

American Capitalism Meets America First

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Agenda

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

Current Conditions

- Overall current economic conditions are good (6/10) at a macro level:
 - Unemployment low, but rising and employment growth slowing (AI and border)
 - Inflation is elevated but stable around 3%
 - Fed dilemma: labor market and inflation point to different actions
 - Equity markets and household net worth at, or near, all time highs but the gains are increasingly concentrated
 - Dollar has weakened over the past year, but not alarmingly
 - Consumer confidence may be waning and stagflation is possible
 - A tour of historical data shows captures this reality...

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

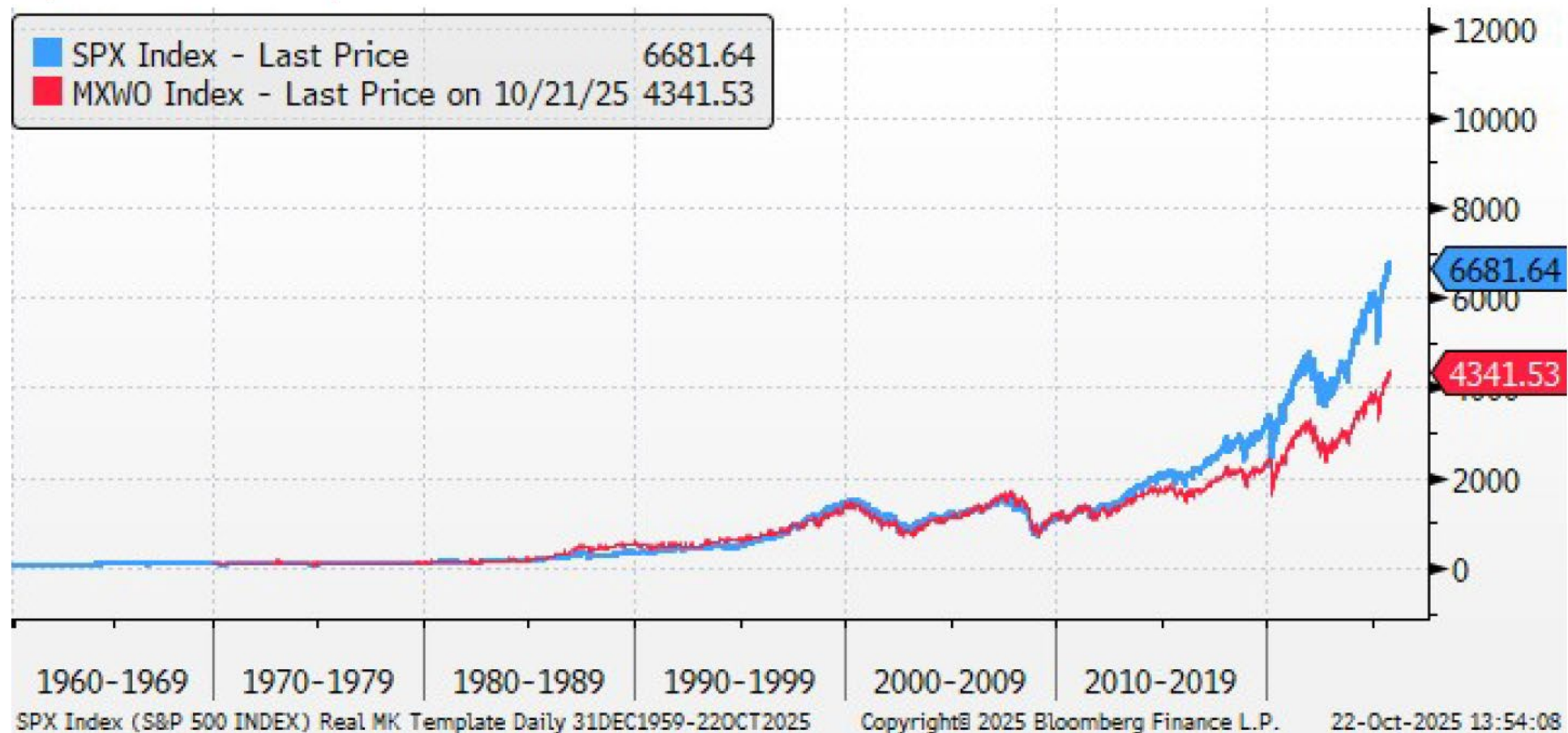


U.S. Equities: Superior Performance Eroding?

SP Index (S&P 500 Index)

MXWO Index (MSCI World Index)

