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# Economic Trends: American Capitalism MEETS America First



American Capitalism Meets America First

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# Agenda

- 01 Recent Economic Performance
- 02 Review of Current Drivers of Economic Behavior and Performance
- 03 Some Thoughts on America First Policy Mix
- 04 Near and Long-term Outlook

# Predictions for 2025

- ☐ The labor market will tighten; unemployment will flirt with 3.5% and employment growth will slow.
- ☐ GDP growth will be modest, in the 2.5% range.
- ☐ Inflation will remain elevated due to policy impacts on labor and goods, ending 2025 around 3%.
- ☐ The Fed will pause interest rate cuts and our fiscal imbalance will become a growing concern in markets. S&P will increase 5% for the year.

# Outcomes for 2025

- ☐ The labor market softened at year end; unemployment finished at 4.4% and employment growth did slow
- ☐ GDP growth was modest, 2.3% y/y for Q3
- ☐ Inflation does remain elevated at 2.7%.
- ☐ The Fed is now pausing interest rate cuts
- ☐ S&P increased 16% nominally for the year
- ☐ The big surprise was the power of AI

# Current Conditions

- ☐ Main indicators are good **(6/10)** at a macro level :
  - Unemployment low, but rising, and employment growth slowing (AI and border)
  - Real GDP growth resilient, aided by productivity gains
  - Inflation is elevated but stable just under 3%
  - Equity markets and household net worth at, or near, all time highs
  - Dollar has weakened over the past year, but not alarmingly
- ☐ There is **solid momentum** in the economy heading into 2026
- ☐ The relatively benign current condition suggested in **aggregate data masks two powerful forces** shaping the economy in very different ways

# Unemployment very low but rising...

USURTOT Index (U-3 US Unemployment Rate Total in Labor Force Seasonally Adjusted)

