FORSTRONG GLOBAL

Ask Forstrong
The Price of Protectionism

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Key Takeaways

- Investors risk losing focus in today's tariff turbulence.
- Investors are warming to the idea that fiscal stimulus measures in major non-US economies—unleashed in response to Trump's policies—will outweigh the negative effects of the trade war.
- Instead of fixating on risks in these regions, investors are now eyeing return potential. Bull markets outside the US have quietly begun.

Ask Forstrong: The tariff headlines just keep coming. Amidst the noise, what should investors focus on?

Can you feel it? The signs are everywhere. In this country, the list is long: selling second homes in Scottsdale, swapping out Kentucky bourbon for Canadian rye or, the ultimate sacrifice for some, cancelling a trip to the Coachella music festival in April. The theme, of course, is hard to miss: as America turns inward, a wave of patriotic pride is sweeping the rest of the world.

But forget brawling hockey players, banter about a 51st state or renaming bodies of water—the real vibe shift, as discussed in Forstrong's latest podcast with our ever-sonorous host Robert Duncan, is unfolding in financial markets. Trump's second term was widely expected to supercharge US equities and the dollar while pummelling the currencies and stocks of its trading partners. Yet, just seven weeks in, the opposite has happened. Suddenly, investors woke up worrying that the much-hyped trade tariffs will stifle US growth. Warnings signs are flashing in both hard data (US personal consumption posted its steepest drop in four years last month, while manufacturers report sharp declines in new orders) and soft data (consumer confidence has fallen for three straight months, while inflation expectations have surged). Everywhere you look, "America First" bets are backfiring.

The Dark Side Of Deficits

Yet, as Trump's economic agenda comes into sharper focus, a key priority is emerging: deficit reduction. And make no mistake—this is more than rhetoric. Treasury Secretary Scott Bessent's strategy aims to shrink the budget deficit from nearly 7% to 3% through spending cuts, particularly in government employment and welfare programs. Supply-side measures like deregulation and corporate tax cuts round out the playbook.

But here's the rub: for markets, deficits matter. Government spending has a habit of finding its way into corporate profits. While high deficits can be problematic in the long run, they tend to boost economic growth and fuel investor optimism while the spending is in play. Over the past decade, a key driver of US economic outperformance has been fiscal stimulus. If Washington meaningfully reins in its budget, US corporate profit margins are likely to take a hit.

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Fiscal Bazookas Abroad

Meanwhile, US foreign policy is forcing a dramatic shift abroad. European politicians are responding with fiscal firepower, including bold commitments to defense spending that have already lifted regional asset prices. In a defining moment for Germany—and by extension, the European Union—coalition leaders have agreed to break free from constitutional budget constraints, clearing the way for a colossal €500 billion infrastructure and defense spending plan. These measures amount to 11.4% of Germany's GDP—enough to stave off recession risks and rebalance the economy away from its reliance on exports.