Bloomberg



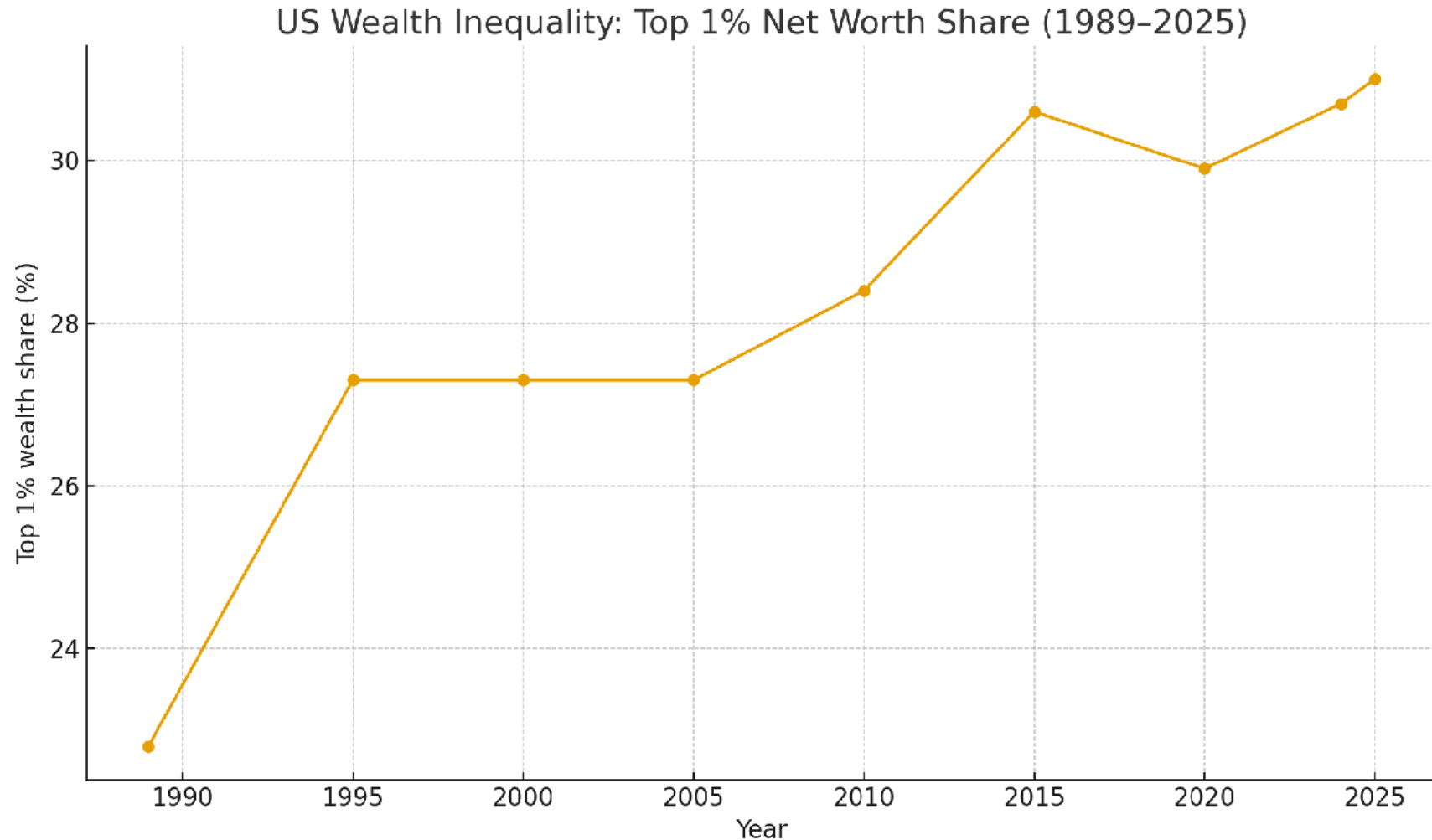
Household Net Worth: All-Time High but...

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

Bloomberg



...Concentrated at the Top



Source: Federal Reserve Distributional Financial Accounts (FRED WFRBST01134). Wealth concentration has increased sharply since 1989.

Inflation: Falling, Stalling, now Vanishing?

CPI YOY Index (US CPI Urban Consumers YoY NSA)

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

Bloomberg



TIPS 5-yr Breakeven Inflation Rate

USGGBE05 Index (UW Breakeven 5yr)

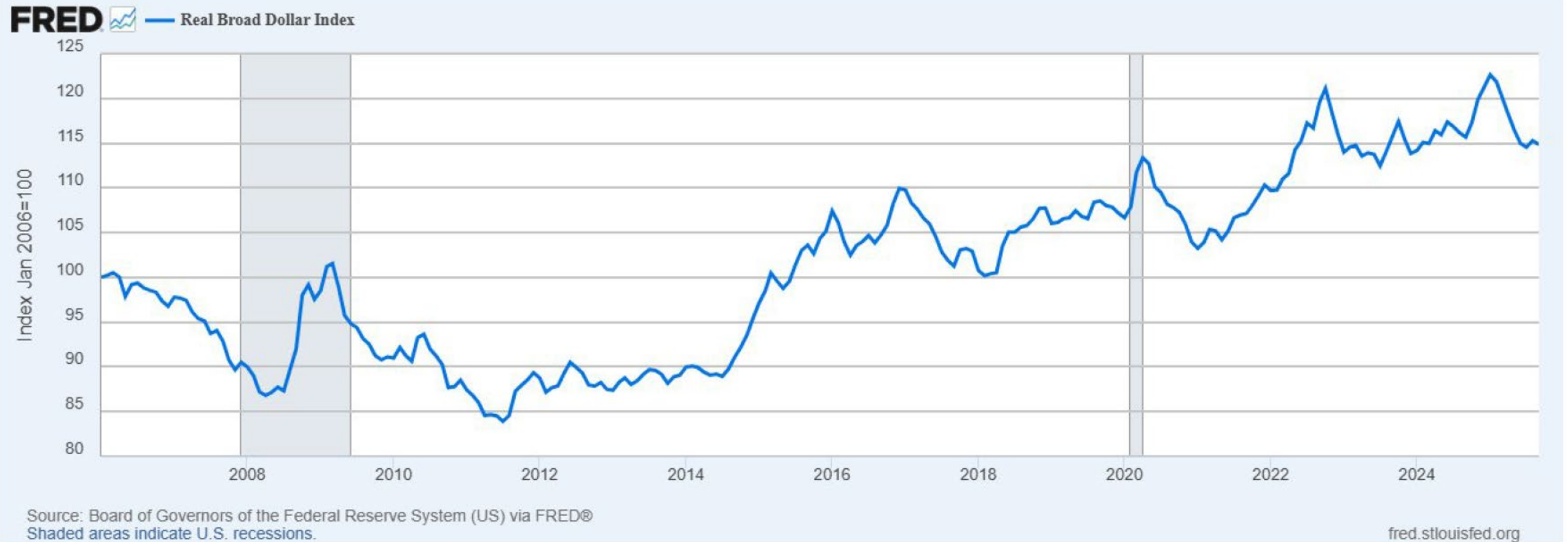
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USGGBE05 Index (US Breakeven 5 Year) Real MK Template Daily 31DEC1959-22OCT2025 Copyright© 2025 Bloomberg Finance L.P. 22-Oct-2025 13:52:35

