The Narrative Shifts So Far In 2025

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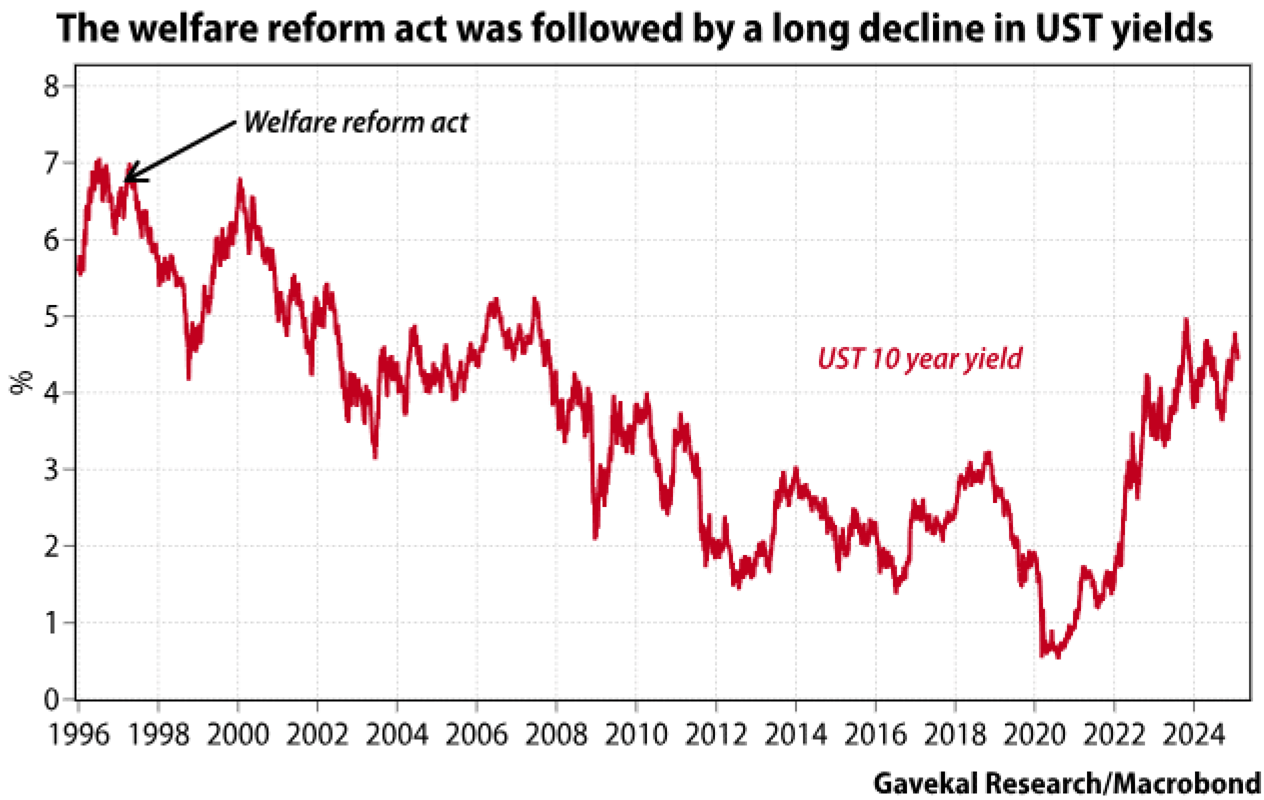
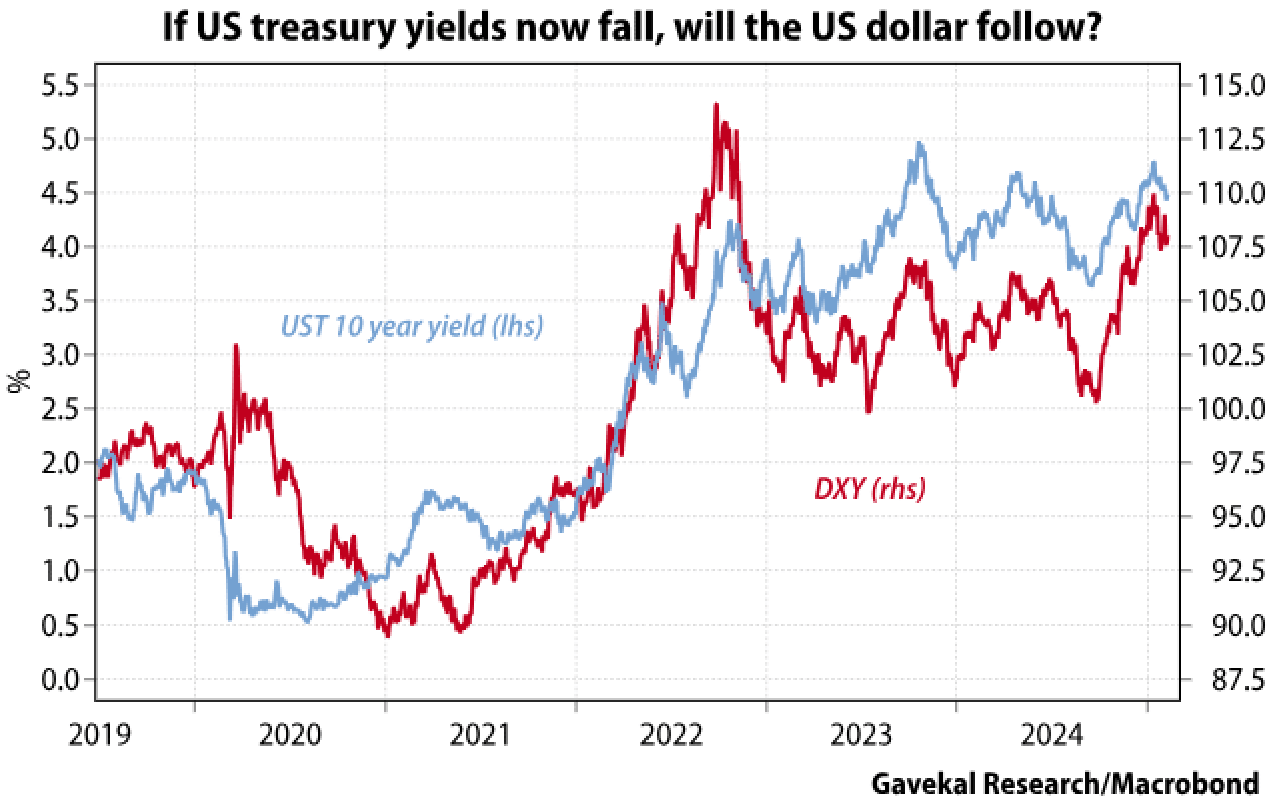
In a recent interview, Steve Bannon, former adviser to Donald Trump, explained that the president's strategy is to make every day a "day of thunder." Essentially Trump is betting that the media is able to focus only on one thing at a time. If the administration comes out with 100 things at once, explained Bannon, the media is overwhelmed. It's not just the media! Investors have definitely been kept on their toes by the news flow. Consider just some of the recent developments so far in 2025 that have the potential to shift market narratives.

