Opinion **US equities**

The end of American exceptionalism goes way beyond Trump

It has been building, and is likely to be unravelling, for a long time

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The overdue rebalancing of global markets has just begun © Michael Nagle/Bloomberg

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Many of the same people who hyped the election of Donald Trump to the White House as a huge boost for "American exceptionalism" now see the recent decline in US stocks and the dollar as a sign that this era of US dominance is under threat. They tie this sudden turn to Trump, too. If it were not for the daily dramas in Washington, they seem to think, US markets would still be running away from the rest of the world.

The bubble in American exceptionalism, however, long predates Trump's second term. After building in global markets for years, it showed classic signs of climaxing following his election, when many seemed convinced that the new president's policies would attract even more capital to the US. But such irrational exuberance was bound to pop on the first sharp pin. If not the tumult of Trump's early days, then some other shock would have provoked investors to rethink their record high allocations to US assets.

Even after the declines 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. Meanwhile, the S&P 500 is down less than 10 per cent from its February peak and still trades 25 per cent above its rising trendline of the last 150 years.

Despite the sharp rally in European and Chinese stocks this year, US stocks are valued at a premium of 50 per cent above international markets — close to the widest leads on record. America's share of the main global market benchmark remains well over 60 per cent even though its share of global GDP is well below 30 per cent.

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

From the headlines, you would think investors are questioning US dominance based entirely on Trump's tariffs and the extreme uncertainty surrounding his policies. But the hype around American exceptionalism was built on superior US economic growth, which was artificially juiced by massive government spending and an unprecedented boom in capital expenditure in artificial intelligence. The US economy had never been this government-dependent before, and running budget deficits of 6 per cent was not sustainable. Meanwhile, the recent fiscal reforms in Germany, and the launch of low-cost AI models in China, are demonstrating that the rest of the world can compete with the US.

So far, the move out of US equities has been led by the fast-money crowd, including hedge funds. Many others have yet to follow. Even as consumer and small business surveys show declining confidence, American retail investors keep buying the dip. They have poured more money into US stocks every day (but one) since prices peaked late last month. Often, they are using the most aggressive vehicles available, such as leveraged ETFs.

Foreign investors, from Australian pension funds to Japanese insurance companies, keep moving money into the US, too. In recent years, more than 80 per cent of the money 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.

Given their bullish views on the dollar, they have barely hedged their exposure, leaving the US currency as vulnerable as ever. For decades, the country 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 per cent of US GDP, a level that has often signalled currency decline in the past. And today the deficit is even wider, at 80 per cent of GDP, while other developed economies are mostly running surpluses.

In the past, stocks around the world tended to do well when the US market did well, and poorly when the country 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 the US is faltering and few other nations are stumbling with it.

European stock markets just had their best month for foreign inflows in a decade. Japan is attracting inflows as well. Emerging markets are no longer falling with the US market, either. And as the questions about US economic and market

US market, either. And as the questions about US economic and market dominance spread to the broad mass of investors worldwide, the hype for American exceptionalism will continue to fade. It may be hard to believe but many of the forces at play are even bigger than Trump.

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