Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
Thomas Demas, Managing Director
Michael Warren, Energy Strategist

MACROCOSM

The "Mar-a-Lago Accord" has Already Happened

Friday, August 15, 2025

Donald Luskin

Japan will "invest" half its US Treasuries in a US SWF. We get 90% of the profit. That's default.

Talking about President Donald J. Trump's trade deals Tuesday on "Kudlow" on Fox Business, Treasury Secretary Scott Bessent gave the game away [our emphasis]:

> "We have these agreements in place where the Japanese, the Koreans and to some extent the Europeans, will invest in companies and industries as we direct them, largely at the president's discretion. …The way to think about it is *these huge surpluses accumulated offshore, let's say Japan, where we're going to have $550 billion and they will be reinvesting that back into the US economy, and we will be able to direct them*..."

Those surpluses are already reinvested in the US economy in the form of foreign holdings of US Treasury securities. That $550 billion investment from Japan Bessent is touting is half the value of Japan's Treasury holdings. The White House "fact sheet" on the Japan deal says, "The United States will retain 90% of the profits from this investment."

- Do you see it?
- *Under threat of enormous tariffs, Japan is, in essence, being forced to convert half its Treasury holdings (which it controls, and on which it earns 100% of the profits) to a new investment (which it doesn't control, and on which it will earn 10% of the profits).*
- *That's a default.*
- *When you hold a gun to a bondholder's head and force him to convert his bonds into some lesser security, that's a default.*
- *This is a version of the "Mar-a-Lago Accord"* proposed by fringe economist Zoltan Poszar and endorsed by Stephan Miran, the fringe economist who was nominated to the Chair of the White House Council of Economic Advisors at Bessent's recommendation, and who has now been nominated to the Board of the Federal Reserve (see "Miran: We Warned You, and We're Warning You Again" August 8, 2025).
- The "Mar-a-Lago Accord" is a forced exchange of foreign Treasury holdings into new 100-year zero-coupon bonds, to be called "Century Bonds." Miran can call it anything he wants. If it's a forced exchange, we call that a default.

Update to strategic view

US MACRO, US BONDS, FEDERAL RESERVE: The coerced investment in a sovereign wealth fund controlled by Trump is the logical equivalent of the "Mar-a-Lago Accord" endorsed by Miran. Bessent calls it a return of trade surpluses. It is a default, in which nations such as Japan are forced, under threats of tariffs, to invest more in the US on top of their existing Treasury holdings. Markets don't seem to care, because counterparties in the trade deals are not literally exchanging their bonds. The deals enabling this will unravel when the courts overturn Trump's tariffs – we think the appeals court will rule unanimously against the government as soon as today. Future cases will invalidate Trump's invention of an SWF without any statutory authority. Trump's trade deals, none of which have been officially consummated, are a race to the bottom, and the reshoring of manufacturing is uneconomic. Markets and the economy will respond well to courts thwarting Trump's over-reach. Meanwhile, we see more evidence the administration is grooming Miran for Fed chair.

- **SIDEBAR**: We are increasingly concerned that Miran's nomination as a Fed governor, characterized as temporary by the administration while they conduct a wide talent-search for chair, is anything but – *they are conditioning the battlefield for his re-appointment as governor in January, and elevation to chair*. In the same Fox Business interview, Bessent took the talent-search thing to a new level of absurdity, saying that "the president has a very open mind. He even considered re-appointing Janet Yellen." That should take at least a little wind out of the sails of Senate Banking Committee Ranking Member Elizabeth Warren (D-MA) when she roasts Miran at his confirmation hearing, and assure Republicans they don't have to worry too much about him.
- In the interview, Bessent also said of Miran, "He's going to be a great voice. I've known Stephen a long time. He is thoughtful and methodical and has a lot to say about the Fed." The Unabomber was thoughtful and methodical, too. It's obvious to us that, as we've warned all along, they see Miran as chairman timber, and are grooming him for ascension (see "Jay Powell: Alien Enemy" April 21, 2025).
- Now, back to the matter of Trump's trade deals amounting to Miran's "Mar-a-Lago Accord."

