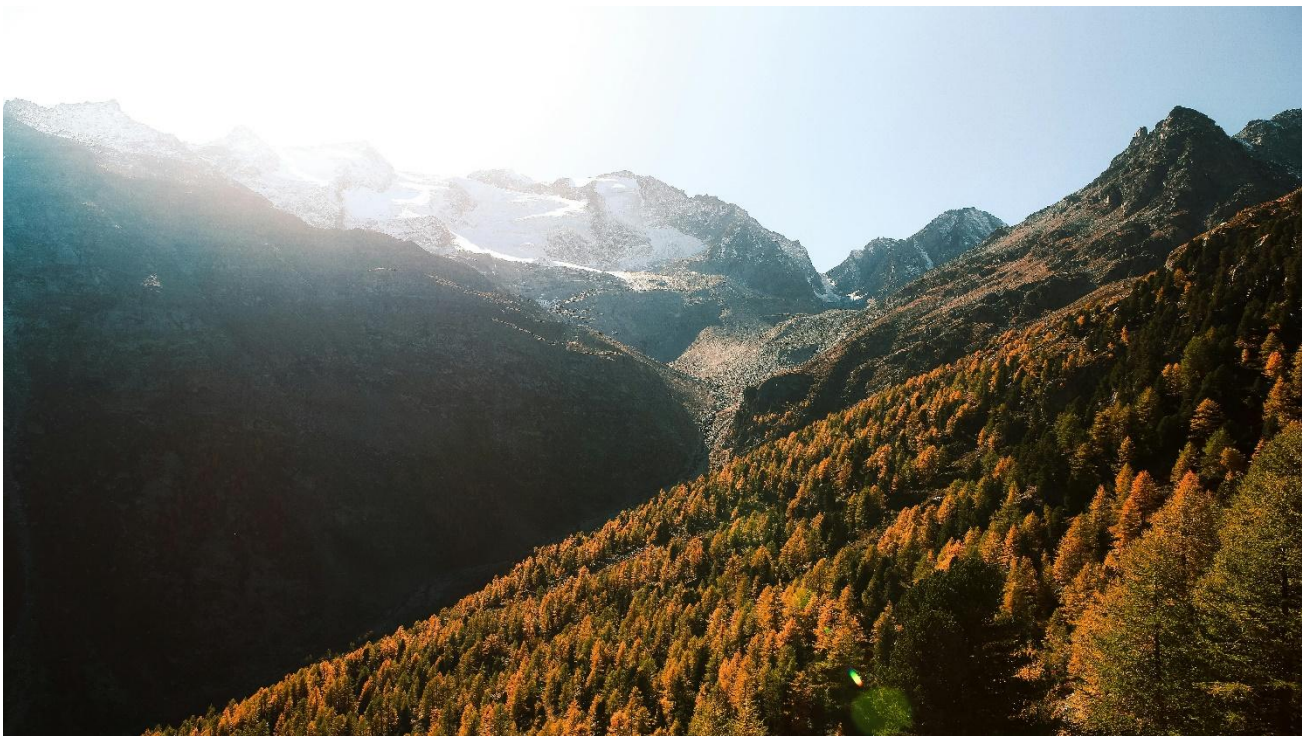


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PRESIDENT TRUMP'S POLICY MAKES SENSE FROM AN AMERICAN PERSPECTIVE

Donald Trump is often criticized for his aggressive tariff policy, his "America First" approach, and his rejection of free trade agreements – especially in Europe and other exporting nations. However, from an American perspective – particularly with an eye to reviving industry, reducing trade deficits, and boosting consumption of domestic products – his policies can be seen as logical and strategic.

If one thinks from a U.S. point of view, the primary goal is not global prosperity or the lowest possible import prices, but rather economic independence, maximum domestic production, employment, and stability. In this logic, tariffs are not merely a means of protectionism, but a strategic tool to rebalance inequities.

The Problems of the U.S.: Current Account Deficit and Budget Deficit

The United States has traditionally run a considerable current account deficit, meaning it imports more goods, services, and investment income than it exports. For 2024, the Bureau of Economic Analysis (BEA) reported a current account deficit of USD 1.13 trillion, about 3.9% of U.S. GDP. This deficit is largely driven by trade in goods: imports of goods and services, as well as income payments to foreigners (e.g. interest, dividends), grew significantly.