Real Trade Weighted US Dollar Index

FRED



Consumer Confidence: Waning

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

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CONCCONF Index (Conference Board Consumer Confidence SA 1985=100) Real MK Template Daily 31DEC1959-22OCT2025

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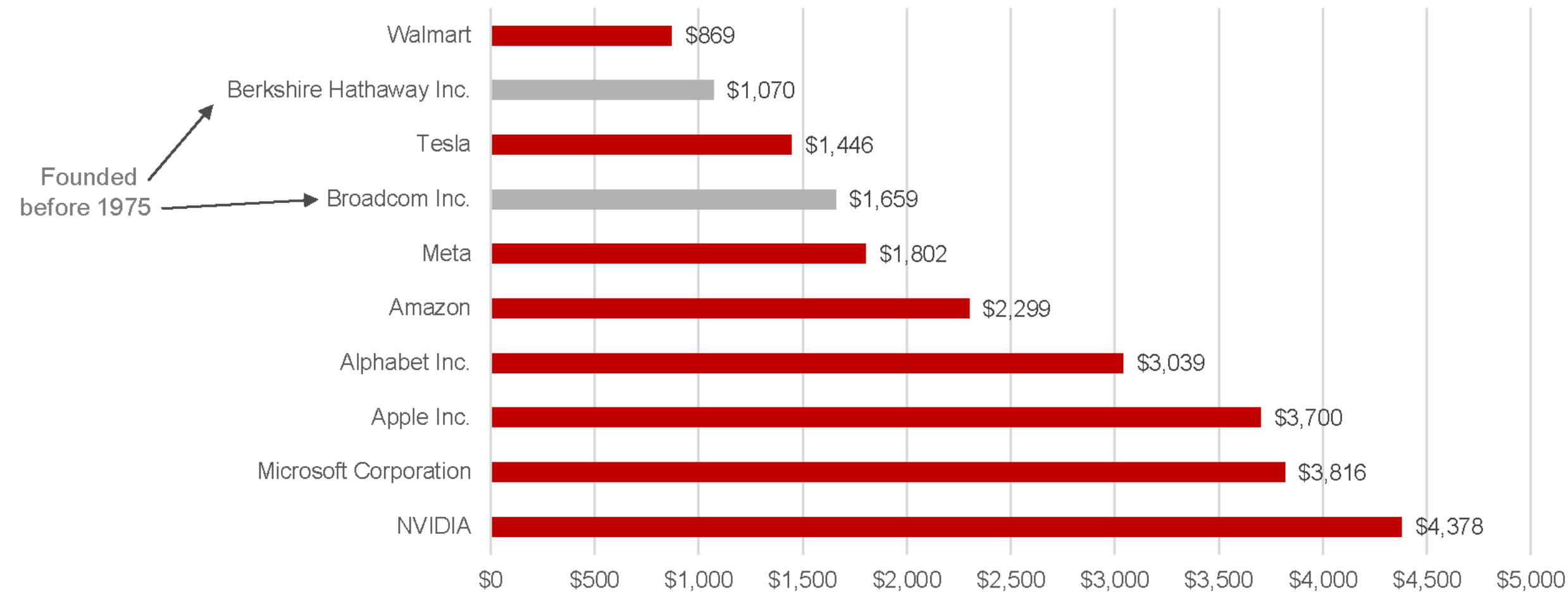
Context of Performance: Current Drivers

- The economy is in a major transition driven by both public policy changes and a new phase of technological revolution in the private sector
- The increased use of executive authorities by the Trump Administration has created myriad policy shifts and heightened policy uncertainty that is adding tremendous complexity to the operating environment of businesses.
- Meanwhile, an AI/tech boom is powering the real economy and asset markets through the heightened uncertainty

