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Key Takeaways

- Several Trump trades—like the long-dominant Magnificent 7 stocks and a strong US dollar—have struggled in early 2025.
- Even US Treasury yields are stabilizing, largely due to the Trump administration's deficit reduction efforts.
- New investment leadership is taking shape, with several international asset classes poised for a sustained period of outperformance.

Ask Forstrong: Some major "Trump trades" are faltering in early 2025. Are we witnessing the rise of new investment leadership?

In case you missed the memo, dear reader, we are now in a golden age. But what kind of golden age, exactly? A new era for AI? A renaissance for American business? Or perhaps just a resurgence in general risk-taking—including those scantily-regulated digital speculations, cryptocurrencies?

Everyone, of course, had the playbook in advance. Donald Trump secured a second term in the White House by promising to bring a bonfire to economic orthodoxies. Free trade? Out. Protectionism? In. Regulation and big government? Out. Elon Musk wielding a DOGE-fueled flamethrower against bureaucracy? Very much in. US security guarantees? Gone. Do-it-yourself defense? The new multi-polar order. Then, throw in bravado from members of the MAGA court, still high on fresh electoral success, talking of territorial conquest and planting American flags on Mars, and the golden age comes sharply into focus.

Financial markets were always expected to feel the heat. But the outcome seemed predestined: an extension of the all-American bull run, with its outperforming big-cap tech businesses, persistently strong currency and rising Treasury yields. Instead, something very different is unfolding. In just the first 45 or so days of 2025, trendlines have been breaking everywhere. Previous leaders are struggling, while many asset classes left behind in the last decade have surged. The standout performers? Gold. Copper. Emerging market equities. And—avert your eyes—even European stocks are outperforming.

Of course, these are still early-stage shifts. However, given their speed and scale, ignoring the price signals may be a big mistake. The key question is whether all of this is merely a spectacular short-term blip or the start of a lasting trend. Our investment team leans strongly toward the latter. Below, we highlight three major shifts shaping 2025—and why they're likely to persist.

Trend 1: Magnificent 7 Underperformance

For over a decade, investors have relied on America's tech giants to drive stock markets higher, fueled by strong earnings and ever-growing profit expectations—most recently supercharged by the AI boom. That era now looks fragile. The issue? Profit expectations. The Mag 7 are projected to deliver a combined earnings increase of 26% in 2025, down sharply from 57% in 2024. Strip out Nvidia—the undisputed poster child of Wall Street's AI mania—and the rest of the group is expected to grow profits by just 10%. While a 10% increase is solid for most sectors, it falls short for Big Tech, where lofty valuations hinge on the assumption of sustained, sky-high earnings growth. In fact, the earnings forecast for the Mag 7 (excluding Nvidia) is now roughly in line with the entire S&P 500—meaning Big Tech is no longer setting the pace for Corporate America.

Historical parallels for the Mag 7 nearly jump off the page. The 2023-24 US stock market was the most concentrated since the late 1990s TMT bubble—which, in turn, was the most concentrated market since the 1970s Nifty 50 era. Both earlier episodes led to long-lasting leadership changes and broader market participation. Prolonged narrow leadership would suggest something is broken in capitalism itself, where competition and innovation are fundamental. High-profit industries inevitably attract new challengers, disrupting the old guard.