- **DOGE appears to be for real.** In August 1996, Bill Clinton signed the Republican-backed welfare reform act (or to give it its full name, the Personal Responsibility and Work Opportunity Reconciliation Act) which cut US public welfare payments. At the time, US treasury yields were almost 7%. They would never rise to that level again. There were many contributing factors behind this, including the Asian crisis, China's entry into the WTO, and the dot-com bust. Nonetheless, there is something inherently bond-bullish about the promise of a government that does less. Perhaps this is because every investor with a grounding in modern history assumes that in democracies, shrinking government spending is impossible. The most they can hope for is for government spending to grow less fast than inflation.



But could this time be different? So far, some 65,000 federal employees (out of a total civilian workforce, including the USPS, of 3mn) have volunteered for the administration's proposed buyout. What if another 100,000 join their ranks? For the past four years, we have been in a bond bear market. Now, DOGE's knife-wielding raises the possibility that the US treasury market could start a rally. If it does, it will raise more questions. Will the US dollar follow yields lower? And how will gold behave if US treasuries are suddenly no longer as toxic as they have been for the last four years?



- **The release of DeepSeek's AI models has shattered three deeply held beliefs.** The first is that China can be constrained technologically. After the last few weeks, the view that "China does manufacturing, the US does digital" lies in ruins. This raises the question of how the US will respond. Will it call a truce in the tech war? Or will it crank up the sanctions?

  The second shattered belief is that big tech will be able to spend its way into building ever bigger monopolies. In this view of the world, being very large is not a stumbling block to growth (as the history of capitalism teaches), but an advantage. In a world in which AI drives growth, and in which spending billions digs an AI moat, only a handful of companies would have the stakes to sit down at the big boy table. This view is now obsolete. Finally, the release of DeepSeek's models reminded investors that spending on semiconductors remains more cyclical than structural.