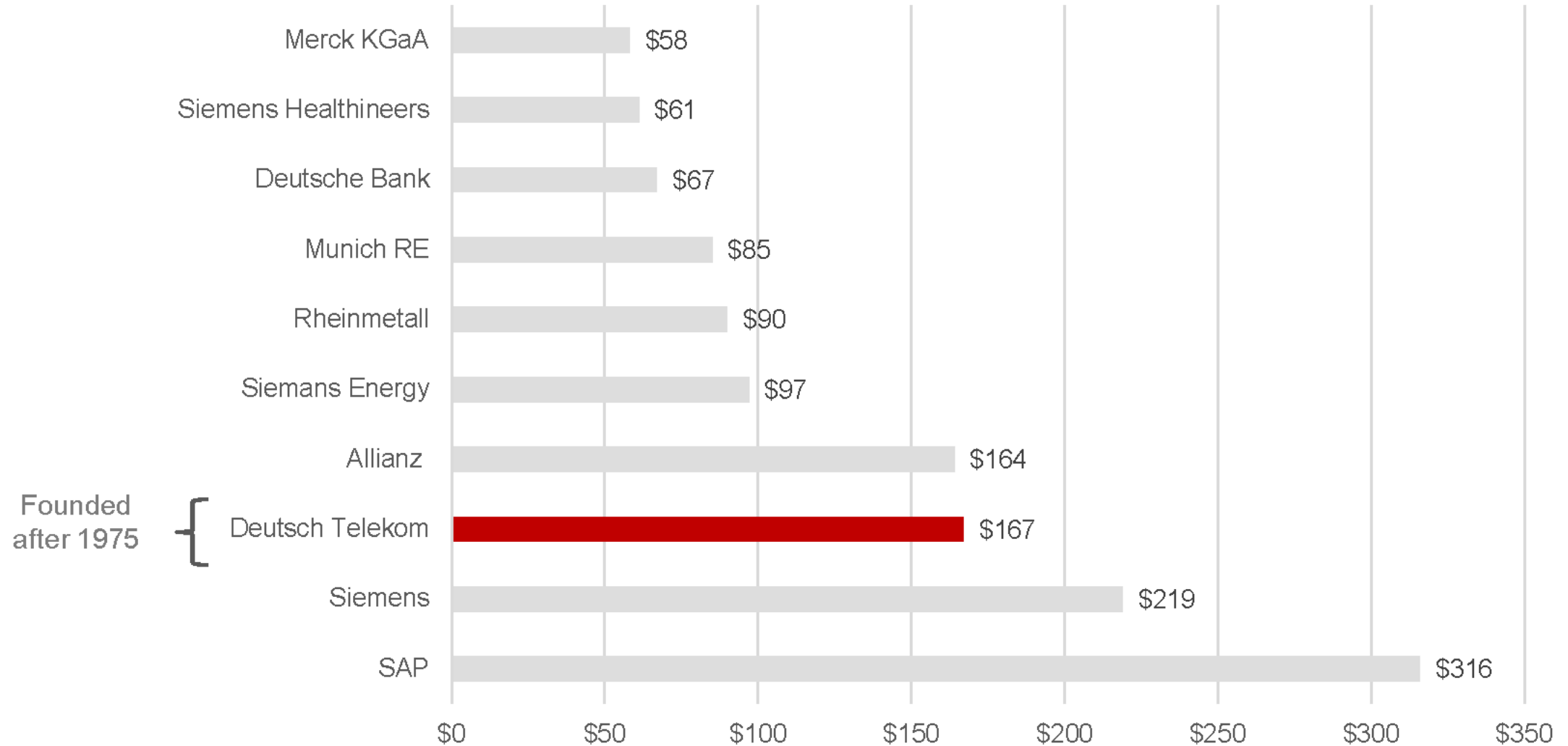
AI Dominance

- 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
 - ***All 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 that truly sets the U.S. economy apart

10 Largest U.S. Companies by Market Cap



10 Largest German Companies by Market Cap



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.
- The U.S. mostly resisted protection under Reagan, while Germany and Japan protected existing firms.
- What else happened?
 - Capital flowed to build the US tech sector and we now control the highest margin industries on planet
 - Manufacturing is a bigger share of economy in Germany and Japan, but the Koreans and Chinese are displacing them



The Foundation of U.S. Economic Dynamism

- Innovation makes U.S. exceptional
- The conditions for exceptionalism are **broad and deep capital markets, stable \$, rule of law, competition, entrepreneurial culture, management talent, and dominance in higher education**
- Government policies created the conditions for innovation, but the private sector guided resource allocation to the best opportunities, like the Mag 7
- Now a policy shift is underway...



American Capitalism meets America First

- Key pillars of America First:
 - Fiscal (DOGE, BBB, shutdown)
 - Monetary (challenging independence as Fed navigates tradeoffs)
 - Bilateral trade frictions, most extreme with China (rare earths v chips) and...Canada!
 - Labor (immigration and migration down sharply, but robots?)
 - R&D (university cuts and direct government tech investments)
 - Deregulation or reduced enforcement on domestic firms and markets (labor, finance, competition, energy, environmental)
- What problem is America First solving and what are the economic consequences?

Maybe “It’s ***NOT*** the Economy, Stupid”?

- America First policies are likely best viewed as meeting non-economic goals
 - Maximize control, power and wealth by the administration
 - National security in the face of U.S.-China rivalry and porous borders
 - Re-election (reward friends and punish enemies)
- Perhaps American capitalism exposed the US to risk in the geopolitical chess game with a large-scale rival playing a consistent strategy
 - Is AI too critical to be shaped by profit motive in consumer-oriented society?
- Going it alone (trade spats with traditional allies) seems crazy...China has 1 billion more people so easier for them to be self-sufficient
 - The U.S. needs low wage trade partners so we can concentrate effort on highest value-added sectors.

