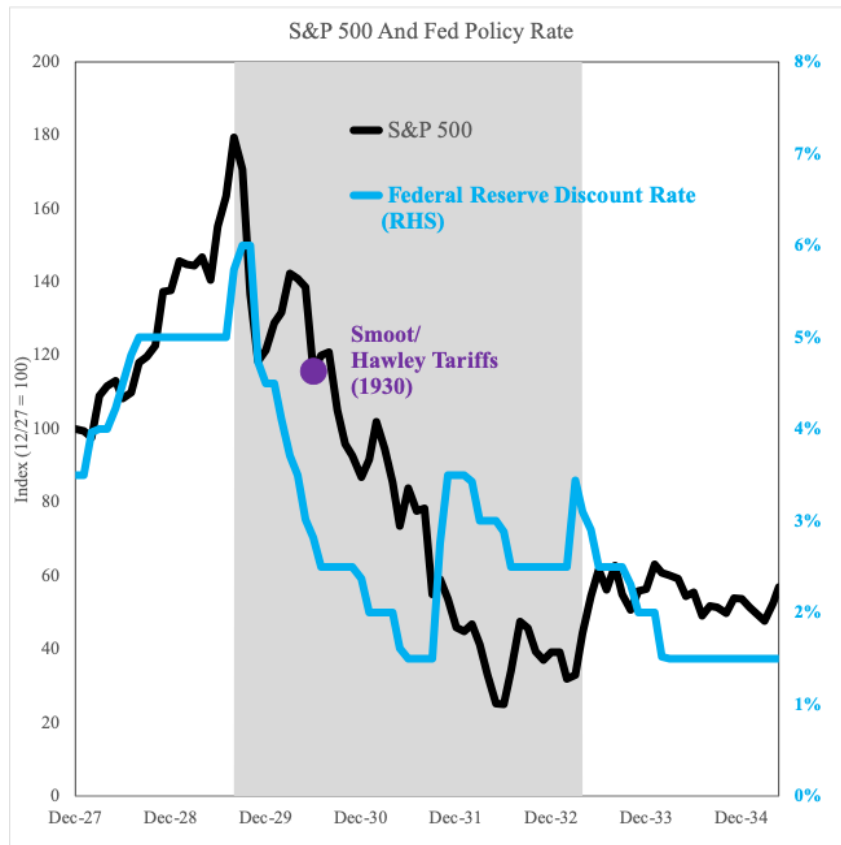
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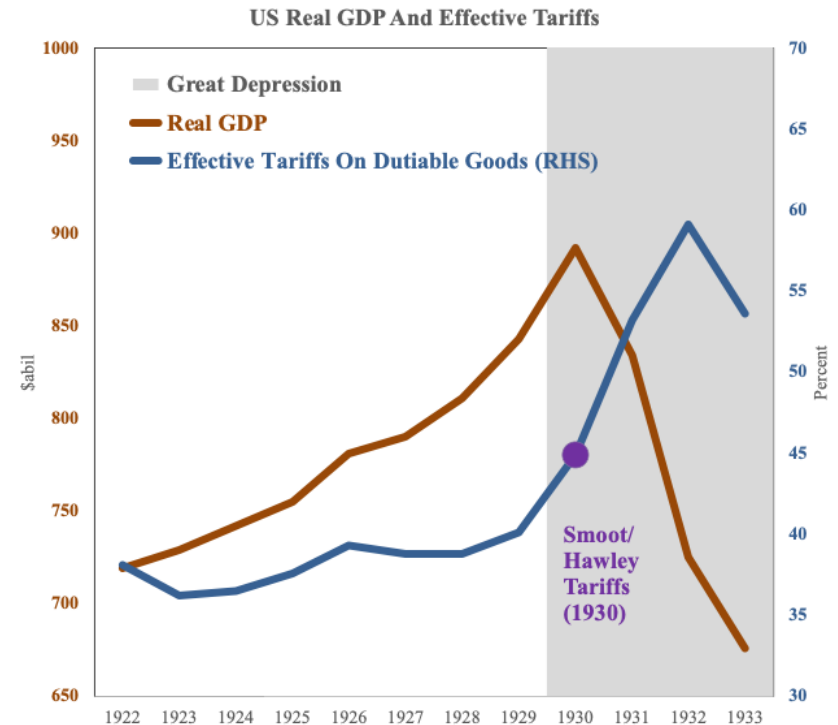
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Focusing On Smoot-Hawley Tariff Hikes Misses The Real Cause of The Depression: The Fed

The Fed Was Raising Rates To Pop The Equity Bubble....



And Pushed The Economy Into A Recession Before Smoot

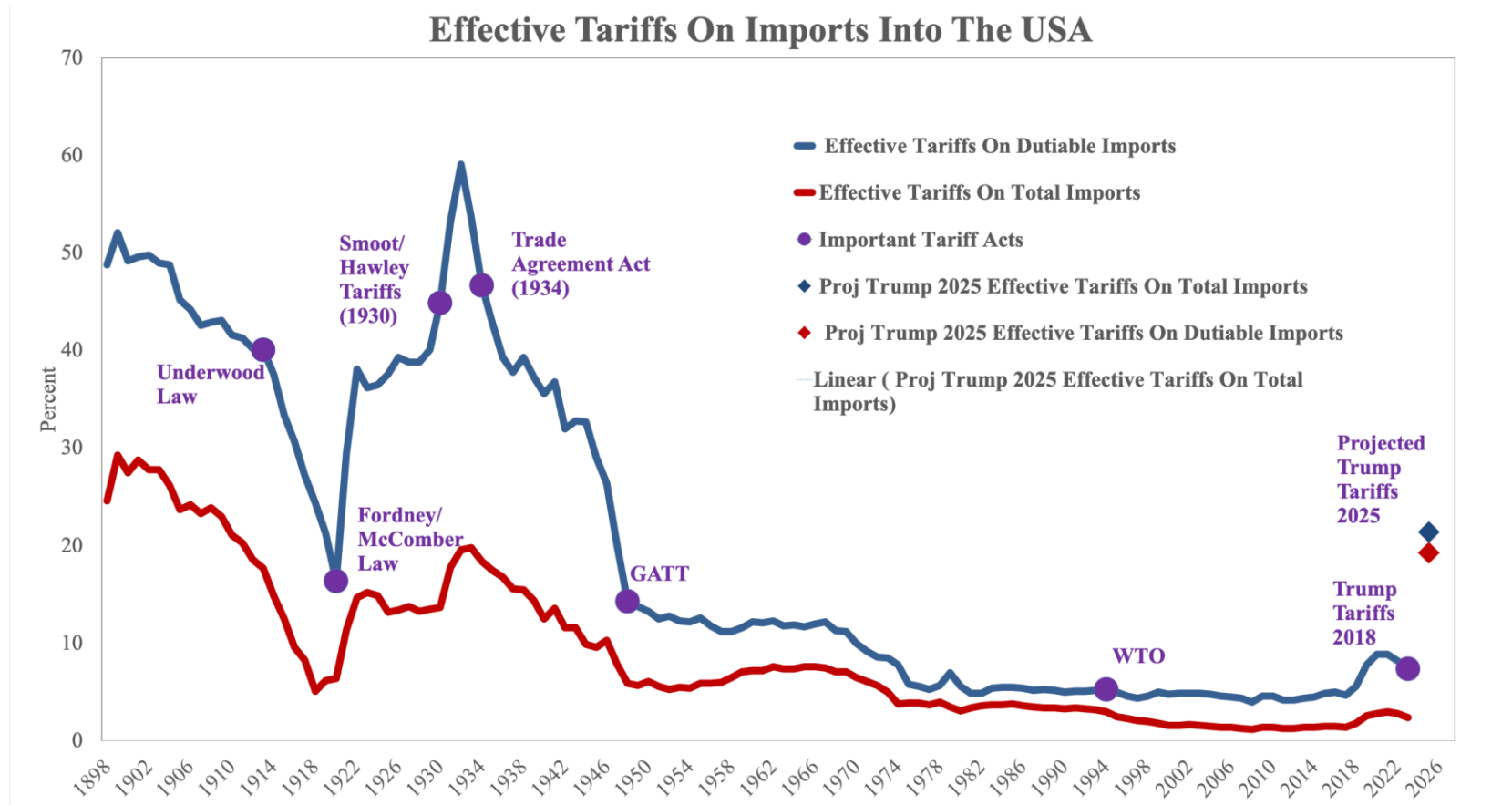


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Smoot-Hawley Pushed Tariffs Back To Historical Norms, Unwinding The Cut From Underwood