Key reasons for the current account deficit include:

- **Strong consumer spending and high demand for imports:** In many areas (electronics, consumer goods, clothing, machinery), U.S. consumer demand exceeds domestic production, leading to reliance on imports – often because foreign goods (especially from China, Asia, or Europe) are cheaper or more specialized.
- **Structural competitive disadvantages in certain industries:** Over decades, some traditional U.S. industries like textiles, steel, or appliances have shed jobs or moved production overseas. In these sectors, domestic manufacturing cannot easily ramp up again at large scale.
- **Low savings rates:** Personal savings rates in the U.S. are relatively low, resulting in high consumption and imports – which exacerbates the structural imbalance.

For Trump, the deficit represents a financial and strategic challenge: if a country consistently consumes more than it produces and exports, external debt rises and the nation becomes dependent on foreign capital.

A second central problem is the U.S. budget deficit, which has now reached enormous proportions. In fiscal year 2024, the U.S. government reported a deficit of USD 1.833 trillion, or 6.4% of GDP. Since the deficit is covered by borrowing, debt – and the interest on it – is rising inexorably. The growing interest burden (interest on government bonds) is weighing increasingly on the budget: in fiscal 2024, net interest payments were around USD 882 billion – roughly 3% of GDP.

Just like the current account deficit, this situation is not sustainable in the long run, because the combination of a current account deficit and a budget deficit leaves the country dependent on financing from foreign investors and states.

The Logic Behind High Tariffs from an American Perspective

The tariffs imposed by Trump have a certain logic in light of these problems:

- **Tariffs are consumption taxes on imports:** Tariffs are a form of consumption tax on imported goods – similar to a value-added tax (VAT), but applied only to goods produced abroad and brought into the country. In effect, Trump has introduced taxes that American consumers have to pay (or economically speaking, foreign exporters, if they reduce their prices to compensate).
- **A politically acceptable tax alternative:** Trump cannot politically introduce a VAT or other direct taxes, but he can impose tariffs, as these are politically acceptable in the U.S. From a U.S. consumer's perspective, tariffs appear "fairer" because one can argue: we aren't taxing U.S. producers, only imports – and that even helps support U.S. jobs.
- **Easier political sell:** Tariffs are not perceived as a typical tax increase (e.g. in income or corporate tax) and can be communicated more easily politically. The message is: "We are protecting American workers" or "We are securing U.S. jobs without raising taxes on our citizens overall."

Impacts of the Tariffs

- **On the current account deficit:** Tariffs make imports relatively more expensive. This means import volumes will likely fall (prices rise, demand drops) – which reduces the trade deficit. At the same time, substitution toward domestic production occurs, strengthening exports and domestic value creation. In an ideal scenario, the current account deficit shrinks.
- **On the budget deficit:** Tariff revenues flow into the U.S. federal budget – they provide an additional source of income without directly raising taxes on Americans. If the revenues are significant, they can cover part of new expenditures or interest payments, thereby dampening the deficit. However, the extent of this effect depends on how much tariff revenue is generated and how importers adapt their behavior.
- **Employment:** Many exporters affected by tariffs will now seek to establish production in the U.S. – thereby creating high-quality jobs. These jobs are better than minimum-wage jobs in restaurants and retail. This makes tariffs even more attractive domestically.

The Problem Won't Disappear Easily – We Must Adapt

Since tariffs address core U.S. problems and are politically acceptable domestically, we cannot assume they will simply go away – they will remain in place for quite some time. Exporting nations have to adjust and shift part of their value creation to the U.S. Swiss companies in particular, which pay very high tariffs, must follow this path – the prime example is the pharmaceutical industry.

USA'S NO.1 EXPORT: OVERVALUED STOCKS

The U.S. Current Account Deficit Must Be Financed by Capital Inflows from Abroad

In 2024, the U.S. current account deficit was USD 1.13 trillion, roughly 3.9% of U.S. GDP. This deficit arises because the United States on net imports more goods and services than it exports – essentially, the U.S. is living beyond its means: it imports too much while saving, investing, and exporting too little.

The current account deficit means a corresponding sum of U.S. dollars flows abroad – under normal logic, this oversupply of U.S. dollars overseas leads to a decline in the currency's value: countries with large current account deficits generally have weak currencies.

The U.S. dollar can remain stable only if foreigners fill this "gap" by exporting capital to the U.S. – by purchasing American government bonds, corporate bonds, stocks or real estate, or by establishing and financing companies in the U.S. These capital imports finance the U.S. current account deficit and – insofar as foreigners buy government bonds – also the budget deficit; the steady inflow of foreign investment thus prevents the U.S. dollar from dropping too sharply – it only depreciates slowly against the euro and the Swiss franc.