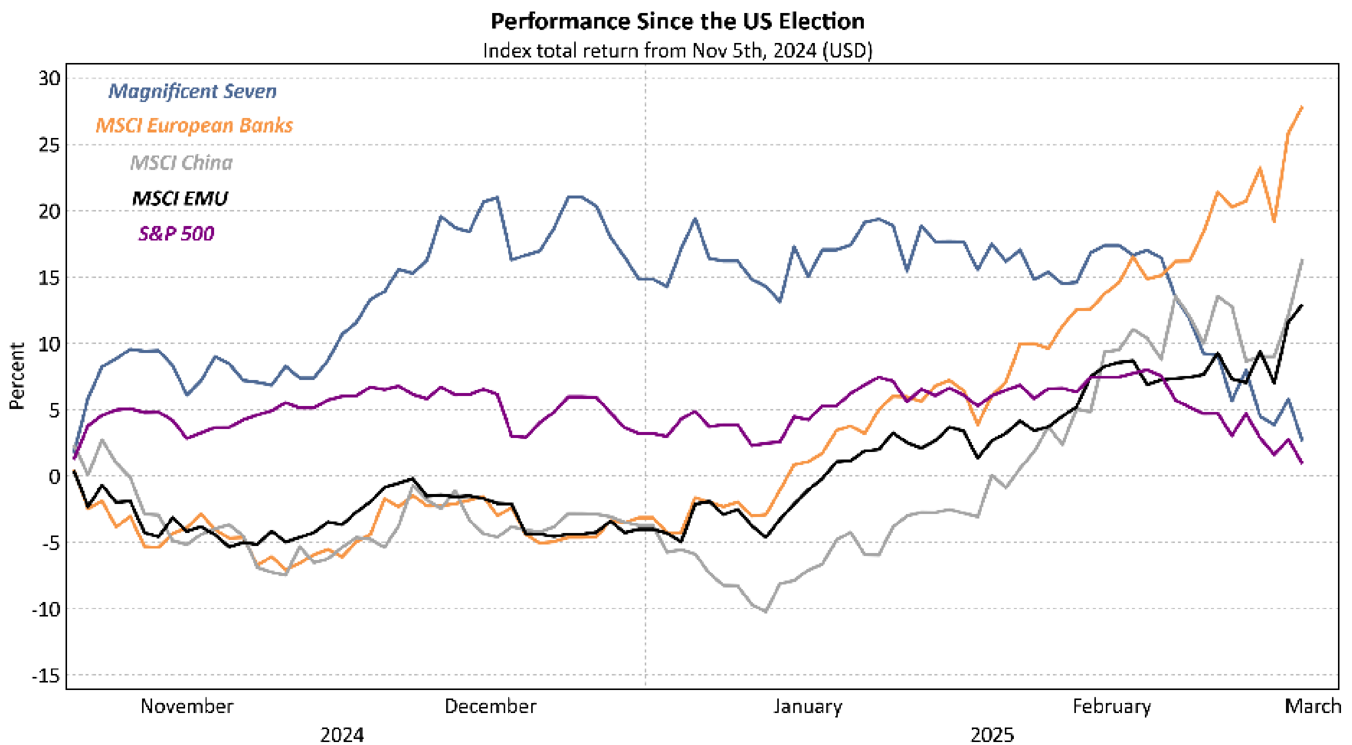
The significance of this shift cannot be overstated. The Eurozone's stagnation in the 2010s was shaped by two forces: (i) a massive deleveraging cycle in Southern Europe after the credit-fueled boom of the 2000s, and (ii) self-imposed fiscal austerity in Northern Europe. Now, both trends have run their course, setting the stage for a reflationary boom in the second half of the 2020s.

Elsewhere, China's fiscal policy is turning stimulative. Beijing just raised its budget deficit to the highest level in over three decades, unleashing 5.66 trillion yuan ($780 billion) in

fiscal stimulus—roughly 4% of GDP. Importantly, this year's economic roadmap puts consumer spending at the top of the agenda for the first time since 2012. The message is clear: domestic demand is now China's focal point.

While the magnitude of fiscal expansion in Germany and China remains uncertain, the direction of travel is now unmistakable: away from balanced-budget orthodoxy. Global investors are taking notice, and capital is rotating accordingly. Non-US equities are markedly outperforming their American counterparts in 2025.

> The investment landscape is shifting—and fast. Forstrong's globally diversified portfolios are positioned for what comes next: a world where protectionism reshapes capital flows and international markets emerge as the primary drivers of global returns.



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

Investment Implications

As discussed in last month's Ask Forstrong, markets are in the midst a profound regime shift. Two fundamental emotions—fear and greed—are shaping the transition.

On the fear side, investors are finally questioning the wisdom of concentrating so heavily in richly-valued US tech stocks. The post-global financial crisis surge has made US equities nearly two-thirds of the world's investable stock market—an extreme weighting that introduces substantial risk.

On the greed side, a new narrative is taking hold. Investors are warming to the idea that stimulus measures in non-US economies—unleashed in response to Trump's trade stance—could outweigh the negative effects of protectionism. Sentiment is shifting. Instead of fixating on risks in these regions, investors are seeing return potential. Animal spirits are stirring, and many international markets have quietly entered bull territory.

Meanwhile, US equity underperformance is already eroding dollar strength—not just because global investors are reallocating, but also due to fundamental economic effects. A weakening stock market hits US household wealth. If this prompts Americans to cut spending, especially as fiscal policy tightens, US growth will slow. That, in turn, will force the Federal Reserve into easier monetary settings relative to other economies. The result? A structurally weaker US dollar.

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Tyler Mordy, March 2025

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