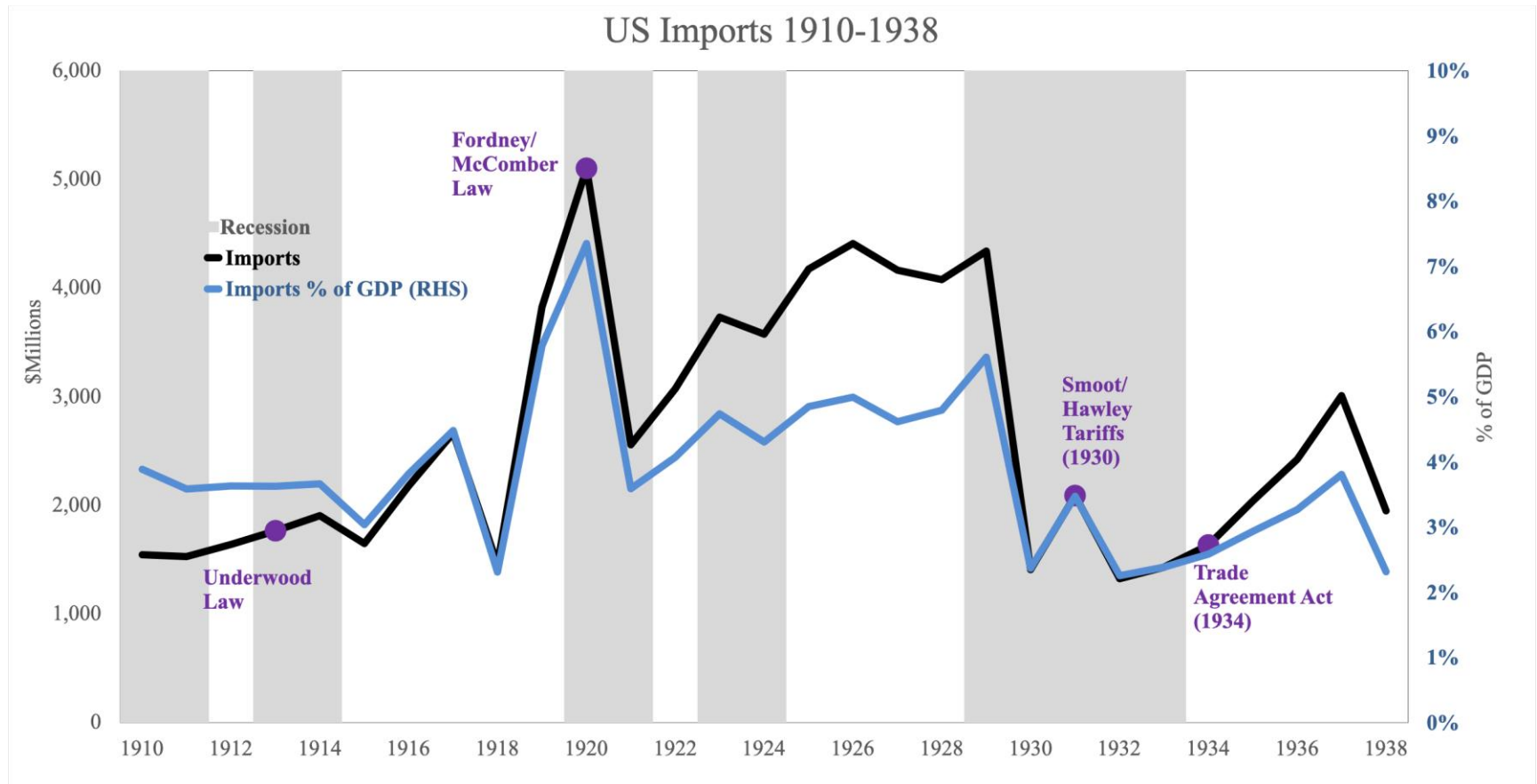
1. US. International Trade Commission, May 2024
 2. Federal Reserve Bank of St. Louis, Fred Data Base

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Imports Fell Even Before Smoot, Reflecting The Recession Caused By Fed Rate Hikes



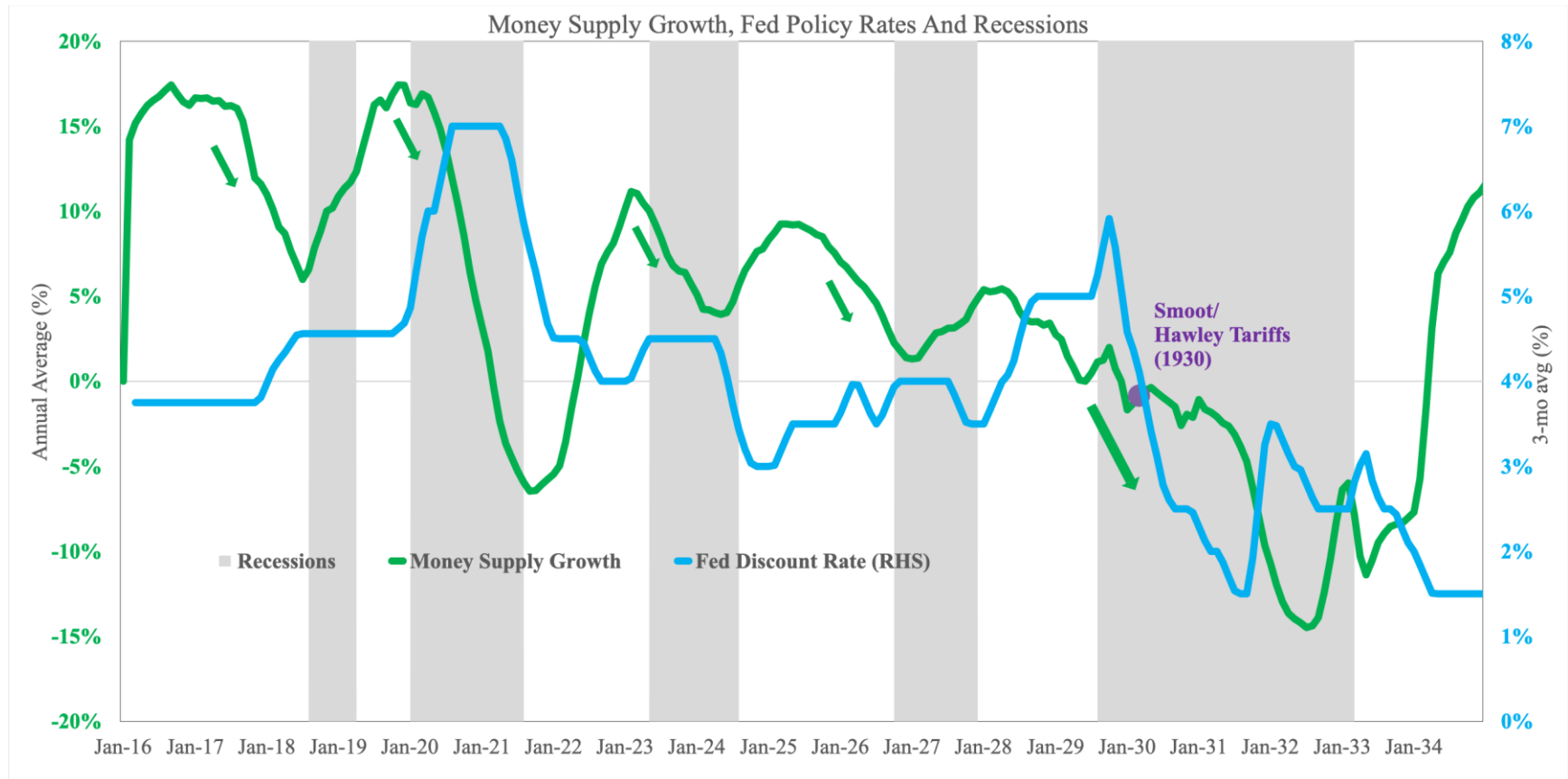
1. US. International Trade Commission, May 2024
2. Federal Reserve Bank of St. Louis, Fred Data Base

