Financial Market Confidence in the U.S. Is Crumbling

The twentieth century entered history books as the "American Century." And the nearly completed first quarter of the twenty-first century has also been marked by U.S. dominance – though China's determined ascent has long heralded an inevitable shift in the global order. Now, however, the sweeping policy reversal initiated by the 47th U.S. president has eroded confidence in America's global leadership.

Donald Trump has – without intending to – demonstrated to the world that decades of American overconsumption have led to trade imbalances that Washington no longer tolerates. For over 60 years, the U.S. has absorbed goods from across the globe and paid for them with dollar bills. Export-oriented nations like China, Japan, and Germany have in turn used those dollars to purchase U.S. debt, thereby financing America's chronic deficits. This overconsumption is not limited to U.S. households and businesses – it extends to the government, which has long spent more than it takes in.

Financial markets have responded nervously to the abrupt and characteristically dynamic shift in U.S. policy. Economists are now forecasting weaker economic growth and, as a result, declining short-term interest rates. At the same time, experts are expecting rising inflation. The changing conditions are clearly reflected in the U.S. dollar's exchange rate. Since Trump took office, the greenback has depreciated significantly against nearly all major currencies. Even the president's plan to grant cryptocurrencies the status of reserve currency has done nothing to support the dollar.

This policy change had a negative impact on the bond market as well. The yield on ten-year government bonds climbed to almost 4.3 % and now stands at a difference of around 1.90 % compared to corresponding German government bonds. In fact, European assets have become noticeably more attractive in response to Trump's barrage of executive orders. German government bonds, in particular, have seen strong demand recently – despite the fact that the likely incoming chancellor has announced plans for a sharp increase in public debt.

Meanwhile, equity markets have corrected. Just three months ago, optimism surrounding Trump's return to office had shaped sentiment. But that mood has shifted dramatically, as it becomes increasingly clear that the trade war he has launched against nearly every country on Earth, coupled with his domestic cultural revolution, is doing more harm than good. Major equity indices have fallen, and many investor favorites have come under sustained selling pressure. The internationally followed MSCI World Index, dominated by U.S. stocks and the U.S. dollar, is now down by double digits year-to-date. With a dollar weighting of around 80 % (including Canadian, Australian, and Hong Kong dollars), this should come as little surprise. German investors would be wise to consider carefully whether they want to hold the majority of their financial assets in dollar-denominated instruments.

By contrast, the LOYS Philosophie Bruns Fund has fared much better. Despite the turbulent past few weeks, this conservatively managed fund has delivered a positive return of approximately 3 % over the first four months of the year.

Sincerely yours,

Fund managers and co-investors

Dr. Christoph Bruns Ufuk Boydak

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