It doesn't matter what we call it, apparently, because *the Treasury market isn't acting like it cares at all.*

- That's likely because our characterization of these events is not literal, but only one of logical equivalency. *Japan isn't literally exchanging half the Treasuries it holds*.
- Nor apparently is it selling them, or anything else, to raise the $550 billion. Indeed, Japan's trade negotiator Ryosei Akazawa was reported as saying Japan expects only 1% to 2% of the $550 billion to be an equity investment, with loans and loan guarantees making up the bulk, coming from financial institutions backed by the Japanese government.
- So we could say that *instead of exchanging half its Treasury debt for junk, instead Japan committed to even more loans – for junk. In our book, when a lender does that under duress, that's a default*.
- *Remember how Bessent put it* on Fox Business. Japan is returning "their huge surpluses accumulated offshore." *No, Japan and others have already returned their surpluses to the US by buying our Treasury securities.* And let the record show that Japan earned its surplus fair and square by selling Americans goods that they worked very hard to produce, and that we voluntarily bought.
- *Remember how Miran put it*, in his first public speech after Senate confirmation to chair the CEA (see "Is There a New US Risk Premium?" April 14, 2025). Prejudicially re-framing Trump's trade war as a quest for "burden-sharing," he said,

  > "What forms can that burden sharing take? There are many options… other countries… could simply write checks to the Treasury…"

Contact TrendMacro

On the web at trendmacro.com

Donald Luskin
Dallas TX
214 550 2020
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625

tdemas@trendmacro.com
Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

[About us]

AI podcast version

Click here to listen to an informal podcast version of this report made entirely by artificial intelligence.

Remember – AI can be funky. This is still experimental. Check it out and let us know what you think.

- No, *Japan and others already wrote checks to the Treasury*, and the Treasury issued in exchange securities representing the sacred obligation of the American people. Now it appears that is not enough "burden sharing" for Japan, merely to have lent us over a trillion dollars. Having already returned the surplus and shared the burden, insisting on more at the point of a tariff gun is a default.
- Markets aren't seeing it that way. *But let's wait and see what Treasury yields look like a year from now when foreign nations realize that these trade deals are sucking up the money they could have otherwise put in Treasuries.*
- *That is, assuming these deals are real in the first place…*

Perhaps another reason markets don't seem to care is *that the Japan deal, like all the others announced over the last several weeks, is very unlikely to ever actually happen* (see "What is the Tariff Endgame?" July 21, 2025).

- None of the deals have been fully documented, or officially agreed by the US or the respective counterparty nations. In the case of the "unprecedented," "historic" and "landmark" trade deal with Japan, the better part of a month later there's nothing but that White House "fact sheet" consisting of only high-level bullet-points. There's not a word about it, not even a press release, anywhere on the web site of the US Trade Representative.
- *All the deals are predicated on tariffs as a major component.*
- *We think they never will be fully documented or agreed to, because the tariffs will be ruled unlawful by the court, and Trump lacks viable alternative statutory authority to replace them.*
- As we predicted from the first day , tariffs imposed by a president under the International Economic Emergency Powers Act of 1977 were struck down unanimously by the Court for International Trade (see "You Heard It Here First: Court Strikes Down Trump's Tariffs" May 28, 2025). The Court of Appeals for the Federal Circuit is now considering the government's appeal. In oral arguments on July 31, the eleven-judge panel reduced Assistant Attorney General Brett Shumate, arguing for the tariffs, to a squashed bug. That's the last opportunity to argue the case – the judges meeting *en banc* will render their decision any day (see "Video: TrendMacro conversation with Jeffrey Schwab and Sara Albrecht of the Liberty Justice Center, the legal team overturning the Trump tariffs" July 17, 2025).
- It won't help the government's case for Shumate and Solicitor General D. John Sauer to have subsequently sent an unhinged letter to the bench warning the judges that,

  > "One year ago, the United States was a dead country, and now, because of the trillions of dollars being paid by countries that have so badly abused us, America is a strong, financially viable, and respected country again…
  >
  > "…a forced dissolution of the [trade] agreements could lead to a 1929-style result. In such a scenario, people would be forced from

> their homes, millions of jobs would be eliminated, hard-working Americans would lose their savings, and even Social Security and Medicare could be threatened. In short, the economic consequences would be ruinous..."