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The Point Is That Fed Rate Hikes Create A Recession/Depression, Not Tariffs, Even Smoot-Hawley



1. Federal Reserve Bank of St. Louis, Fred Data Base
2. NBER Economic Data Base

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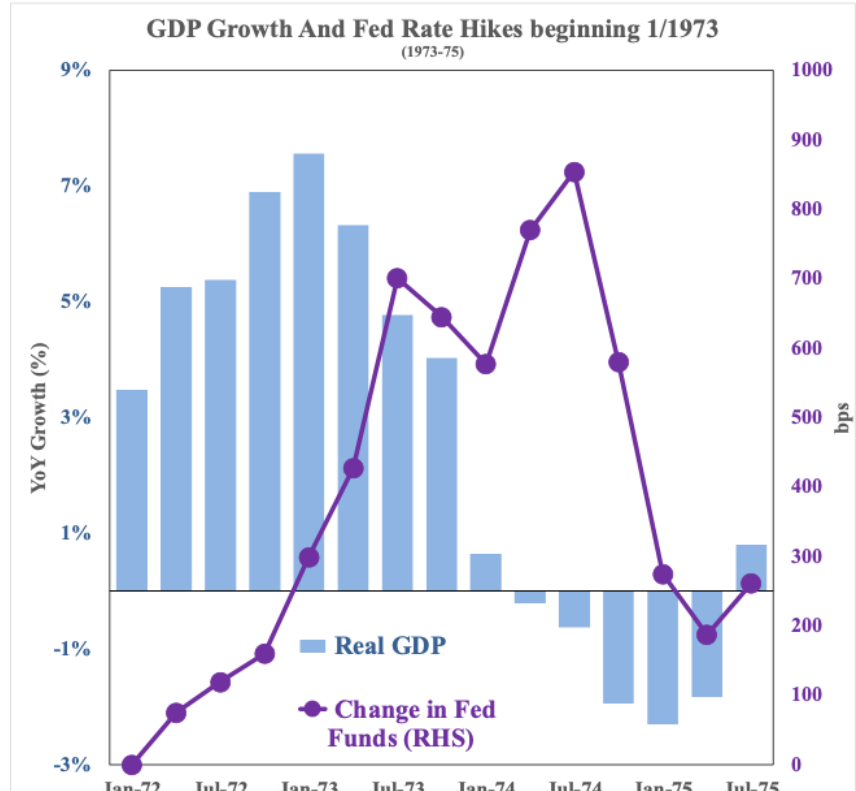
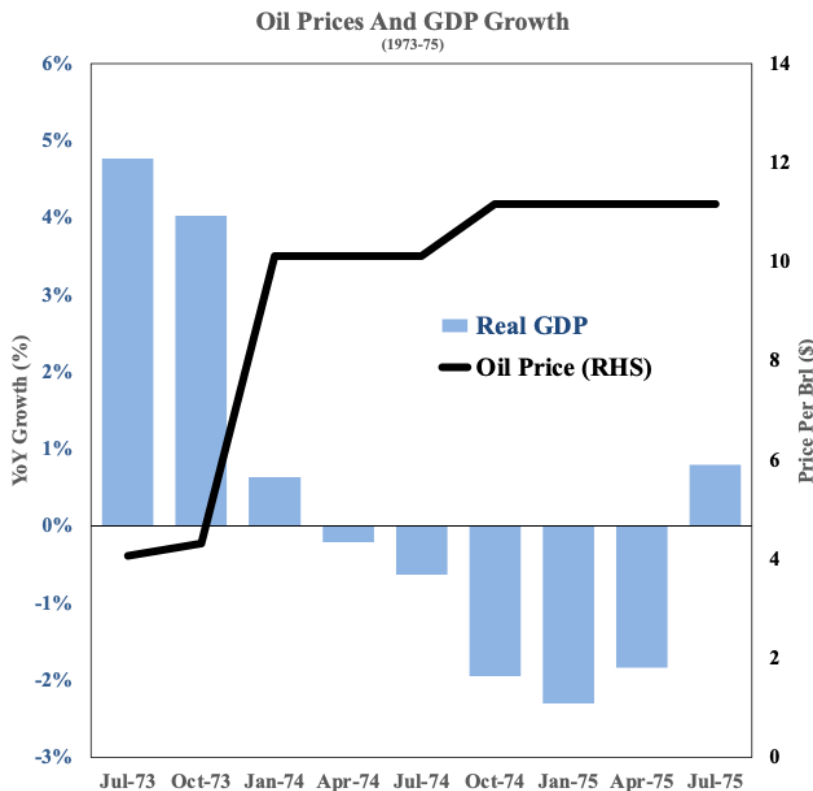
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Another Example Is the 70s, Fed Rate Hikes Drove The Recession Not The Spike In Oil