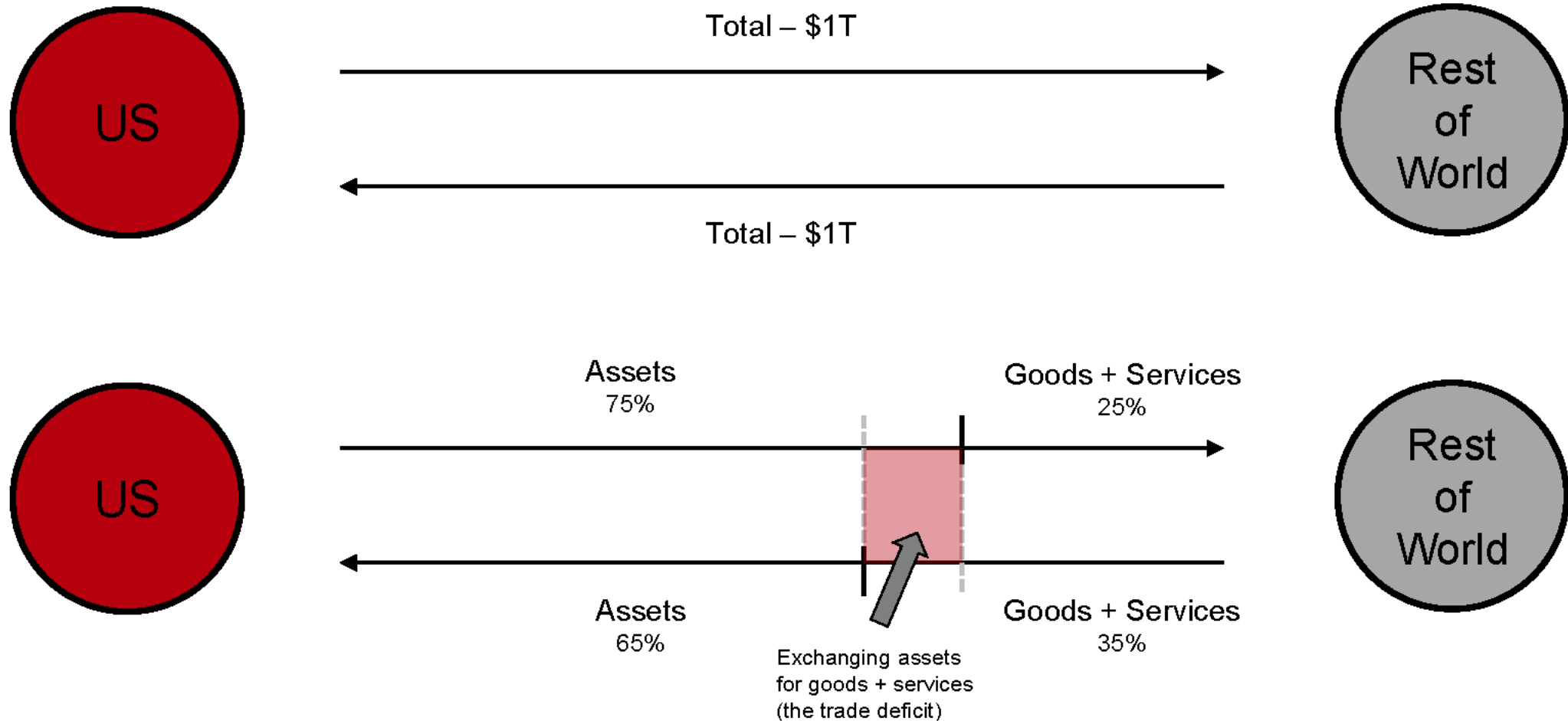
Economic Consequences of America First

- In the short run, AF policy changes have mixed impacts on macro performance
 - Tax cuts and deregulation boost economic activity
 - Trade frictions reduce specialization and division of labor, drag on growth
 - Barriers to immigration reduce labor force growth
 - Cuts to research and foreign students reduce human capital and innovation
 - Erosion of Fed independence increases inflation, weakens the dollar
- 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 and education....

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 deficits easy to demonize
 - Trade has winners and losers and we never really helped the losers (and may make that same mistake with AI revolution)

Trade 101: Trade Deficits are a Red Herring



The Meaning of Trade Deficits

- Aggregate national trade deficits mean that some trade involves swapping goods and services for assets. Why would that happen?
 - U.S. consumers want to buy from low-cost sources
 - Taken as a whole, we spend and consume more than we produce by drawing on our national wealth
 - Foreign consumers less able to afford the high value-added goods and services that are the U.S. comparative advantage
 - Foreign investors seek U.S. assets (dollar reserves, stocks, and real estate) more than U.S. investors seek foreign assets: a reflection of a truly great economy!

Trade, Wealth Creation and Fiscal Deficits

- Trade deficits are “paid for” by US assets (stocks, bonds, etc.) acquired by foreigners.
- Trade deficits have totaled about \$12.5 trillion since 2000. Isn't this a problem??
- U.S. household net worth grew by about \$140 trillion since 2000. That is not a problem!
- Net foreign investment has helped bid up our asset prices and eliminating trade deficits will, by definition, eliminate net foreign investment.
 - Irony some recent trade “deals” tout foreign investment as a win for us!
- Trade deficits are a natural phenomenon arising from market forces in a wealthy country with great investment opportunities, high demand for consumption, the world's reserve currency, and large fiscal deficits.
- Trade deficits must occur if a nation's consumption exceeds its production and the biggest sector imbalance is the excess of Federal government spending over tax receipts.
- Balancing the Federal budget would be the most effective way to reduce trade deficits.

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 a large net exporter.
- 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 gen.
- The synergies between research universities and tech is evident in tech company locations.
- We should preserve our leadership in the foundations of the knowledge economy

Let's Bring the Conversation to Oregon



We're at a crossroads

- (John Tapogna) Slow population growth, housing strain, wildfire impacts, expensive and underperforming K-12 schools, indifferent business climate.
- A driver of prosperity, 4-year higher education, is underfunded (46th in the nation)
- But challenging policy does not need to be destiny: strong talent, innovation culture, and livability.