Value and Money Creation through Highly Valued Stocks

Foreign investors – not only private investors but also central banks – particularly favor investments in American stocks. Tech stocks in particular are in high demand; they promise growth and, due to strong demand, have achieved very high valuations. These companies have price-to-earnings (P/E) ratios that are in some cases extremely high: Tesla's is around 250, NVIDIA's over 50, Apple's about 30, and the other big tech names are all between 25 and 40. Investors are thus paying high multiples for future earnings – many newer tech stocks have no profits at all yet still carry very high market capitalizations. In such cases, investors are paying purely for expected future profits. OpenAI, which is not yet publicly traded, is valued at around \$300 billion, and Perplexity AI at \$10 billion – neither has ever made a profit.

The high valuations represent an original creation of value (and money) in the American stock market – NVIDIA, for example, has a market valuation of \$4,330 billion. This figure has essentially emerged out of nothing in the past six years – the company increased its earnings, and investors valued the stock at a P/E of 50. During the prolonged bull market, the American stock market has been creating high value every year in this way. The immense scale of this value creation is illustrated by the fact that NVIDIA's market value today is roughly equal to the total market capitalization of all Japanese blue-chip stocks (Nikkei 225), and only about 10% less than that of the Euro Stoxx 50.

Foreign Investors' Purchases Finance the Current Account Deficit

When foreign investors buy highly valued U.S. tech stocks, capital flows into the United States. This helps to offset the current account deficit. In other words, the U.S. is "exporting" not only goods or services, but also confidence and expectations – in the form of highly valued equity shares.

A strong inflow of capital increases demand for the U.S. dollar (to buy the stocks or assets), which supports the dollar. Without such inflows, the dollar would depreciate much more sharply when

faced with a current account deficit (because more foreign currency would be sought abroad). In this way, the high valuations of American stocks ensure that exchange rate risks are mitigated.

If foreign investors buy 25% of NVIDIA, they effectively finance an entire year of the current account deficit – one could also put it this way: Americans are selling foreigners the hope of future profit growth and financing their own consumer appetite with it. The sale of highly valued stocks also enables American companies to acquire firms abroad and make other investments. Normally, countries with current account deficits cannot do this because they lack the foreign exchange – but Americans can, as long as they can sell expensive stocks to foreigners.

Risks

On the surface, it appears that the U.S. has found a machine to finance its current account deficit and high standard of living via the lofty valuations of its companies – a special way of printing money.

However, history shows that high valuations are rarely sustainable. If expectations are too optimistic and companies fail to meet these lofty expectations, a sharp correction often ensues.

Examples:

- **1972/73 market crash:** A sharp decline in highly valued computer and technology stocks – it took nearly ten years to recoup the losses.
- **Dot-com bubble (late 1990s/2000):** Exorbitant valuations of tech firms, followed by massive collapses in stock prices.

With overvalued tech stocks, there is a risk that future growth will not materialize because competition increases, demand no longer grows, margins shrink, or regulatory interventions occur.

In such a scenario – which tends to occur every 25–30 years – the American “money machine” reverses: stock prices plummet and the U.S. dollar depreciates even more sharply. Foreign investors lose a great deal of money and come to realize that they truly have been financing a deficit.

Financing the current account deficit in this manner is not a sustainable substitute for genuine economic value creation. If investors lose confidence – say, because tech firms don't meet the high expectations or due to macroeconomic shocks – the downturn can be brutal, especially for foreign capital providers. The “export” of valuations is no lasting replacement for real productive capacity, and in the long term the imbalance between economic fundamentals and financial illusion can become problematic.

STAGFLATION IN EUROPE – IMPROVEMENT IN SIGHT

Economic growth in the European Union and the eurozone is currently very slow. The latest estimates for the EU are around 0.1–0.3%, barely above the threshold of a recession.

The Stagnation Has Various Causes

While Europe is struggling with minimal growth, the United States has seen above-average growth rates in many post-pandemic years – especially in the tech sector. This disparity reinforces the sense that Europe is falling behind globally.

One factor contributing to this weak growth is U.S. trade policy:

- New or restrictive U.S. tariffs on imports (e.g. on steel, aluminum, electric vehicles, solar technology, etc.) reduce European exporters' access to the U.S. market.
- Such tariffs increase the costs for European shipments to the U.S., weakening the competitiveness of European products.
- The EU itself acknowledges that uncertainty about U.S. tariff policy and other trade barriers is a factor weighing on growth. In its Spring 2025 forecast, the EU explicitly cited tariffs as one reason for lowering its growth projections.