The OPEC Embargo Spiked Oil Prices While GDP Fell

Correlation is Not Causation, Fed Rate Hikes Explain Falling GDP



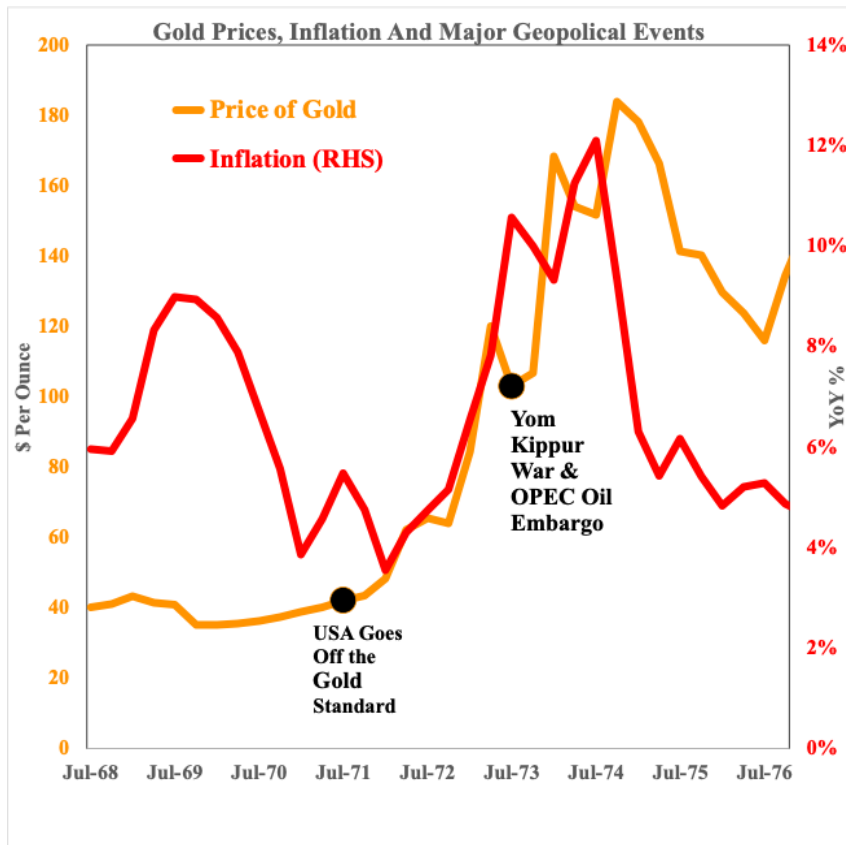
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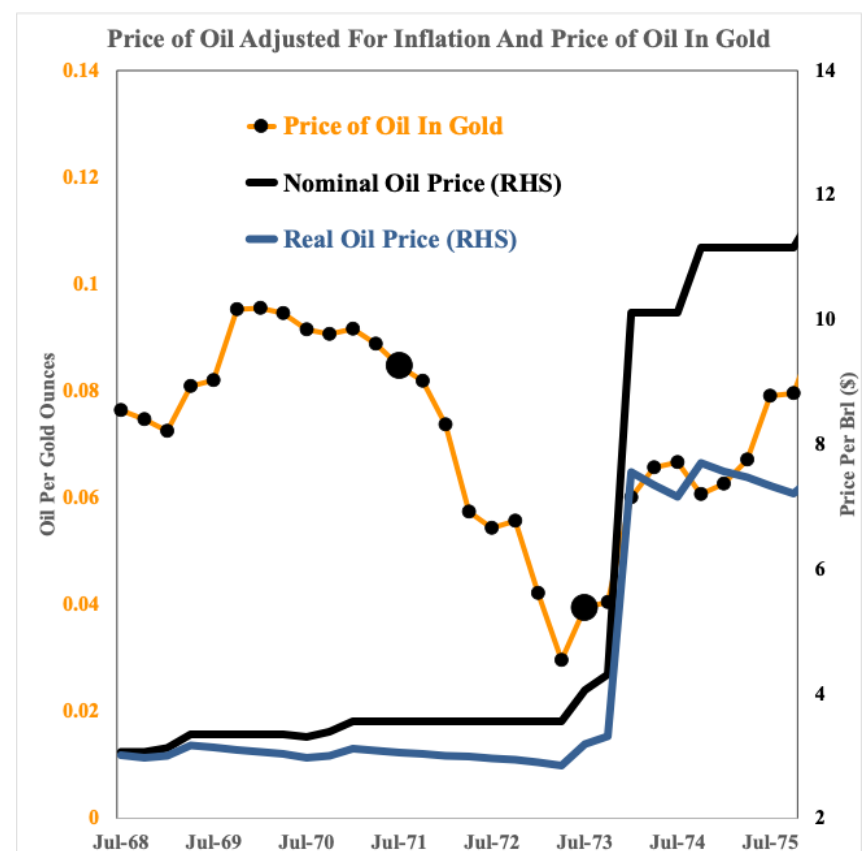
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Another Factor Was The Depreciation of The USD After Nixon Took The US Off the Gold Standard

Price Of Gold After The US Went Off The Gold Standard..



The Price of Oil Was Little Changed in Gold Terms Even After The Spike



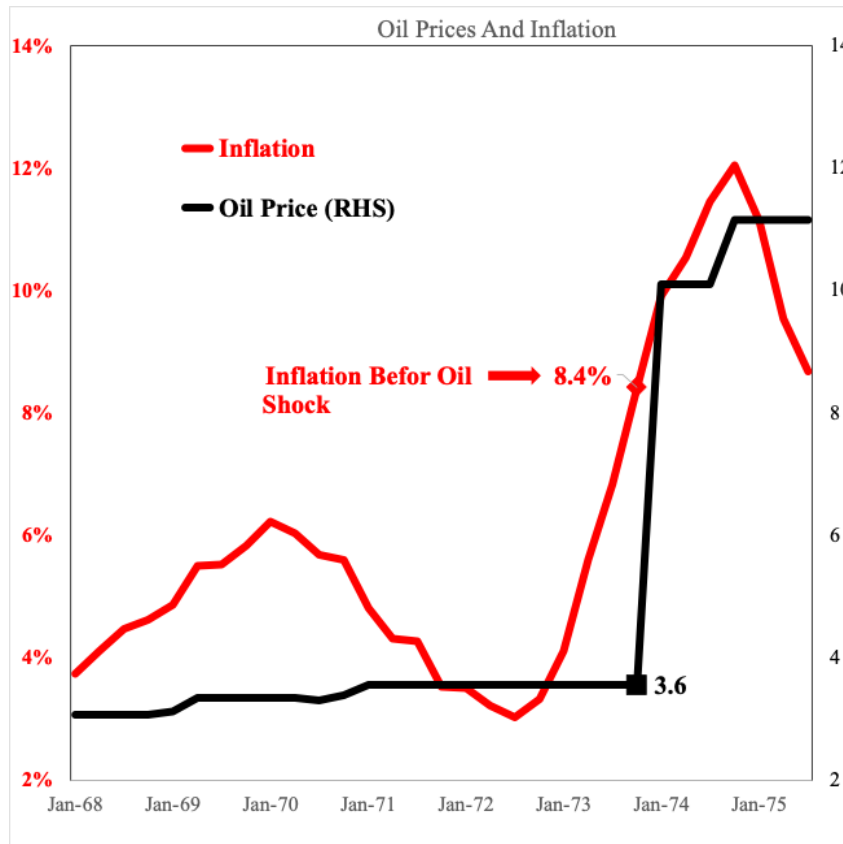
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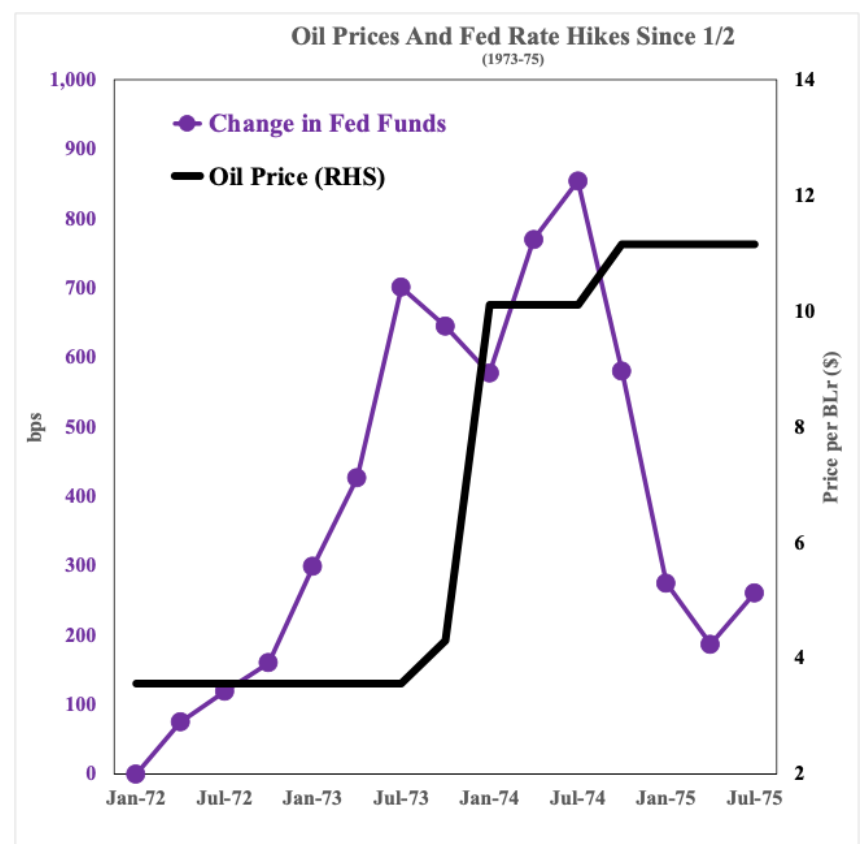
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The Economy Was Slower Before The Oil Spike, Reflecting The Fed Rate Hikes