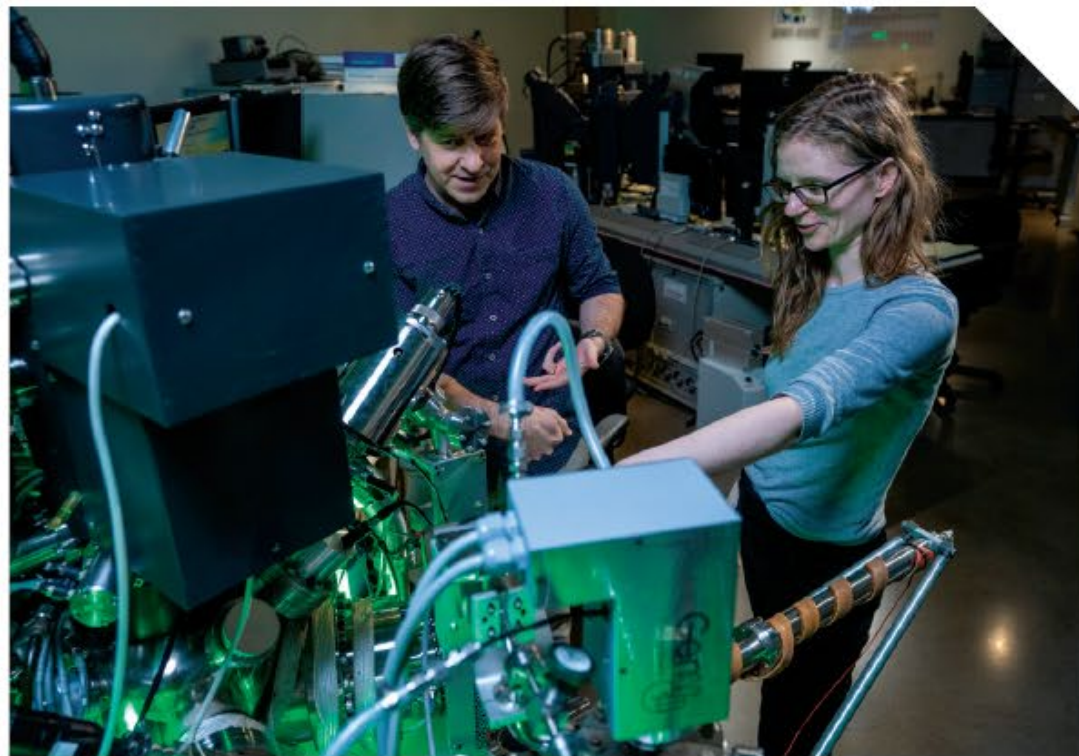


Powering Oregon's economic engine

\$3.7 BILLION

UO'S TEACHING, RESEARCH, AND OPERATIONS
GENERATED \$3.7 BILLION STATEWIDE IN 2024 FOR
OREGON COMMUNITIES AND BUSINESSES.

UO contributes more to Oregon's economy than any other public university in the state, fueling jobs, tax revenue, and growth in every corner of the state, generating:



\$15.22

PER \$1

in economic impact from
state appropriations.