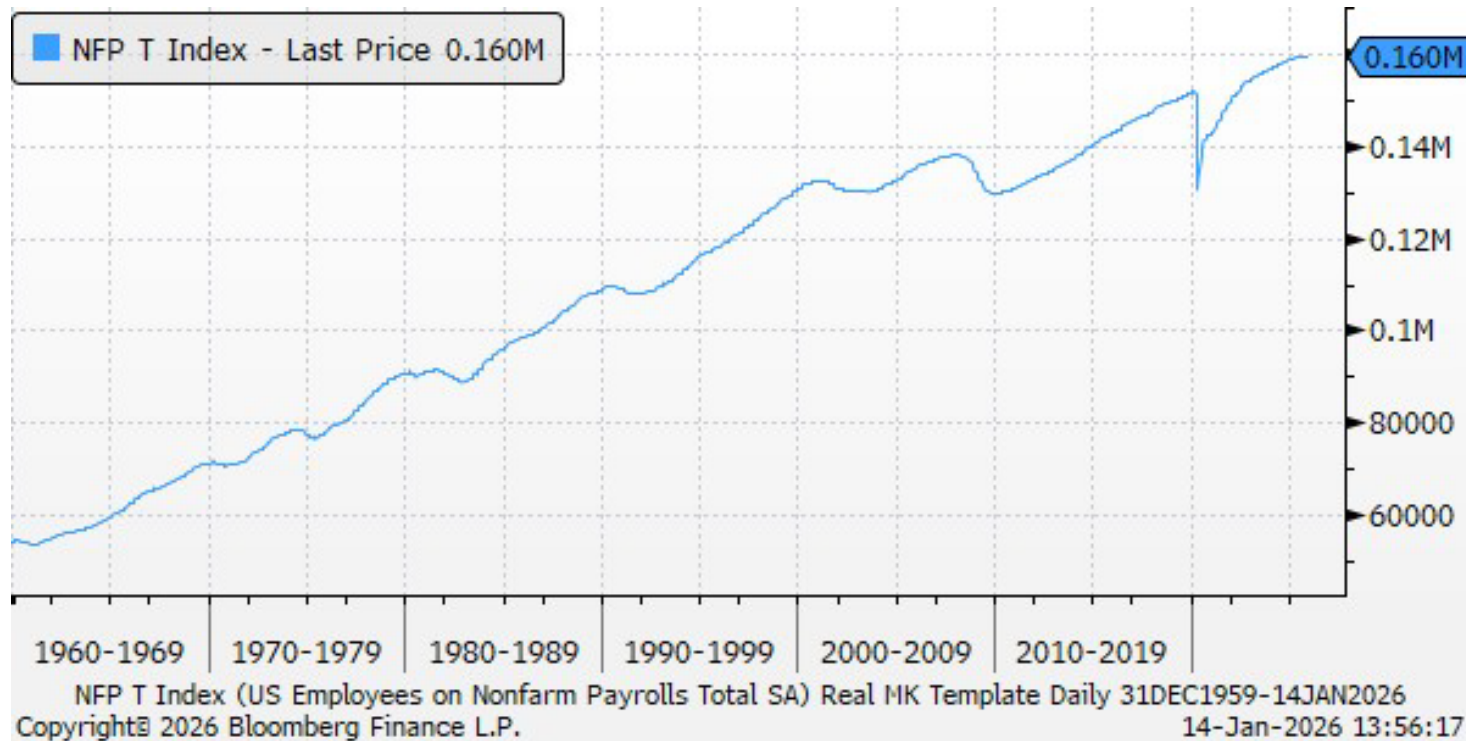
Bloomberg



# Payroll Employment high but slowing

Bloomberg

NFP T Index (US Employees on Nonfarm Payrolls Total SA)



# Real GDP Growth: Back to Trend

GDP