Inflation Was Accelerating Even Before The Oil Spike



The Fed Was Aggressively Raising Rates To Combat Inflation



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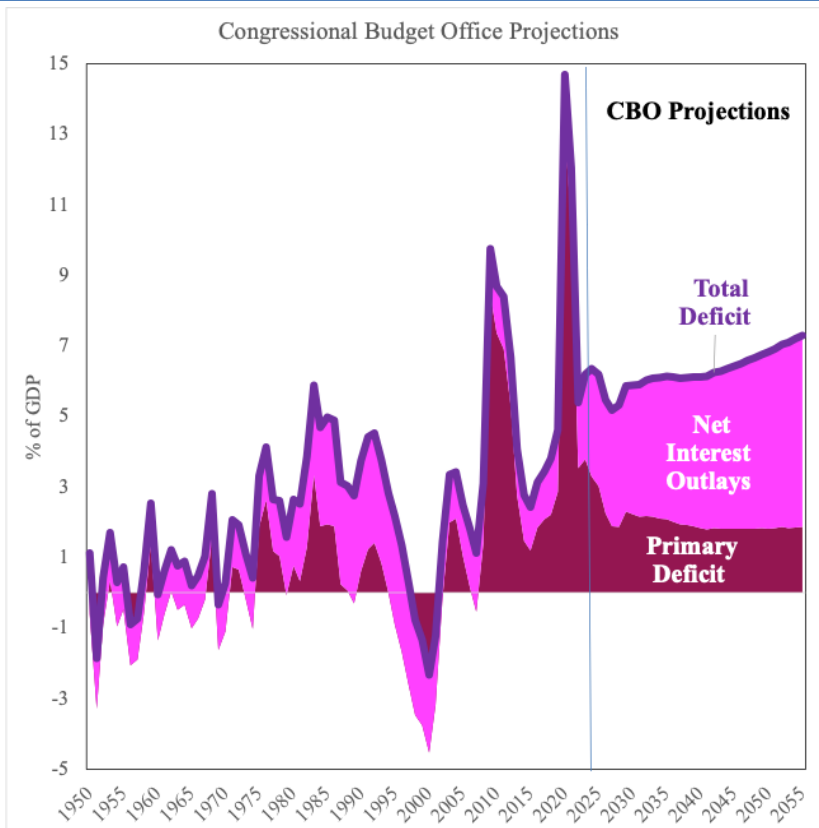
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Step 3: Identify Potential Catalysts

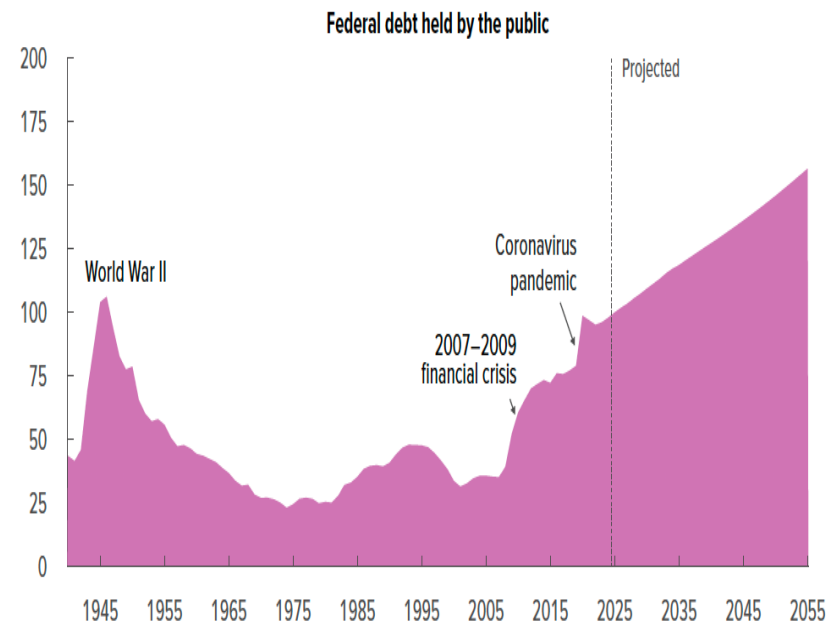
Deficits Are Expected to Increase Despite Government Budget Discipline Due to Rising Treasury Yields

Rising Interest Costs Will Push Deficits Higher

And Will Ultimately Push Debt/GDP Close to 150% of GDP



Percentage of GDP



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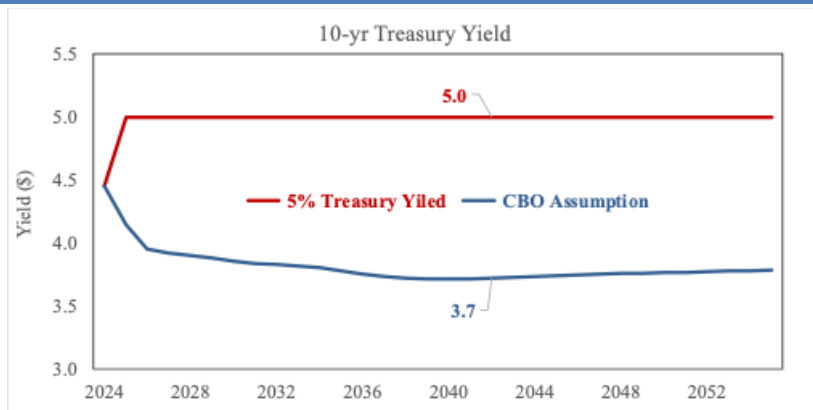
Debt Becomes Even A Bigger Problem If Funding Costs Rise In Contrast To The CBO Assumption