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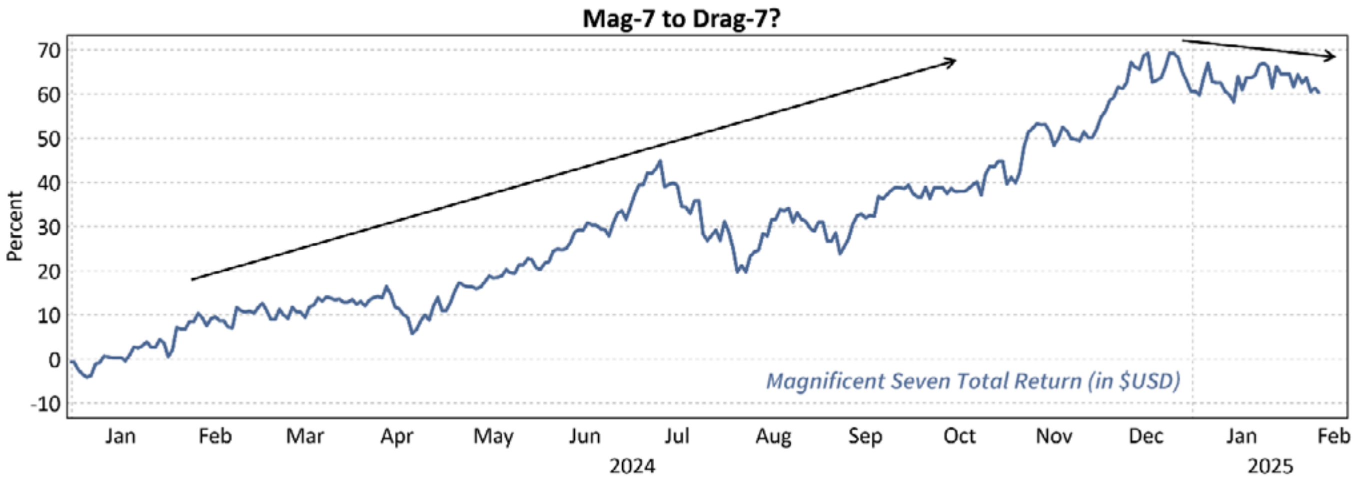

Magnificent Seven: Apple, Alphabet, Amazon, Meta, Microsoft, NVidia, Tesla (Equally-weighted basket)

Sources: Macrobond, S&P Global, Forstrong Global Asset Management

Trend 2: Stabilizing US Treasury Yields

Conventional wisdom held that Trump's tariffs would keep inflation and interest rates elevated. But markets missed a key point: indiscriminate tariffs can stifle trade, erode confidence, and slow global growth—all disinflationary forces. The bond market has noticed, rallying in response to rising trade anxiety.

Another overlooked factor? Fiscal policy. There's an inherently bond-bullish element to a government that does less. The market is now adjusting to the idea that if the Trump administration follows through on deficit reduction, we could see a stabilizing effect on yields. While deep spending cuts are unlikely—given that two-thirds of federal outlays go to Social Security, Medicare, defense, and net interest—fiscal stimulus will diminish in 2025. That removes a key pillar of US economic outperformance. Under that environment, America will look much less exceptional.

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Trend 3: International Equity Outperformance

As US tech stumbles, capital is already moving elsewhere—particularly into emerging markets. This cohort, widely expected to be victims of the trade war and a stronger dollar, have defied expectations this year, after a grim 2024 that saw some currencies hit multi-year lows. Deepseek's release is one of the driving forces of this trend: it is wildly bullish for AI users and anyone building on top of large language models. But it also draws attention to international innovation, not only in AI, but also robotics, EVs and other industries. Suddenly, competition has returned to the world economy.

Two additional factors reinforce the EM trend. First, EM central banks are cutting rates as inflation continues to decline, supporting domestic growth. Second, a capital spending boom is taking place across several Asian economies. The spotlight remains on the global technology upcycle, fueled by semiconductors and AI. Less discussed are the rising capital spending outlays in other industries in Southeast Asian economies, where firms are ramping up spending in anticipation of new global consumption cycles.

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Meanwhile, policy reflation from China will create upside surprises in 2025. Beijing is pivoting from restrictive ideology toward more aggressive stimulus. Any external shocks—like US tariffs under Trump—could accelerate this shift further. The bottom line? With a global manufacturing rebound, monetary easing, and a surge in capital spending, EM corporate earnings are re-gaining momentum. The market focus is shifting—from risks to the potential for return.

Investment Implications: Time To Rotate

Markets stand at a pivotal moment. History reminds us that the winners of one decade rarely lead the next. Elevated valuations and high expectations naturally dampen future returns. Meanwhile, the advancing global business cycle, where the US is no longer doing all the heavy lifting, presents a compelling opportunity to rotate away from the Magnificent 7—historically strong in low global growth environments—toward higher-return prospects in undervalued international markets. With the bull market broadening and investment leadership primed to shift, global diversification is about to be great again.

Tyler Mordy, February 2025

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