CYOY Index (GDP US Chained 2012 Dollars YoY SA)

Bloomberg

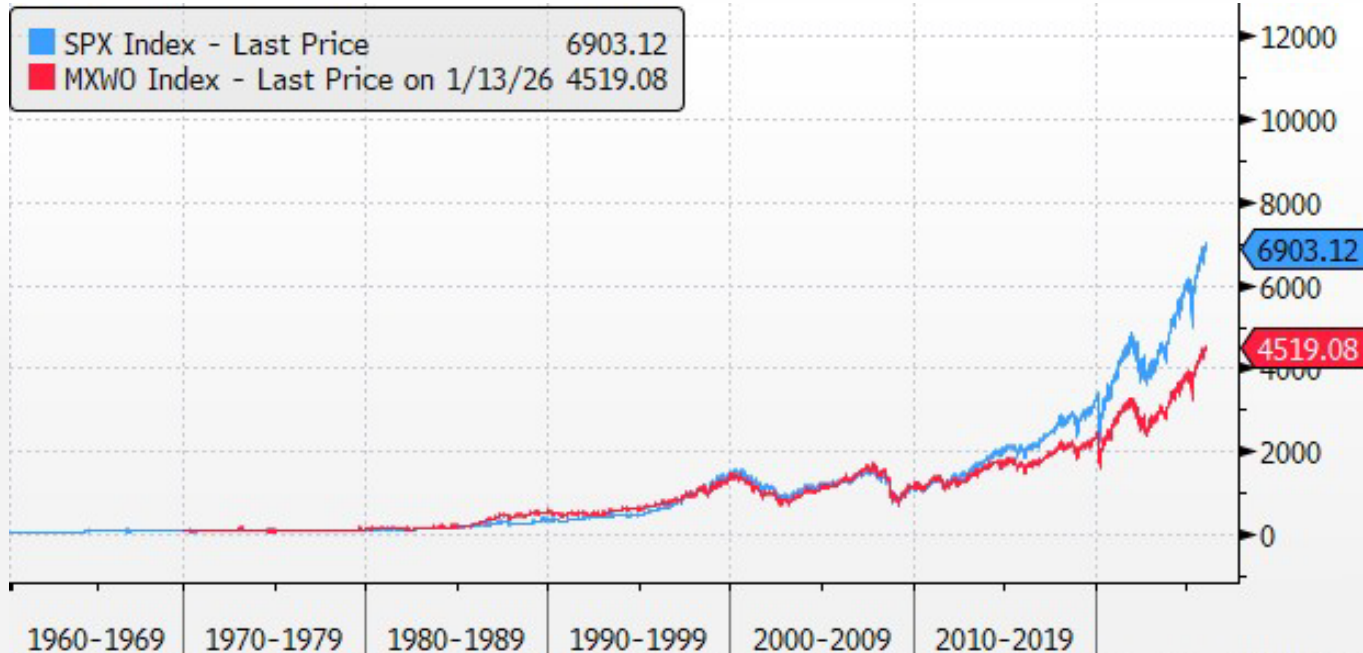




# U.S. Equities Outperform Since 2010

SP Index (S&P 500 Index) MXWO Index (MSCI World Index)