CBO Assumptions

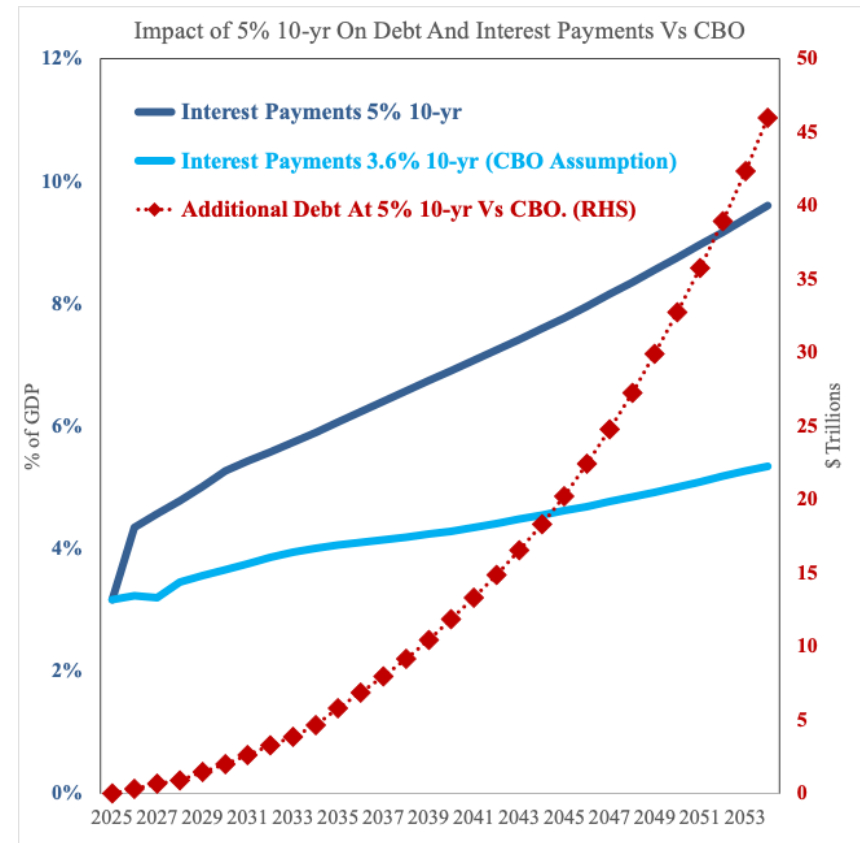
Table 3-1.
Average Annual Values for Key Economic Variables That Underlie CBO's Extended Baseline Projections
Percent

	1995–2024	2025–2035	2036–2045	2046–2055	Overall, 2025–2055
Growth of GDP					
Real GDP	2.5	1.8	1.6	1.4	1.6
Nominal GDP (fiscal years)	4.7	3.9	3.7	3.5	3.7
Labor force growth	0.8	0.6	0.2	0.1	0.3
Inflation					
Growth of the PCE price index	2.1	2.0	2.0	2.0	2.0
Growth of the CPI-U	2.5	2.3	2.3	2.3	2.3
Growth of the GDP price index	2.2	2.0	2.0	2.0	2.0
Interest Rates					
On 10-year Treasury notes					
Nominal rate	3.7	3.9	3.7	3.8	3.8
On all federal debt held by the public (fiscal years)	3.8	3.5	3.6	3.6	3.6

CBO Treasury Yield Assumptions Vs A 5% 10-yr



Debt Growth Explodes If the 10-yr Goes Up 50 bp From Current Levels



1. CBO Data
2. Assuming the Treasury average coupon will take 2 years to reflect the 5% yield

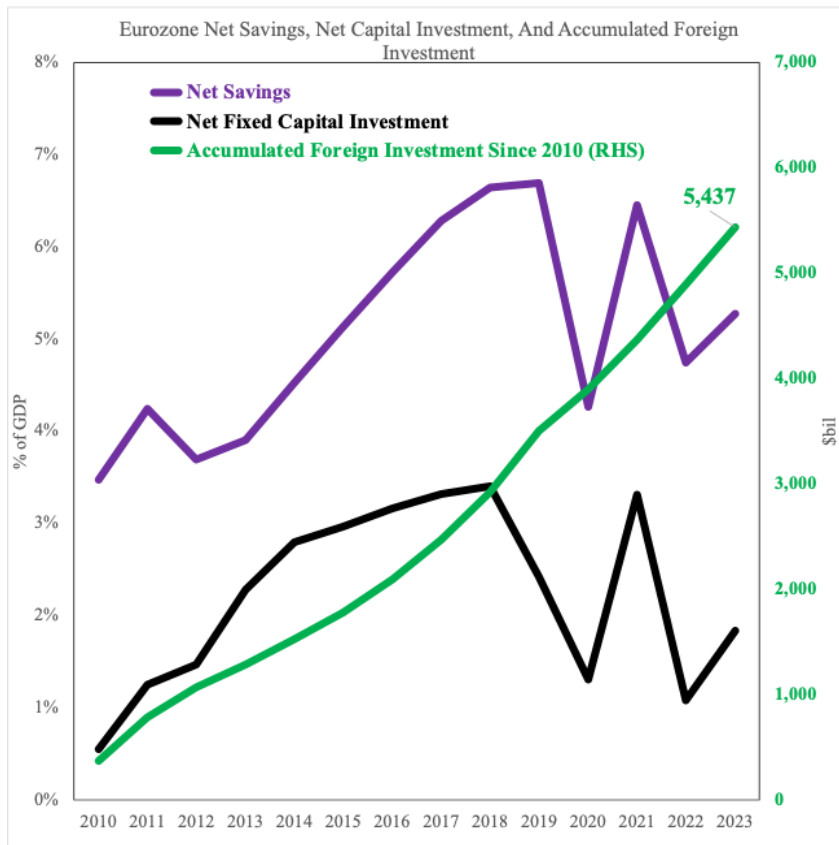
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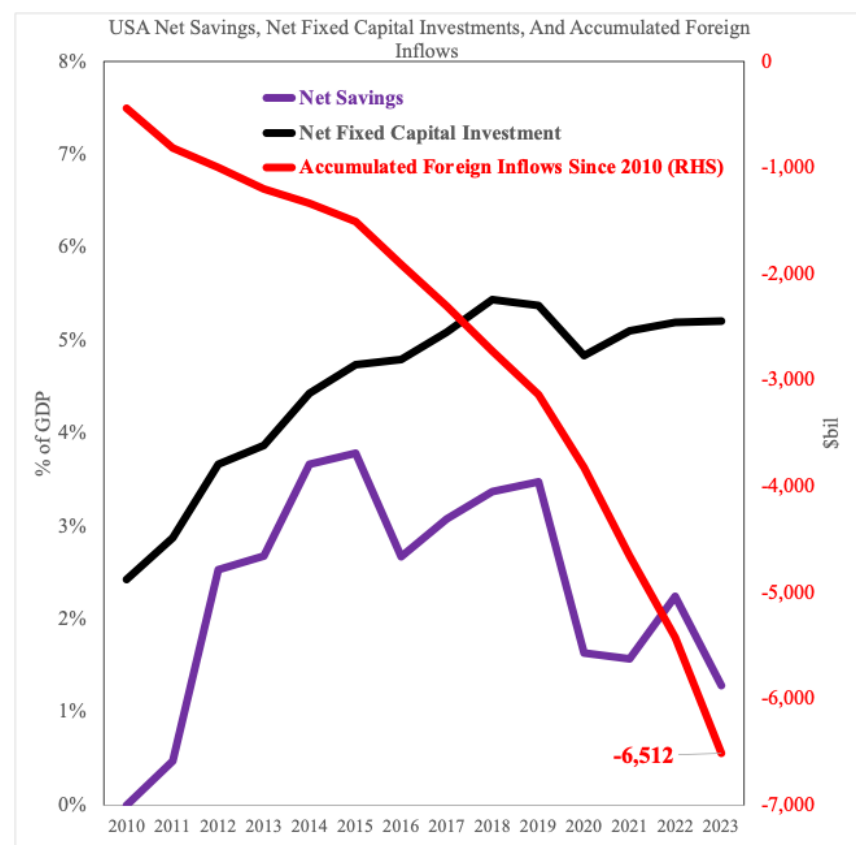
Step 3: Identify Potential Catalysts

Treasury Yield Could Rise If Tariffs Push Europe's Excess Savings Away From the US

The Eurozone Is A Net Saver But Not A Domestic Investor...