21.5K

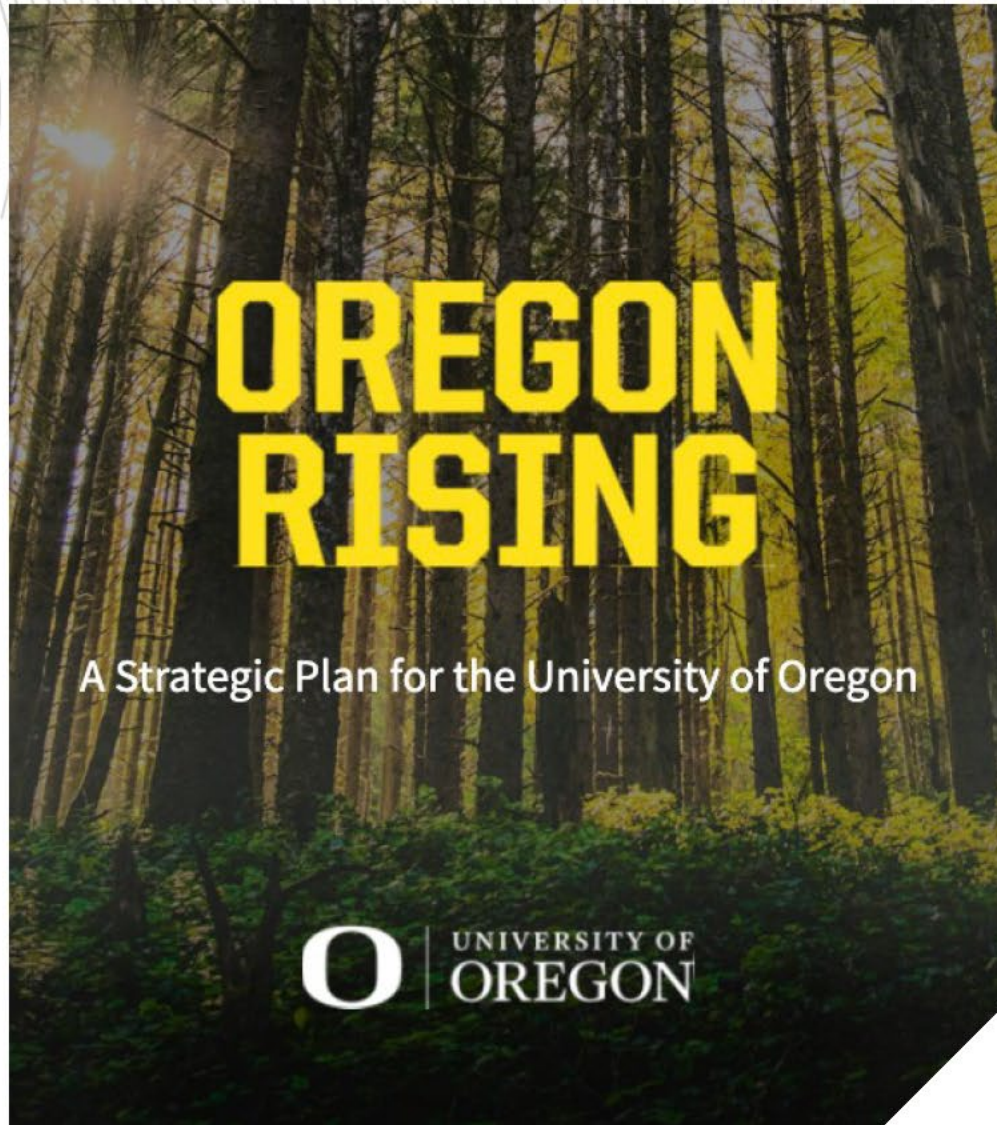
JOB

for Oregonians, created by the
UO, a strong and stable employer.

\$238

MILLION

in annual tax revenue, critical
support for all Oregonians.



The UO's Vision

A strategic framework for the UO's future.

- Provide the training, talent and innovation necessary for Oregon's prosperity.
- Career readiness for every student.
- Research excellence in:
 - Scientific innovation
 - Behavioral health
 - Sport and human performance
 - Environmental resilience

The Southern Willamette Valley Innovation Corridor

Connecting research, industry, and community.

- Regional strategy for growth and innovation.
- Keep Oregon talent in Oregon.
- Align universities, business, and government.



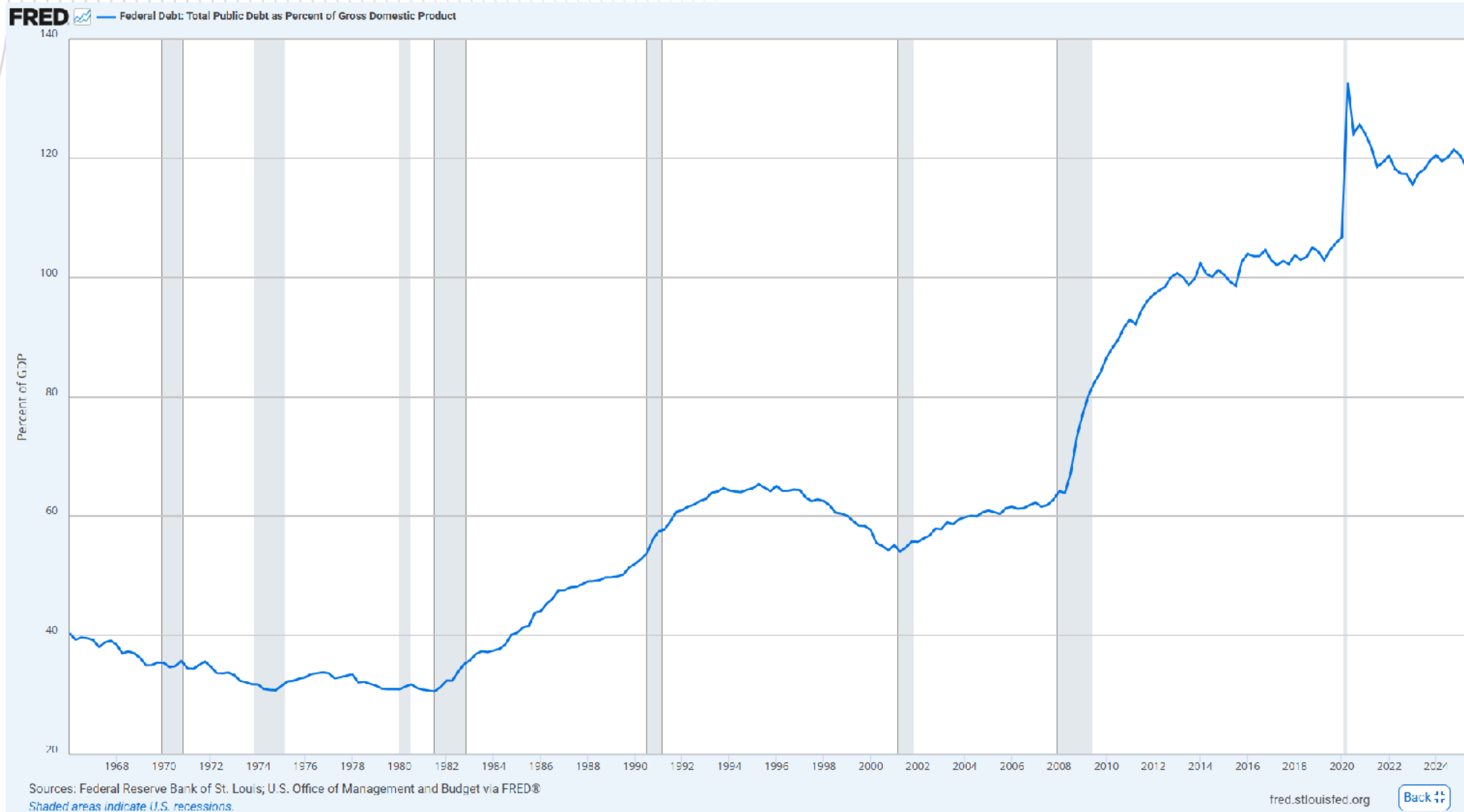
Near Term Outlook

- America First has some features that boost short term growth, but it will also increase risks of stagflation.
- My base case for the U.S. economy includes
 - Sluggish employment, labor force growth
 - Modest uptick in unemployment
 - Modest real GDP growth with more productivity
 - Inflation stuck at 3%+