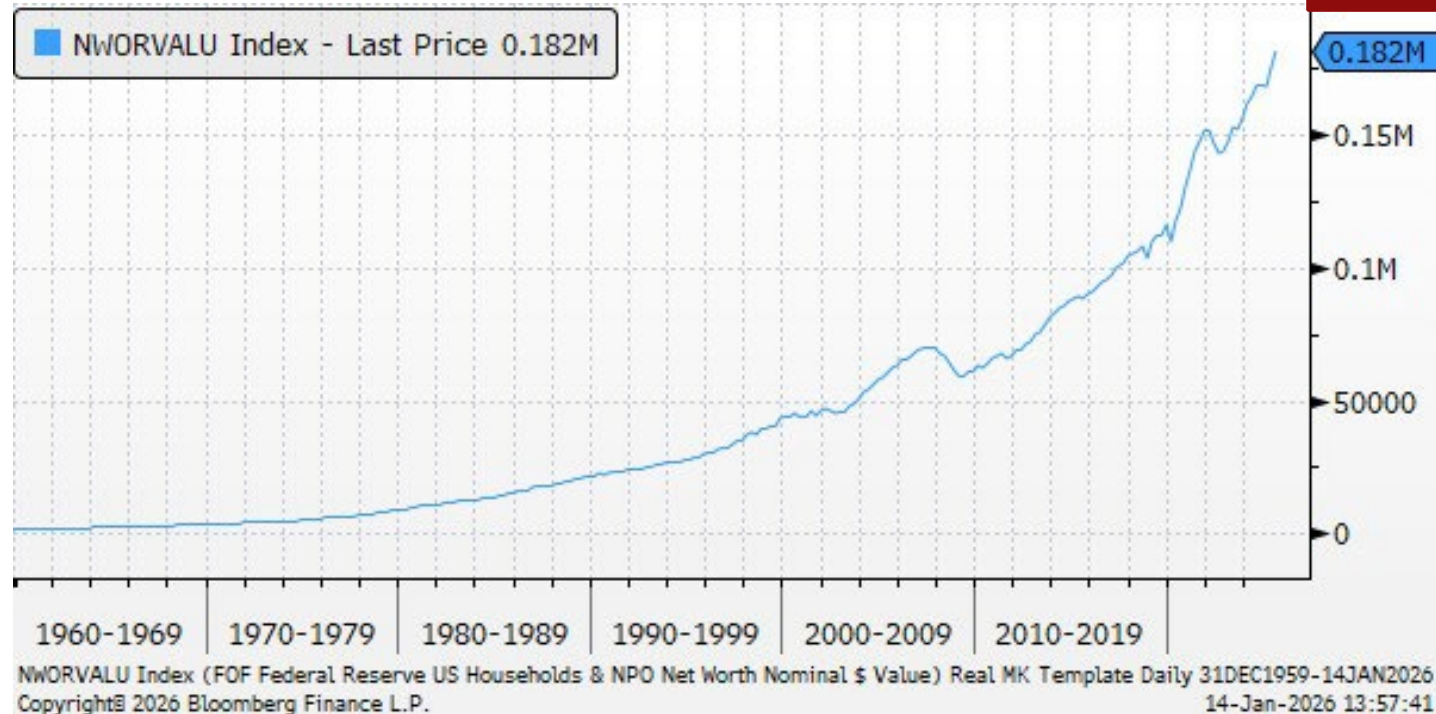
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SPX Index (S&P 500 INDEX) Real MK Template Daily 31DEC1959-14JAN2026 Copyright© 2026 Bloomberg Finance L.P. 14-Jan-2026 13:53:19