Europe Funds US Investment Given The US Savings Shortfall



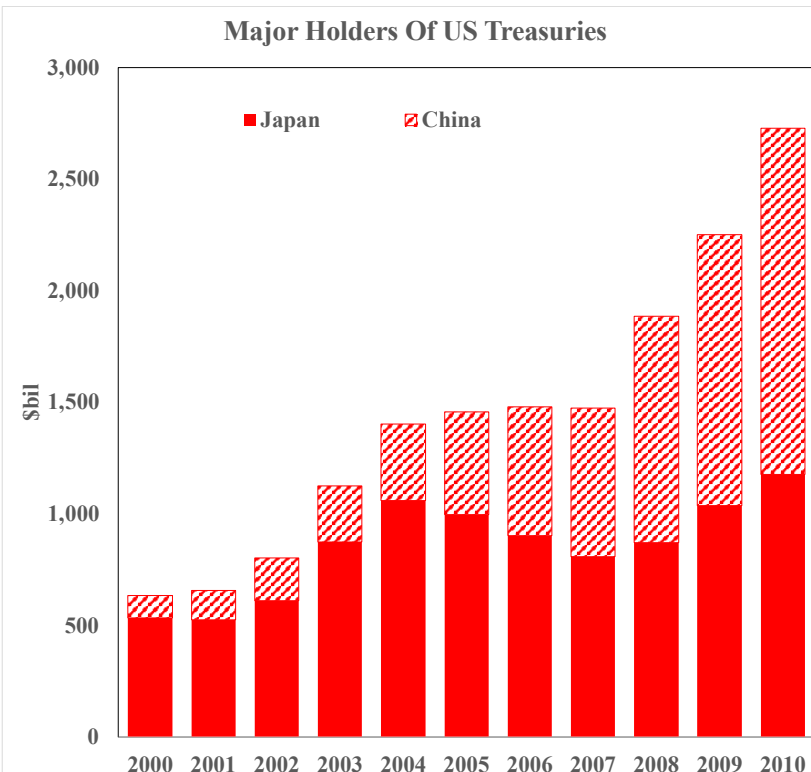
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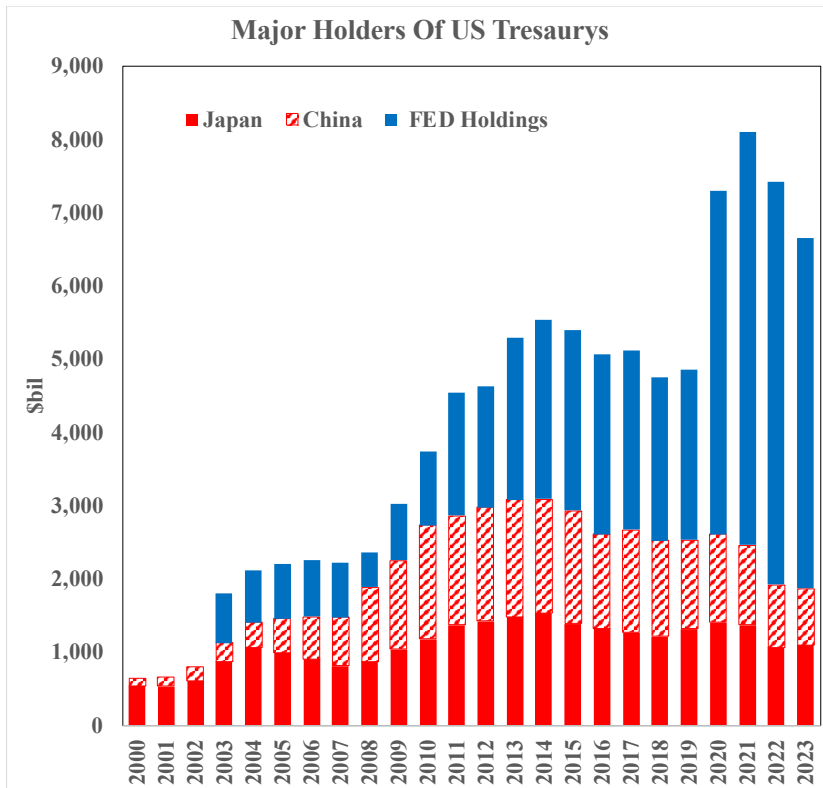
Step 3: Identify Potential Catalysts

Foreign Demand For Treasuries Must Rise Even Further To Replace The Fed's Demand

Foreign Demand For Treasuries Was Strong Prior To The GFC..



But That Flattened Out Was Dwarfed By Fed QE Buying



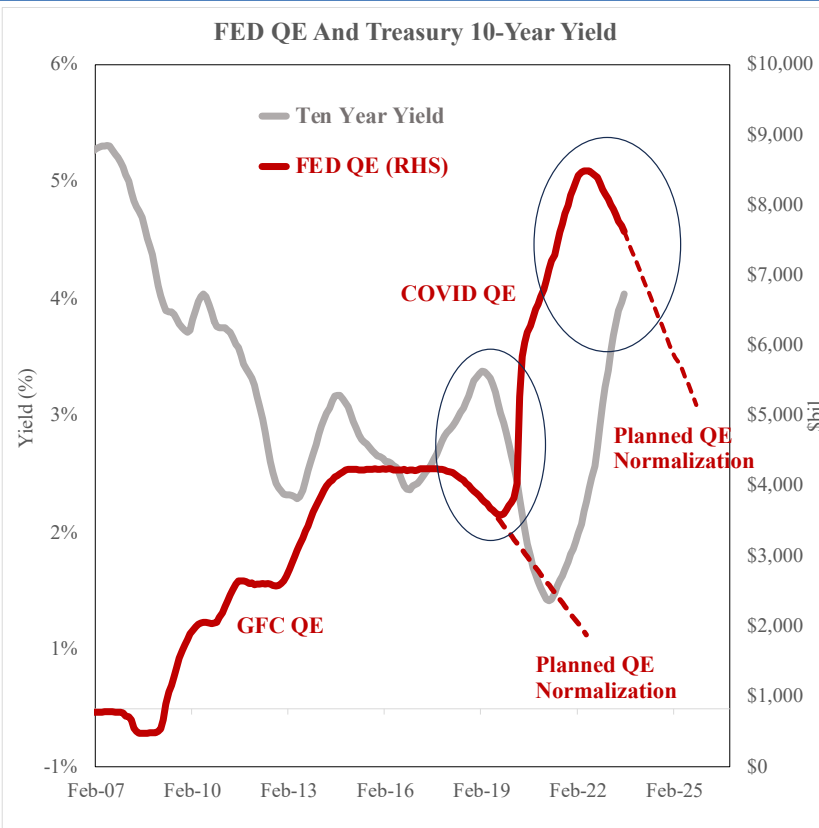
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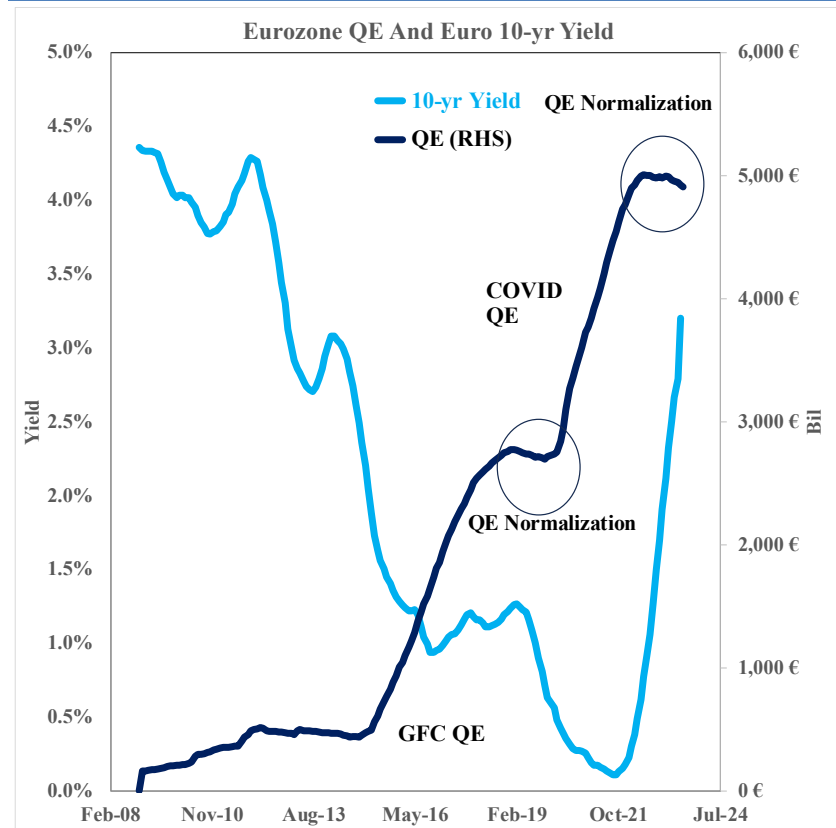
Step 3: Identify Potential Catalysts