A second limiting factor is the financial situation of many European countries: many are already heavily indebted and running large budget deficits. This constrains their ability to launch government stimulus programs or investment packages. In such a situation, governments tend to hold back on external initiatives or structural reforms in favor of consumer or investment programs at home – for fear of further worsening their fiscal metrics or even triggering capital flight.

So Far, Inflation Has Remained Stubborn

Even though economic growth is stagnating, inflation remains an issue – especially in sectors heavily dependent on energy, commodity imports, or global supply chains. For instance, energy prices in Europe are repeatedly cited as a risk that hinders a return to price stability. Central banks face a dilemma: if they combat inflation through restrictive interest rate policy, they end up further dampening growth.

Inflation Will Ease and Interest Rates Will Fall – Good for Eurozone Stocks

We expect that prices in the eurozone, as well as global commodity prices, will decline, since weak economic growth automatically leads to lower prices. Moreover, raw material consumption falls when growth is sluggish. In addition, cheap Chinese products are flooding into Europe – whereas in the U.S. their sale is limited by tariffs. Therefore, we believe that inflation in the eurozone will drop sharply in the last quarter of 2025 and the first quarter of 2026, enabling the ECB to enact significant interest rate cuts. This will stimulate the economy and boost stock valuations. We see great potential especially in European mid- and small-cap companies, as these firms are likely to benefit disproportionately from an economic upturn.

ARE GOVERNMENT DEFICITS NOW BECOMING A PROBLEM?

Many countries – especially in Europe, as well as the U.S. – carry high levels of government debt, measured as a percentage of gross domestic product (GDP). Such ratios become increasingly worrisome when interest rates rise and investors perceive growing risks.

- The U.S. has a very high debt level: in fiscal year 2024, U.S. government debt was around 124.3% of GDP.
- At the end of 2024, average public debt stood at 81.0% of GDP in the EU and 87.4% in the eurozone. Some examples of individual countries (government debt as % of GDP, end of 2024):
 - Greece: ~153.6%
 - Italy: ~135.3%
 - France: ~113%
 - Belgium: ~104.7%
 - Spain: ~101.8%
 - United Kingdom: ~95%

These high ratios mean that even moderate interest rate increases cause the interest burden to rise sharply – especially if additional financing is needed.

Until recently, high public debt was not a major issue

Up to now, the environment for government debt had been relatively relaxed:

- Interest rates were low, so despite high debt levels, governments had relatively low interest expenses.
- In many cases deficits were politically tolerated as long as growth, inflation, and confidence were intact.
- Capital markets were willing to buy bonds since the risks were perceived as low.
- Moreover, there was a prevailing belief that the ECB or the Fed would step in for European states or the U.S. if necessary – essentially printing the needed money and buying up government bonds.

The risks are increasing

Governments not only have to repay the capital they borrow, but above all must service the interest. If the interest portion of the budget – or relative to GDP – becomes a burden, other expenditure items come under pressure.

In the U.S., net interest outlays have already risen to about 3.1% of GDP (2024). Forecasts indicate that this share could continue to rise in the coming years – some estimates project interest costs of 4% or more of GDP. If the tariffs introduced by Trump do not take effect and fail to generate higher revenues, the situation will become increasingly difficult.

France is in a similar situation: interest expenses already amount to over 2.5% of GDP, and it is foreseeable that debt interest will rise significantly. If short- and medium-term interest rates fall but long-term rates rise, it points to heightened risk perception (the yield curve inverts or flattens).

A heavily indebted country for which investors demand higher returns can run into trouble:

- Every new round of borrowing must be done at higher interest rates, further increasing future interest burdens – a vicious circle.
- Because of maturity structures and refinancing risks, such countries are forced to issue shorter-term debt more frequently, since long-term investors demand higher yields. This increases the risk of interest rate and liquidity shocks.
- Loss of confidence and capital outflows: If investors harbor serious doubts, capital flight and bond sell-offs can drive up interest rates and choke off refinancing.
- Political pressure and austerity: The state is forced to cut spending or raise taxes – measures that are usually politically unpopular and economically counterproductive.

Therefore, even countries with strong reputations are more likely to come under distress if macroeconomic conditions deteriorate. It cannot be predicted exactly when the point will be reached at which a state loses investor confidence – but we already see, for example, rising yields on U.S. and French government bonds and more skeptical assessments by rating agencies. This makes a scenario more likely in which government bond prices fall and the currency (for instance, against the Swiss franc) comes under devaluation pressure.

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