# Household Net Worth: All-Time High

NWORVALU Index (FOF Federal Reserve US Households & NPO Net Worth Nominal)



# Inflation: Falling and now Stalling

CPI YOY Index (US CPI Urban Consumers YoY NSA)

CPI XYOY Index (US CPI Urban Consumers Less Food & Energy YoY NSA)

Bloomberg



# Real Trade Weighted US Dollar Index

FRED



# Consumer Confidence is Declining

Bloomberg

CONCCONF Index (Conference Board Consumer Confidence SA 1985 = 100 )





# Drivers of Current Conditions

- > The economy is in a major transition driven by public policy changes and a technological revolution
- > The momentum of the AI/tech boom created by American capitalism is powering the economy into 2026
- > The current Administration has implemented several major policy shifts (henceforth America First or “AF” policies), mainly through executive actions, which will erode the foundations of American Capitalism over time
- > The power of the tech revolution will mask the adverse impacts of America First (even Soviet 5-year plans worked for a while...)



# AI Dominance

- According to Cembalest (*Eye on the Market, JPM*), “The Blob”, a group of 41 AI-related (*direct, utilities, capital*) companies have accounted for...

**75%** OF S&P 500  
RETURNS

**80%** OF EARNINGS  
GROWTH

**90%** OF CAPEX  
GROWTH

...SINCE THE NOV 2022 LAUNCH OF CHATGPT

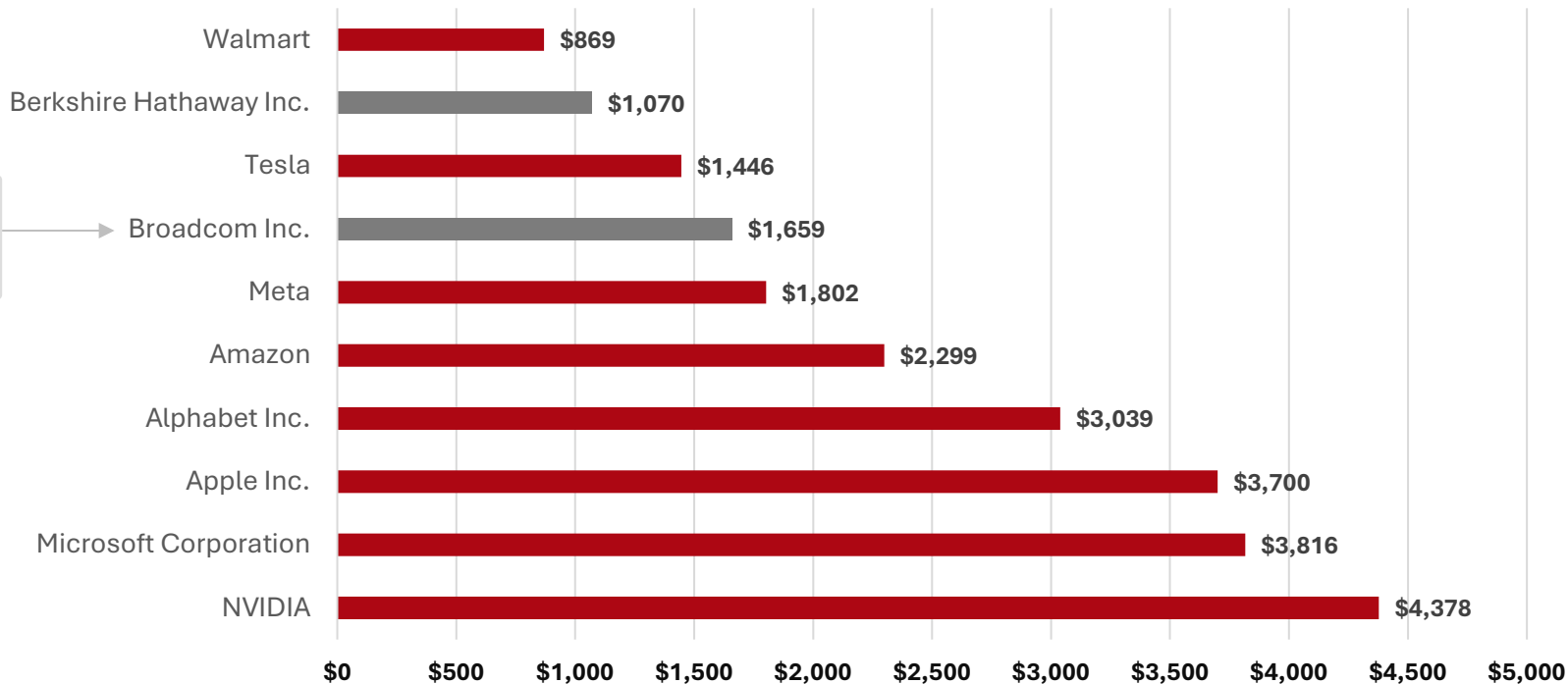
- AI is the latest manifestation of the most *dynamic* economy on Earth
- The turnover in top companies is one way to assess the dynamism