QE Pushes Down Rates, And Now Fed QT Is Pushing Them Back Up To Normal

QE Normalization Pushed Up Velocity And Rates....



Europe Has Seen The Same Correlation



1. Bloomberg
2. Board of Governors Of The Federal Reserve, Announcement
3. ECB Data Portal

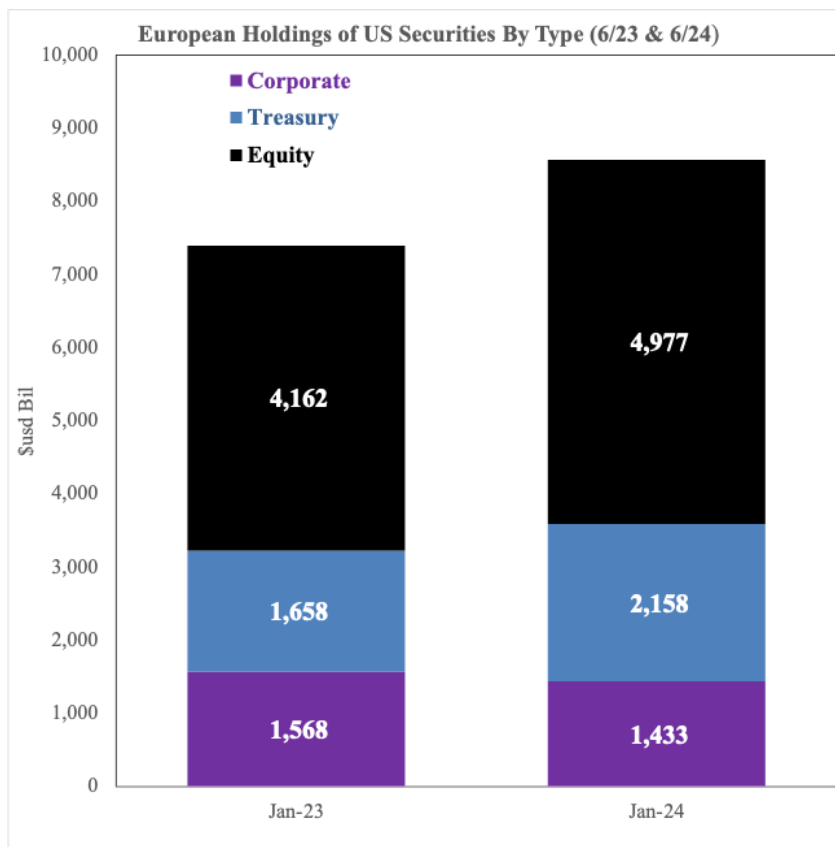
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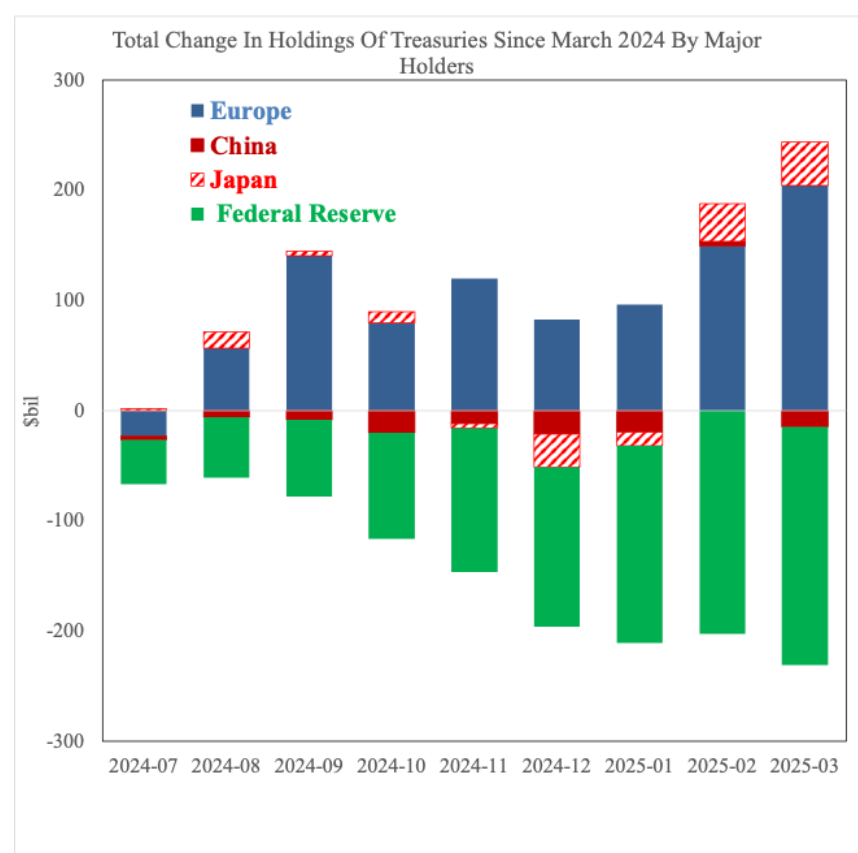
Step 3: Identify Potential Catalysts

So Far, Europe Continues To Buy US Assets, But That is For Now...

Europe Has Increased Holdings of US Assets Since 2024



Nothing Has Really Changes Given Recent Data



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