- Well, what can we say…? We'll just point out that the best analysis of the 1929 stock market crash and subsequent Great Depression is that tariffs caused them.
- Tariffs specifically aside, *the president completely lacks the legal authority to appropriate funds from a foreign nation to be arbitrarily spent at his whim* – or, "at President Trump's discretion," as it says in that White House fact sheet that is the only evidence of the deal.
- Bessent put it Tuesday on Fox Business, "I think the good framing for that is that other countries in essence are providing us with a sovereign wealth fund." That is "framing," indeed, but nothing more (see "TrendMacro conversation with Scott Adams on 'Reframe Your Brain'" September 6, 2023) – framing is not a statute upon which the president can rely in order to exercise these extraordinary powers.
- He cannot just whip up a "sovereign wealth fund" any more than, say, Barack Obama could have just whipped up government-subsidized health insurance without having passed the Affordable Care Act. The executive order establishing a sovereign wealth fund, by the way, cites no statutory authority at all – just "the authority vested in me as President by the Constitution and the laws of the United States of America."
- If any of these deals entailing other nations "providing us with a sovereign wealth fund," as Bessent puts it, survive the striking down of the tariffs, we have no doubt that *some court at some point will strike down the president's authority to will such a fund into being, and then single-handedly administer its spending.*

We suspect many of our clients will read this with dismay. In many conversations it seems to us clients are deeply committed, intellectually and emotionally, to the idea that Trump can use the extraordinary powers he is arrogating to himself to achieve twin goals – the thwarting of artificial trade barriers against the US imposed by other nations, and the re-shoring of manufacturing activity to the US.

- *As to the first – leveling the playing field with other nations on trade – we think that would be great if we achieved it by getting them to lower their barriers. But mostly we our raising ours. The deals announced so far impose large tariffs, which Trump advertises as an advantage, not a cost. That's not leveling the playing field, that's a race to the bottom.*
- *As to the second – reshoring manufacturing – we don't hold that as an unquestionable article of faith, as we sense many clients do. We suppose there is a national security argument to be made for some of it – but that's not an economic argument. It's the opposite – it's a call to sacrifice economics for the sake of security. And we often hear expressions of a deep belief that manufacturing jobs are better than service jobs, and that America was a better place when*

we had more of them. But that's not an economic argument, either, and it's not obvious to that it is true even subjectively. Actually, we agree with [Dave Chappelle]*: I want to wear Nikes, I don't want to make them… Stop trying to get us Chinese jobs!"*

- *So we find ourselves at odds with a number of clients when we say how good we think it will be for growth and for markets when the tariffs are struck down – indeed, we think the ruling could come today, and that it will be unanimous. That will avoid a massive tax-hike, allowing us to enjoy with more gusto the massive tax cuts embedded in the One Big Beautiful Bill* (see "Video: What you're not hearing about the One Big Beautiful Bill" July 7, 2025) *and savor the fruits of deregulation* (see, among many, "Oil Under Trump: War and Peace, but Mostly Deregulation" November 20, 2024).
- *We find many clients greet that prospect with a kind of sorrow, as though a great opportunity will have been snatched from our grasp. We respectfully disagree. We support Trumponomics in many ways, but we look forward to seeing the president forced to abandon the present anti-growth adventure into protectionism and presidential capital allocation. Those are mistakes for him, and the sooner we are done with them, the sooner we'll get the benefits of everything he's doing right.*
- *Believe us when we tell you that the sharp upward inflection in S&P 500 forward earnings has a lot to do with the OBBB corporate tax cuts, worth 5% of earnings retroactively to the beginning of this year. It's not because corporate America is getting rich, as the president promises, by paying tariffs.*

Bottom line

The coerced investment in a sovereign wealth fund controlled by Trump is the logical equivalent of the "Mar-a-Lago Accord" endorsed by Miran. Bessent calls it a return of trade surpluses. It is a default, in which nations such as Japan are forced, under threats of tariffs, to invest more in the US on top of their existing Treasury holdings. Markets don't seem to care, because counterparties in the trade deals are not literally exchanging their bonds. The deals enabling this will unravel when the courts overturn Trump's tariffs – we think the appeals court will rule unanimously against the government as soon as today. Future cases will invalidate Trump's invention of an SWF without any statutory authority. Trump's trade deals, none of which have been officially consummated, are a race to the bottom, and the reshoring of manufacturing is uneconomic. Markets and the economy will respond well to courts thwarting Trump's over-reach. Meanwhile, we see more evidence the administration is grooming Miran for Fed chair.