# 10 Largest U.S. Companies by Market Cap

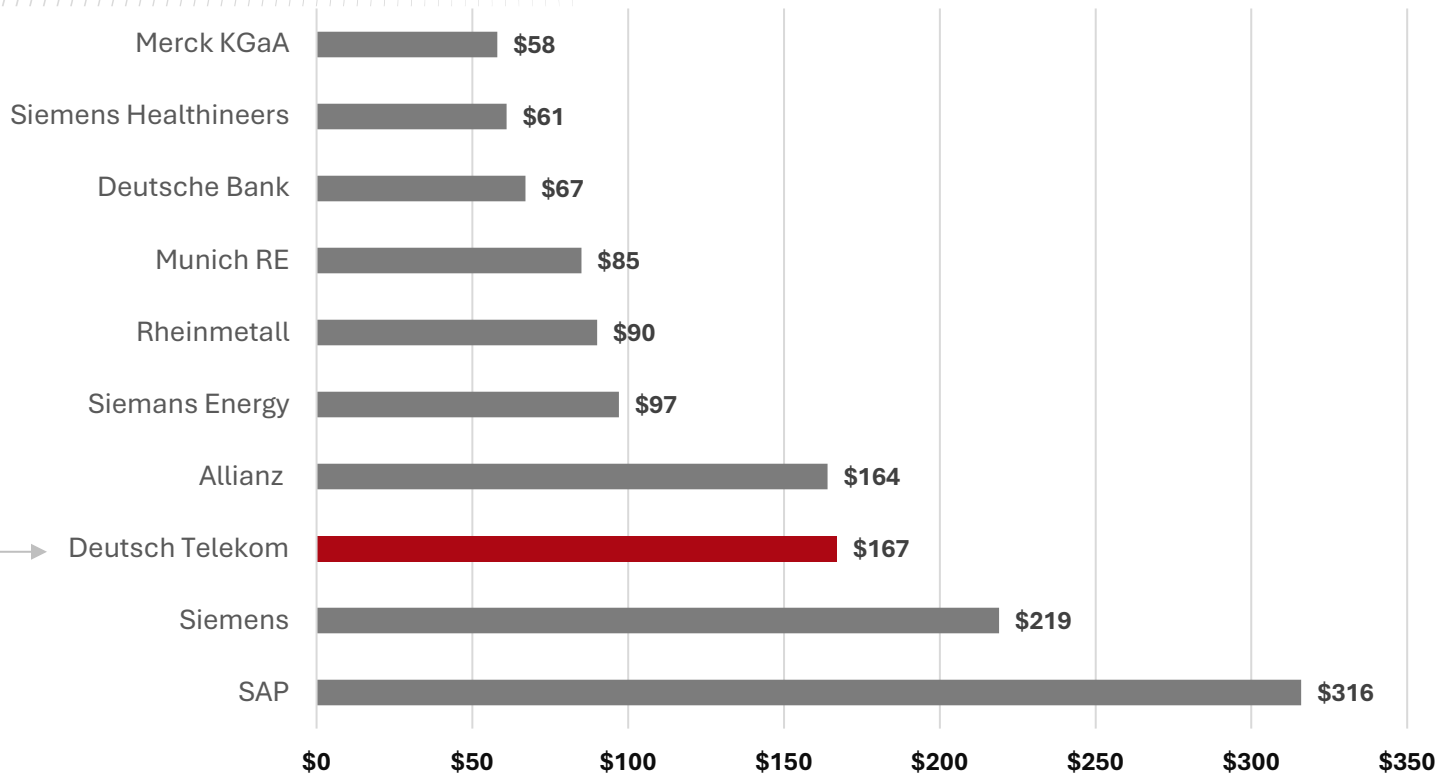
**Founded  
before 1975**







# 10 Largest German Companies by Market Cap



Founded  
after 1975



# Market Capitalism v Industrial Policy



- > Germany and Japan were anointed the rising star economies in the 70s and 80s as their autos, steel, electronics grew relative to U.S. counterparts
- > Reagan resisted protection, letting competition run its course, while Germany and Japan protected their status quo
- > What happened?
  - Germany and Japan more reliant on manufacturing, but the Chinese, Koreans, etc. are now displacing them
  - Capital flowed to build the US tech sector, which includes the highest margin industries on the planet
  - When was the last time anyone worried about Germany eclipsing the U.S. economy?

# Foundations of U.S. Economic Dynamism

- Thesis: Decentralized, democratic capitalism delivered the resource allocation and incentives that have made the U.S. economy exceptional
- The distinctive features of the U.S. economic model include:
  - **competition (consumer interest above producer) and rule of law**
  - **open to trade and immigration**
  - **dominance in higher education**
  - **stable monetary system (Fed independence)**
  - **sound corporate governance (investors call the shots)**
  - **broad, deep, unfettered capital markets (invisible hand)**
  - **entrepreneurial culture and management talent**
- National industrial policies have proven no match for U.S. innovation
- Now when tech dominance is more important than ever, a policy shift

# American Capitalism meets America First

## > KEY PILLARS OF AMERICA FIRST:

**FISCAL**  
(DOGE, BBB, shutdown)

**MONETARY**  
(challenging independence as  
Fed navigates tradeoffs)

**TRADE**  
(jettison multilateral agreements  
for bilateral fights and deals)

**LABOR**  
(immigration and migration  
down sharply)

**HIGHER EDUCATION**  
(attack on wokeism and  
research funding)

**INDUSTRIAL POLICY**  
(direct government investments  
and jawboning)

**DEREGULATION OR REDUCED ENFORCEMENT ON DOMESTIC FIRMS AND MARKETS**  
(labor, finance, competition, energy, environmental)

