

# Time is being called on “US exceptionalism”

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The economic warfare being waged by the Trump administration against the rest of the world is increasingly being recognised as having major implications for the US and global economy both in the short- and long-term.

The two major newspapers of international capital, the *Financial Times* (FT) and the *Wall Street Journal*, both began this week with articles posing the question as to whether the unexpected fall in the US stock market over the last month was the beginning of the end of “US exceptionalism.” The material they provided suggested strongly it was.

American exceptionalism was the belief, widely held at the start of this year, that the US economy and Wall Street would continue to power ahead compared to the rest of the world, especially Europe, because of the dominance of the dollar, its financial system and the growth and profit opportunities of artificial intelligence (AI) in which the US would play the leading role.

The stock market has already taken a significant fall with the broadest index, the S&P 500, falling at one point by 10 percent from its record high as recently as February 19. The Wall Street decline has been accompanied by other developments which point to issues beyond the fall in over-valued stock prices, which were led by the AI boom.

Some of the air was taken out of that bubble with the news in late January that a Chinese company, DeepSeek, had been able to develop AI mechanisms without the latest and costly chips produced by Nvidia, and which operated just as efficiently and more cheaply than their US counterparts.

But the issues which are being manifested in the market go beyond AI.

The FT began its report as follows: “Wall Street’s ‘American exceptionalism’ trade has been shattered in recent weeks as the fallout from Donald Trump’s tariffs and uncertainty over the economic outlook and geopolitics have fuelled an unusually prolonged and deep twin sell-off in the US dollar and equities.”

The dollar has lost 4 percent against a basket of six peer currencies so far this year.

The article cited research by Goldman Sachs which said these kind of twin selloffs were unusual and had only

occurred a handful of times in the past 25 years.

In a message to clients last week the investment bank said: “Growing doubts in recent weeks on the sustainability of US exceptionalism sparked one of the fastest US equity market corrections since the early 1970s.”

It said that while equity market corrections were not uncommon, a coincident dollar selloff was, “especially when equities rapidly reprice.”

Others cited in the FT article tended to echo the Goldman analysis. JP Morgan strategists pointed to “uncertain tariff delivery” and said the “softening in US activity that is more acute and front-loaded than expected” was among reasons for pessimism about the dollar.

They also cited the recent decision by the German government to release the so-called “debt hand brake” in order to undertake a \$1 trillion euro spending program on rearmament and military infrastructure and called it a “watershed moment in German-European fiscal and geopolitics.”

The full effects of that decision have yet to be seen. But one of the consequences could well be a rise in interest rates as the German government seeks more borrowed funds for its militarist agenda.

History does not repeat itself, but it is worth recalling that one of the reasons for the stock market crash of October 1987, in which Wall Street fell 22.3 percent in a day, the largest single-day fall in history, was an unexpected divergence between US and German interest rates.

The FT article noted that global asset managers had turned “more negative” on US equities and cited comments by Scott Chan, chief investment officer of the \$353 billion California State Teachers’ Retirement System.

In a recent statement, he said the “astounding amount of executive orders” from Trump had caused “a tremendous amount of economic uncertainty in the marketplace. The potential risks here are unprecedented. They are world changing.”

The *Journal* article had a different slant, focusing on examples of individuals who, as the headline put it, were once “all in on US stocks [but] are now starting to look elsewhere.”

It noted that, just two months after JP Morgan had declared that American exceptionalism was “the broad and dominant theme” of investing in 2025, “ordinary investors across the world are looking elsewhere. Instead of “riding the wave of US outperformance” they were considering the implications of tariff wars.

The article reported that in the first two months of the year investors added more than \$2 billion to US based exchange-trades that invest predominantly in European stocks. In the second half of 2024 more than \$8.5 billion moved out of such funds.

It cited one investor working in Europe who said he made his money in euros, but his money was trapped in the US and he no longer felt it was safe to leave it there. If such sentiments spread upwards to the major financial operators, then major turmoil will ensue.

The present turbulence and fears of the immediate end of “American exceptionalism” is bringing to the surface longer-term issues which go to the very foundation of the global financial system.

These were highlighted in an article in the FT this week by University of California professor Barry Eichengreen who has been a historian and analyst of the international monetary system for the past 50 years. Its title was “Can the dollar remain king of currencies?”

He explained that the system of dollar dominance, which began under the Bretton Woods system of 1944, when the dollar was pegged to gold at the rate of \$35 per ounce and continued after president Nixon withdrew the gold backing in August 1971, was a carefully constructed economic order.

“It has taken Donald Trump only a few months to weaken if not destroy those relationships and that reciprocity. Trump and his appointees question the very foundation and arrangements on which nearly a century of dollar dominance is based. For the first time in living memory, the survival of the institutions on which that dominance rests has been cast into doubt.”

He began by noting that American exceptionalism was in question. In the past the US had been the centre of innovation but there was no guarantee that would continue under conditions where “the research capacity of the public sector and US universities is being gutted.”

The share of the US in global exports was falling and had been falling since World War II, reflecting the rise of other economies which the US had promoted. There was nothing inherently unhealthy in this trend, Eichengreen wrote.

“But a further decline in the US share of global trade, engineered by skyscraper tariffs imposed by politicians convinced that international trade is a zero-sum game, would be decidedly unhealthy. History is replete with examples of how a country’s commercial links support international use

of its currency—and how disruption of those links undermines a currency’s international status.”

The American use of monetary sanctions against its opponents was another possible source of fracturing. The European powers opposed the reimposition of sanctions against Iran in Trump’s first term and “the decline of transatlantic co-operation in Trump’s second term points to the high likelihood of more such disagreements.”

Like many others, Eichengreen pointed to the worsening US fiscal and debt position—it is more than \$36 trillion and continually rising—in creating conditions where its financial woes “could, in the not-too-distant future, push the dollar over the edge.”

There was, he continued, no magic debt-to-GDP ratio where confidence was lost. “But endless tax cuts, mythical expenditure reductions and high levels of political polarisation will at some point cause foreign investors to doubt the dollar’s prospects.”

He also took issue with proposals floated by treasury secretary Scott Bessent and the head of Trump’s Council of Economic Advisers, Stephen Miran, to limit purchases of the dollar by imposing a user fee as a means of holding down its value and improving the position of the US in international markets, saying it could “quickly get out of hand.”

In the final analysis, Eichengreen concluded, the fate of the dollar would “turn on the willingness of America’s leaders to uphold the rule of law, respect the separation of powers and honour the country’s commitments to foreign powers. It will depend on the readiness of Congress, the courts and the public to hold their feet to the fire. Who would have thought it would come to this?”

No one has a crystal ball to predict events, but if the institutions listed by Eichengreen are what stands between the present situation and a dollar collapse then there is nothing more certain than a crisis is on the way.



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