Near Term Concerns

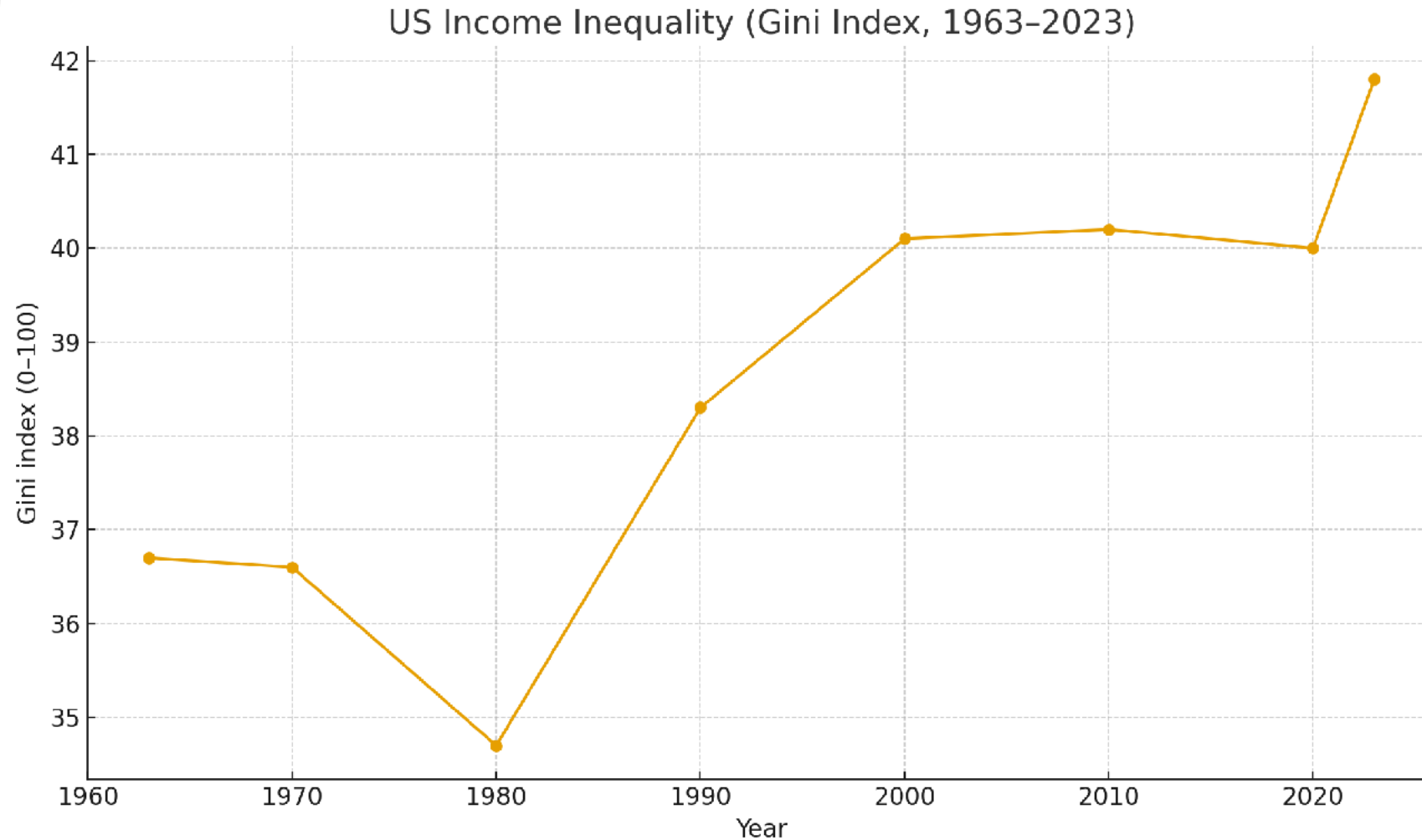
- Several imbalances could disrupt the status quo
 - Extreme dependence on AI theme increases risk of bubble, volatility
 - Impact of AI deployment on labor market
 - Growing fiscal imbalance
 - Inequality in income, wealth, and opportunity fueling populism and nationalism
- The imbalance in attribution 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

Federal Debt to GDP Ratio



FRED

Income Inequality (Gini Index)



Source: World Bank & FRED (SIPOVGINIUSA). Shows steady rise in US income inequality since the 1980s.

Long Term Outlook

- America First has increased role of the executive branch in the economy
 - Centrally planned economies can work well for a while
 - Capitalism, with private sector dominating resource allocation, wins in the long run
- The America First agenda is a huge break with past policies that have supported the foundations of innovation and American capitalism
 - Shift toward bilateral trade barriers causes inefficiency and uncertainty
 - Defunding higher education will reduce human capital and innovation
 - Eroding Fed independence will boost inflation expectations
 - Government direct investment in private companies creates more rent seeking behavior v. focus on value creation

Summing it Up

- The U.S. economy is a dynamic super tanker, currently propelled by AI revolution
- Major shifts in policy aimed at national security concerns hope to reduce geopolitical risk but will increase stagflation risk
- The long-term outlook is worse if the foundations of dynamism (trade, competition and human capital development and attraction) are 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