The world's top 10 largest companies by market capitalization

1980: Peak oil	1990: Japan will take over the world	2000: TMT bubble	2010: China will take over the world	2025: US tech
IBM	*NTT*	*Microsoft*	*ExxonMobil*	*Nvidia*
AT&T	*Bank of Tokyo-Mitsubishi*	General Electric	*PetroChina*	*Apple*
Exxon	*Industrial Bank of Japan*	*NTT DoCoMo*	Apple	*Microsoft*
Standard Oil	*Sumitomo Mitsui Banking*	*Cisco Systems*	*BHP Billiton*	*Alphabet*
Schlumberger	*Toyota Motors*	Walmart	Microsoft	*Amazon*
Shell	*Fuji Bank*	*Intel*	*ICBC*	Saudi Aramco
Mobil	*Dai-Ichi Kangyo Bank*	*NTT*	*Petrobras*	*Meta*
Atlantic Richfield	IBM	*ExxonMobil*	*China Construction Bank*	*Tesla*
General Electric	*UFJ Bank*	*Lucent Technologies*	*Royal Dutch Shell*	*Broadcom*
Eastman Kodak	Exxon	*Deutsche Telekom*	Nestlé	Berkshire Hathaway

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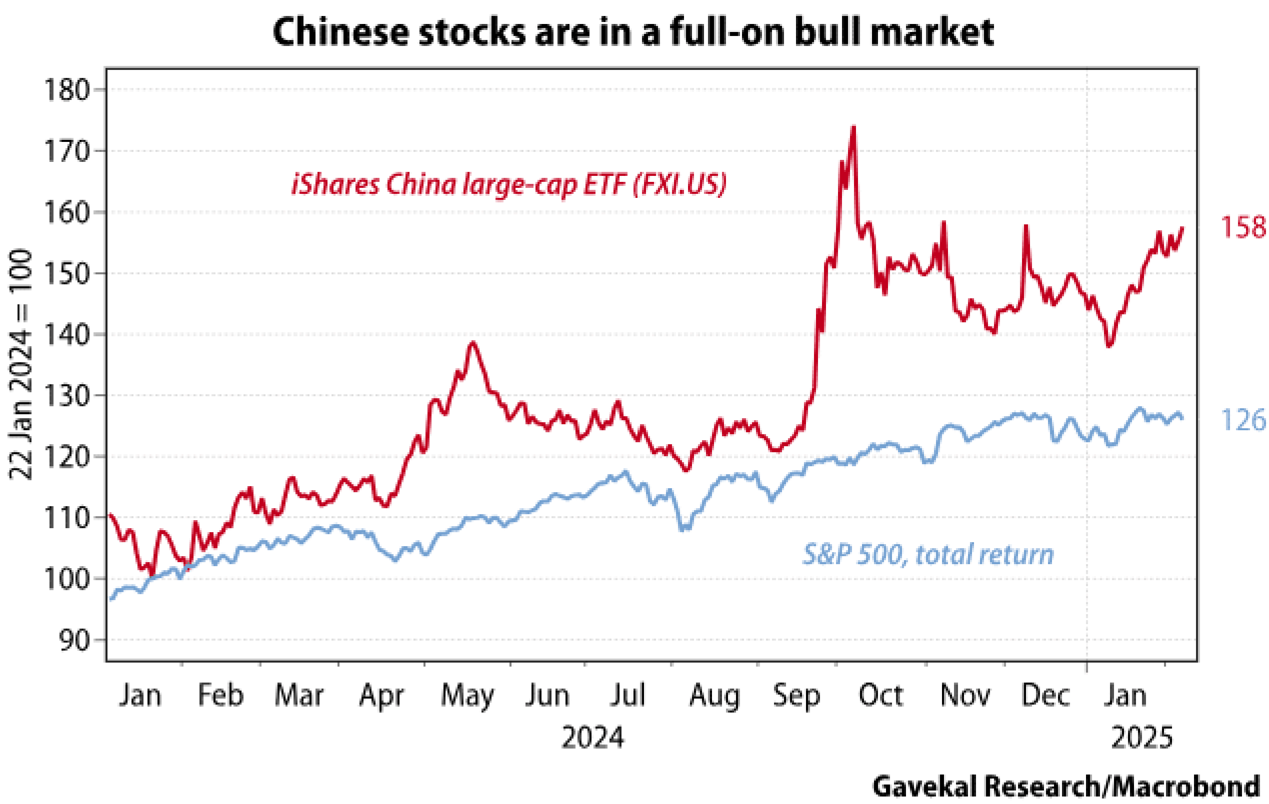
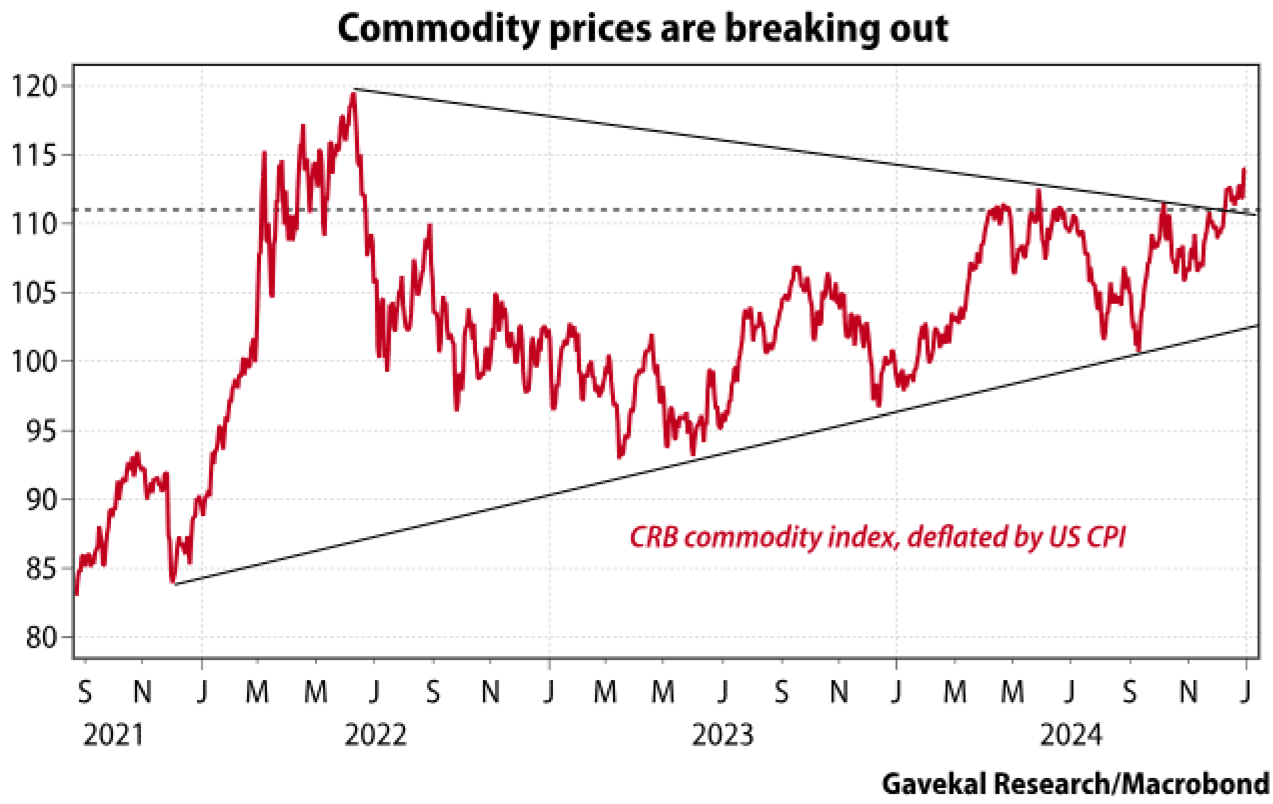
- **China is now in a proper equity bull market.** It has been a year since the Chinese authorities intervened to stop the rot in Chinese equities. Since then, despite the media narrative of a "balance sheet recession" Chinese equities have soared. The iShares China large-cap ETF is up 58% since the January 2024 intervention. Initially, the rally was all about banks and high dividend payers (with the collapse in domestic bond yields, Chinese retail investors shifted into high dividend yield stocks). But after DeepSeek's release, investors are taking a second look at Chinese tech stocks. This means that most major sectors are now participating in the rally.