## > WHAT PROBLEM IS AF SOLVING AND WHAT ARE THE ECONOMIC CONSEQUENCES?



# Economic Consequences of America First

- > Whatever the intentions, AF policies will have an impact on economy

**Tax cuts and deregulation  
boost economic activity**

**Trade frictions reduce  
specialization and division of  
labor, drag on growth**

**Barriers to immigration  
reduce labor force quantity  
and quality**

**Erosion of Fed independence increases  
inflation, weakens the dollar**

**Attacks on research and foreign students  
reduce human capital and innovation**

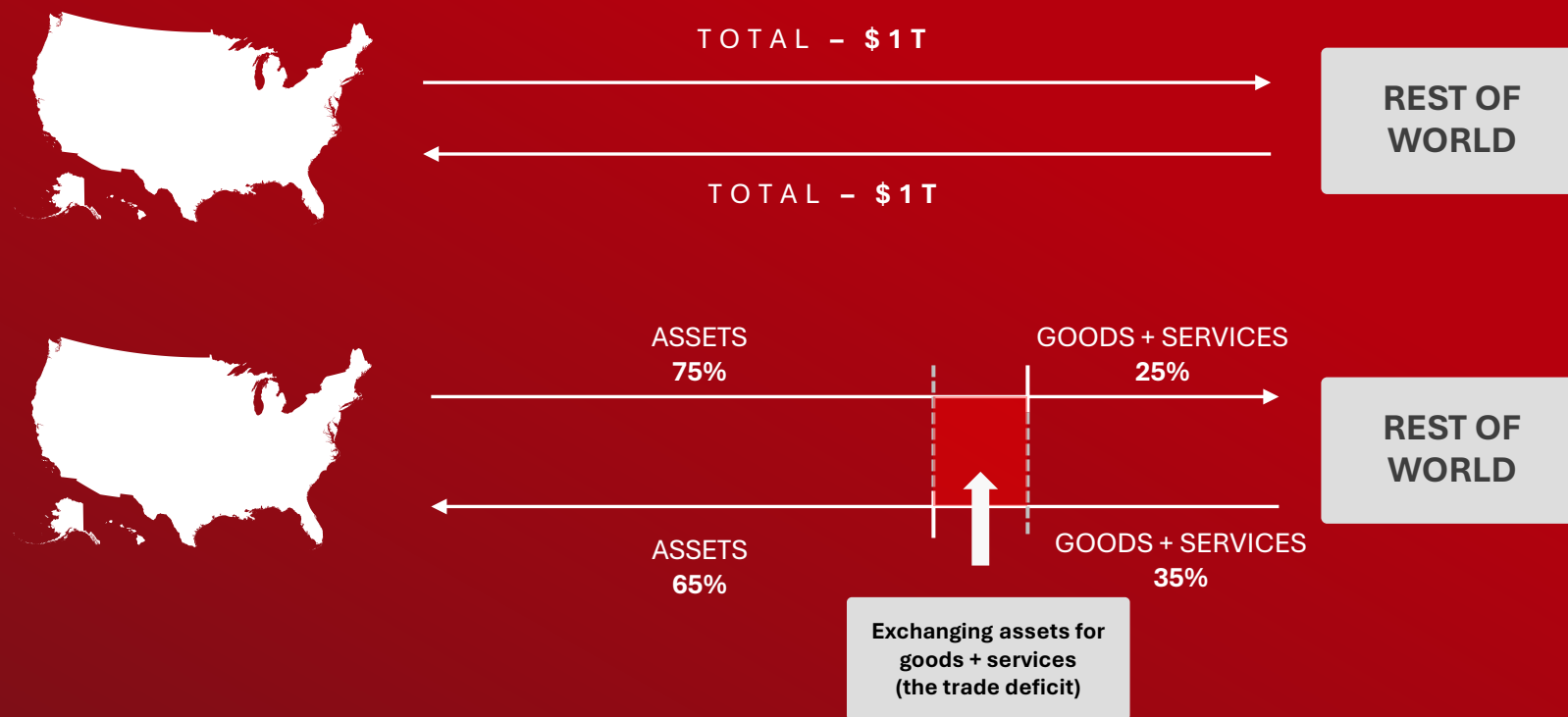
- > Impacts are hard to disentangle from the powerful effects of AI revolution
- > In the long run, AF policies will erode the foundations of American Capitalism
- > Let's dive into trade, education, immigration....

# The Original Case for Openness to Trade

- International exchange is voluntary and only happens if both parties feel better off for making the trade.
- Every exchange has a buyer and a seller, so for every nation **aggregate international exchange is, by definition, balanced!**
- If every exchange benefits the U.S. party that was part of it, trade seems to be an overwhelmingly good thing for the U.S. economy.
- Why did sentiment turn against free trade?
  - Chronic goods and services deficits easy to demonize
  - Trade has winners and losers and we never really helped the losers
  - The pattern of specialization that has emerged may pose national security concerns



# Trade 101: Trade Deficits are a Red Herring























# Trade, Investment, and Wealth Creation

- > Trade deficits are “paid for” as they are incurred by the US assets (stocks, bonds, property, etc.) acquired by foreigners.
- > The cumulative trade deficits since 2000 total about \$12.5 trillion.
- > Foreign entities own about \$31 trillion in U.S. securities compared to about \$16 trillion in foreign securities owned by U.S. entities.
- > Meanwhile, U.S. household net worth grew from \$35 trillion in 2000 to about \$176 trillion in 2025, over \$5 trillion per year.
- > Trade deficits are a natural phenomenon arising from market forces in a wealthy country with large fiscal deficits (driving our expenditure above production), great investment opportunities, high demand for consumption, and the world’s reserve currency.





