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IENE Comment

**Tech trumps tariffs: why US exceptionalism
will last**



Tech trumps tariffs: why US exceptionalism will last

*By Nouriel Roubini**

After the so-called liberation day tariffs announcement, the conventional wisdom about the US economy became very pessimistic. A new consensus was built on worries over tariffs, policies such as restrictions to migration, unfunded large fiscal deficits, threats to the independence of the Federal Reserve and the erosion of the rule of law.

The argument was that American exceptionalism was over — the US economy was facing stagflation, the stock market was set for a slump or worse and the exorbitant privilege of the dollar as the major global reserve would erode. As the US weaponised its currency, the value of the dollar would start to fall rapidly over time.

In a recent paper of mine and a companion one by my Hudson Bay colleague Jason Cuttler, we reject such pessimism and have a much more positive outlook for the US economy and markets over time.

First, market discipline, reasonable advisers and Fed independence provided guardrails against the worst policies after “liberation day”. As markets corrected sharply soon afterwards, President Donald Trump was forced to blink and negotiate more reasonable trade deals.

Thus, the US is experiencing a few quarters of a growth recession (GDP expansion below potential) and a modest rise in inflation rather than a serious stagflationary recession. By next year growth will recover as monetary easing and fiscal stimulus are still under way while financial conditions have eased and the tailwinds from AI-related capital expenditure will continue.

Second, American exceptionalism will continue as the US (along with China) is ahead in the most important industries of the future, including AI and machine learning, robotics, quantum computing, space commercialisation and defence technology.

I estimate that annual US potential growth could rise from 2 per cent to 4 per cent by the end of this decade while stagflationary policies could reduce it by 0.5 percentage

points. Thus, tech trumps tariffs. If American exceptionalism was ruling when potential growth was 2 per cent, it will strengthen as growth rises towards 4 per cent.

Ditto for stock returns: when annual growth was 2 per cent for the past two decades, US equity returns were around double digits, well above those of other advanced economies and emerging markets. If growth will be much higher this decade and in subsequent ones, such equity returns will be even higher. Price-earnings valuation ratios can remain elevated if faster earnings growth is driven by increased economic growth. Of course, temporary market corrections will occur and tech disruptions will lead to winners and losers. However, the now common view that the US stock market is in a massive bubble and bound to crash is incorrect over the medium term.

As far as debt sustainability is concerned, the public debt to GDP is estimated by the Congressional Budget Office to rise sharply under the assumption that real economic growth will average 1.6 per cent a year from 2025 to 2055. If potential growth is slightly higher at 2.3 per cent, the ratio is stabilised over time. With growth at 3 per cent or above, the ratio drops over time and is sustainable, assuming that the growth dividend is not wasted with even more spending. Increased GDP growth might lead to higher real bond yields but a large tech-driven positive aggregate supply shock could reduce inflation to near zero over time as costs of production of goods and services sharply fall while productivity growth rises. So, the net impact on nominal bond yields could be a wash over time.

Even the external liabilities of the US are sustainable as larger current account deficits — driven by the surge in tech-driven capex — will be financed by equity inflows of capital into dollar assets. The US will look like an emerging-market economy where a natural resource or productivity boom leads to an investment boom.

While the dollar has weakened this year for a variety of factors such as the noise on tariffs, Fed easing and talk of policy deals to weaken the dollar, over time equilibrium real exchange rates depend on growth differentials. If US growth accelerates while the Eurozone stagnates over the medium term, the dollar will appreciate relative to the euro.

Of course, a variety of downside risks remain, including geopolitical strains and the disruptions caused by unprecedented tech innovations. But over the medium term,

the US economy and markets are best positioned among advanced economies. They will continue to benefit from the US being the most innovative advanced country.

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