- **The threat of tariffs and the era of “US dominance” is changing the global landscape.** Historical US allies are suddenly looking at the US in a different light, and wondering whether the US will remain the benign hegemon it has been for most of the post-World-War-II era. Concretely, this is likely to mean that Canada now sees a large infrastructure investment boom as it finally builds pipelines through British Columbia and LNG export terminals in Eastern Canada (the spotted owls and short-horned lizards will just have to adapt).

  It also means that Europe will ramp up its spending on infrastructure and defense. All of a sudden, countries around the world may decide to follow the US lead and prioritize immediate national security and economic growth over long-distance environmental concerns. All of which may help to explain why commodities seem suddenly to be breaking out.



- **Javier Milei’s success in Argentina has changed the political equation in Latin America** (and perhaps the world?). Over the coming year and half, several big LatAm countries will head to the polls—Chile in November 2025, Peru in April 2026, Colombia in May 2026 and Brazil in October 2026—and the chances are rising of a big shift to the right. If so, local investors are likely to repatriate capital, and the-year-to-date rally in LatAm currencies and bonds (especially in Brazil) could really have legs.

Putting all this together, the global investment landscape is changing fast. Just a few months ago, the perception was that the only place to deploy capital safely was in a handful of US mega-cap tech names and gold. Fast forward to today and one can make a cogent case for US treasuries, LatAm debt and equities, Chinese equities, European equities, infrastructure plays and commodities. Suddenly, the investment landscape is more interesting than it has ever been.