# American Higher Education Leadership

SHANGHAI RANKING			
1		Harvard University	
2		Stanford University	
3		Massachusetts Institute of Technology (MIT)	
4		University of Cambridge	
5		University of California, Berkeley	
6		Princeton University	
7		University of Oxford	
8		Columbia University	
9		California Institute of Technology	
10		University of Chicago	

THE Times Higher Education					
Rank	Name Country/Region	No. of FTE Students	No. of students per staff	International Students	Female:Male Ratio
1	University of Oxford United Kingdom	21,750	10.9	42%	49 : 51
2	Stanford University United States	14,517	6.4	23%	47 : 53
3	Massachusetts Institute of Technology United States	11,085	8.0	33%	41 : 59
4	Harvard University United States	20,050	9.0	25%	51 : 49
5	University of Cambridge United Kingdom	20,565	11.5	38%	48 : 52
6	Princeton University United States	7,753	7.3	23%	47 : 53
7	California Institute of Technology United States	2,240	6.1	33%	37 : 63
8	Imperial College London United Kingdom	20,275	11.8	61%	42 : 58
9	University of California, Berkeley United States	39,991	17.9	22%	52 : 48
10	Yale University United States	11,924	5.2	21%	51 : 49

# The Role of Higher Ed in Tech Leadership

- > American higher education has a world leadership position rivaled only by our leadership in technology. We are the largest net exporter of higher ed services.
- > It builds human capital in our population.
- > It attracts the best and brightest from the world and many of them stay here. Those who return home become influential and tend to like USA.
- > Founders of largest companies almost all came out of our top universities, often immigrants or 1st generation Americans.
- > The synergies between research universities and tech is evident in tech company locations.
- > American leadership in the foundations of the knowledge economy are critical to global technological, economic, political, and military leadership.

# Immigration and Economic Performance

- > U.S. population growth **has slowed dramatically** in the last 20 years.
- > American fertility rates **have dropped to 1.6** (below the 2.1 needed to sustain population)
- > **Immigration can reduce the gap**, but it is now in decline as well
- > **Dependency ratio is projected to increase** by about 20% over the next 30 years which will put stress on entitlement and other government programs
- > Immigrants that come through American higher education system **have had huge impacts on innovation and technological leadership**
- > Most immigrants at the entry level of the labor market seem to **have high incentive and motivation to climb the economic ladder**
- > Creating and enforcing an immigration policy that promotes U.S. economic interests **seems vital to the national interest** in a competitive world

# Near Term Outlook

- ☐ > My base case for the U.S. economy includes
  - Sluggish employment, labor force growth
  - Modest uptick in unemployment to near 5%
  - Modest real GDP growth (2.5%) with more productivity
  - Inflation stuck near 3%
  - S&P 500 up 8%, broadening as AI adoption boosts margins
- ☐ > Over time, the AF policies will erode the foundations of American exceptionalism and lead to slower steady state growth, higher inflation, and a weaker dollar.

# Near Term Concerns



Several imbalances could disrupt the status quo

- Extreme dependence on AI theme increases risk of bubble, volatility
- Impact of AI deployment on labor market
- Growing fiscal imbalance
- Inequality in income, wealth, and opportunity fueling populism and nationalism



The imbalance in attribution also worrisome

- We blame foreign trade, the Fed, or higher ed for all ills
- We ignore inequality and fiscal imbalance which will only worsen under current technological and policy trends



# Summing it Up

- The U.S. economy is a dynamic super tanker, **currently propelled by AI revolution**
- Major shifts in policy, aimed at non-economic concerns likely to **increase stagflation risk**
- The long-term outlook is worse **if the foundations of dynamism remain under attack**
- Cembalest JP Morgan 2025 Outlook “The Alchemists” is looking spot on...if you break too many things at once, bad things can happen
  - Trade, the Fed, higher education, multilateralism
- Russell Roberts’ wisdom for policy makers to “Don’t just do something, stand there!” is worth considering