Opinion **The Long View**

So long, American exceptionalism

For the first time, investors are talking about 'US risk'

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The rest of the world is now clearly looking at the US's markets through an entirely new lens © Timothy A Clarey/AFP/Getty Images

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Published DEC 26 2025

Make no mistake, global markets really did change in 2025. American exceptionalism may never be the same again.

You have to poke around to see this clearly. On the face of it, US stocks took a hit in April, when President Donald Trump tariffed all of planet Earth, and rebounded when he backed down a week or so later, ending the year up by about 16 per cent. What's not to like?

True believers in the notion that the US has won at capitalism will tell you this proves that orthodoxy and institutions have prevailed, and we can just get back to the normal state of the world, where American assets are all that matters. For US investors, based in US dollars, that is fair enough. But the rest of the world is now clearly looking at the country's markets through an entirely new lens.

"Risk in the US is higher than it was," one senior executive in the Canadian pensions industry told me earlier this year — a realisation that hit hard in the second quarter of 2025. "There's less certainty in regulatory compliance, in tax. Things we thought were contracts are open to politics. You have to think about risk in a different way."

Sure, Trump has backtracked time and again on some of his more extreme impulses on trade and institutional independence. That is to be celebrated. But a couple of quarters of decent market performance cannot scrub away those kinds of doubts.

Some big investors tell me they feel trapped: if they buy US assets, they fear some kind of sanction if they want to sell them again in the future. They also don't dare to use their position as shareholders to push back at corporate strategy or remuneration, in case this irks the administration. If they don't buy, again, they fear retribution either against their fund or against their home government, on trade, defence or some other sphere.

One manager of a serious pot of non-US money told me he was nervous about travelling to the country for the first time in his life. In a couple of decades of writing about markets, I have never heard investors talk about "US risk" before. Now it is perfectly normal.

This grand sweep of history, the point at which high finance and geopolitics meet, is one thing. But asset managers are also responding to the cold, hard reality that 2025 was a stinker for overseas investors in US dollar assets.

"The US does not understand that the dollar hit this year was very painful," said Vincenzo Vedda, chief investment officer at German asset manager DWS. "People are rethinking how to manage that."

The 16 per cent ascent in the benchmark US S&P 500 index this year in dollars is all well and good for domestic investors. The drop in the dollar at the start of 2025, however, means euro-based investors in that same index are up just 2.6 per cent this year. That's not a typo. They are in negative territory on both the Dow Jones Industrial Average and on the Russell 2000 index of smaller US stocks.

What's more, normally, non-American investors can rely on the dollar to rise in times of stress, under the unwritten haven status it has enjoyed for decades. This has been a very handy stabilising mechanism, dulling or even neutralising the pain in times when US stocks are falling.

Now, investors no longer trust that this will work, particularly as the president seeks to assert his easy-money doctrine on the Federal Reserve. This leaves them with limited choices — they can try to hedge away the currency risk by betting against the dollar, which is often expensive and rarely scalable across a large portfolio, or they can look elsewhere to balance out returns, or a bit of both.

As a rule, asset managers are not looking to sell American investments or avoid them entirely. European and Asian markets are often just too small to accommodate really large allocations, and in any case, they still want to ride the wave in artificial intelligence — an all-American success story. But quite aside from the bubble risk in that sector, which all investors acknowledge to some extent, they need to spread the political and currency risk in a way they have not done before.

Michael Strobaek, chief investment officer at Swiss private bank Lombard Odier, said he has taken down the US exposure in a typical portfolio by 10 per cent, from about 65 per cent to 60 per cent, leaning instead on Europe and emerging markets.

"It's a meaningful move," he told me. And with the dollar proving a less reliable currency to hold in a crisis, he has been bulking up on gold.

On a recent trip to Asia, bankers, investors and wealth managers told me they were going through exactly the same thought process. Permanent capital parked in the US is "one of the easiest things to weaponise", said Michael Syn, chief executive of the Singapore stock exchange, at a Financial Times event this month. The flow of marginal funds from Asia away from the US and into the likes of the UK, Australia and Japan is the response to that concern, he said.

US asset managers tend to believe April 2025 was a blip and we are all back to business as usual. The truth is rather different.

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