

Matt King
21 August 2025

Trading a decaying hegemon

- **The more Trump exerts personal control over US organs of state, the more the US' real power is eroded**
- **The main mystery is why this is still not being priced into markets**
- **Part of the answer revolves around the amorality of capitalism, and prospects for more easy money**
- **But much is attributable to the extreme and abrupt nature of credit repricings**

Commentators have been falling over one another trying to find sufficiently contemptuous terms with which to condemn the arbitrary, capricious and egotistical nature of Trump's recent policy actions, from firing the head of the BLS to threats to Fed independence to tariff levels on the likes of Switzerland and Brazil. Larry Summers likened them to Peronist Argentina.¹ Personally we prefer comparison with the Dutch Republic in the late 1600s – in part because of the way diversity, immigration and trade helped first make, then break, the world's then superpower, and in part because of the nefarious role played by the Prince of Orange.²

But while historical analogies may provide salutary lessons for long-term prospects, the main puzzle facing investors today is how to reconcile such apparently self-destructive actions with the ongoing exuberance in markets.³ This piece uses recent examples to explain the nature of the problem, and revisits the pros and cons of the most obvious trading positions in their light.

¹ ["Summers Says Trump Policies Are 'Scarily' Like Argentina's Peron"](#), *Bloomberg*, 7 Aug.

² For an excellent and full account of the decline of both this and other empires, see *Peak Human*, J. Norberg.

³ Katie Martin provides an excellent summary. ["Investors are frogs in a Trumpian pot"](#), *FT*, 13 Aug.

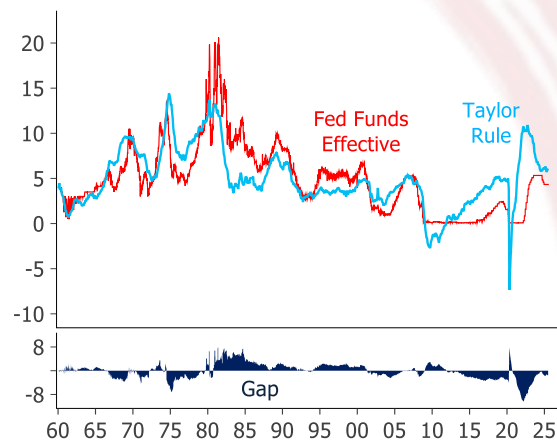
In Bessent we no longer trust

Bloomberg Businessweek's Sep25 [edition](#) features Scott Bessent on its front cover – and appropriately enough, given his important and evident role in soothing markets. And yet his comments on recent market developments not only had us scrambling to fact-check all of them, but in the context of increasing controversy around recent appointments and the appropriateness or otherwise of Fed rate cuts also seem representative of the problem presented by Trumpian sycophancy more broadly.

The most blatant was the statement that “If you look at any model” it suggests that US policy rates “should probably be 150, 175bp lower.” As John Authers⁴ and others have been quick to point out, the most obvious models like the Taylor Rule in fact suggest rates should be around 200bp higher. Bessent's subsequent clarification⁵ that he was talking about neutral rates might have been a partial panacea, were it not for the dubiousness of several other statements in the same interview.

Many models say rates should be higher

US Taylor Rule vs Fed Funds with gap, %



Source: Federal Reserve, Macrobond, Satori Insights.

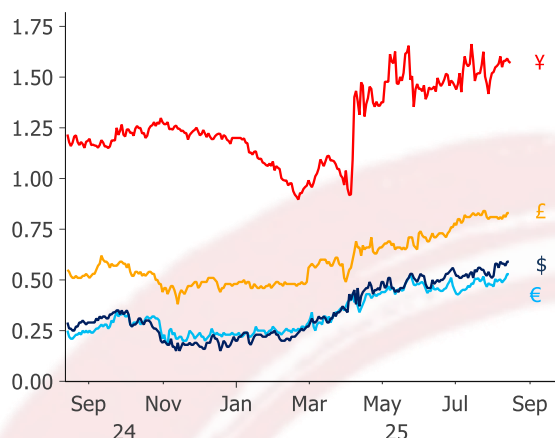
The claim that 30-year UST yields are being dragged upwards by Japan is debatable: the degree of mutual correlation means it's always hard to tell. The claim that the rally in US yields this year reflects “credibility” from investors in the Treasury and the Fed, on the other hand, in apparent contrast with other markets, once again defies belief.

⁴ [“Where is Bessent Pulling These Rate Models From?”](#), Bloomberg, 14 Aug.

⁵ [“Bessent Says He’s Not Pushing Fed Cuts, Just Touting Models”](#), Bloomberg, 14 Aug.

Japan driving US? Debatable

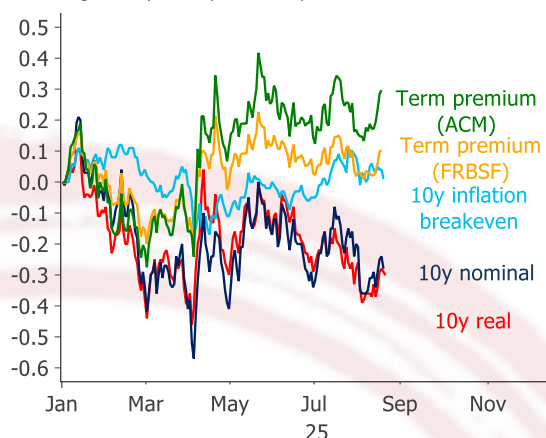
10s30s govt curve steepness, %



Source: Macrobond, Bloomberg, Satori Insights.

Easy money, not increased credibility

YTD chg in 10y UST yield components, %

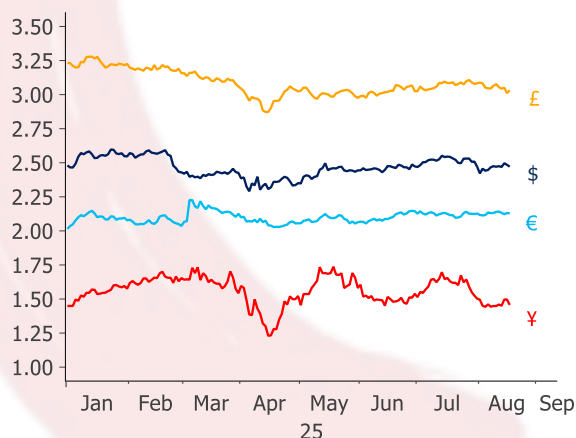


Source: Macrobond, Satori Insights.

Outright yield moves are always tricky to dissect, but doing so goes a long way towards revealing their drivers. The driver of the drop in nominal UST yields this year is not a drop in inflation expectations or term premium – either of which might have reflected credibility – but instead in real yields. Indeed, what's striking about yield moves in general globally this year is not the minor differences in long-term inflation expectations but instead the contrast between stable or rising real yields in most other polities vs sharply falling real yields in the US.

Yield chg not due to inflation credibility

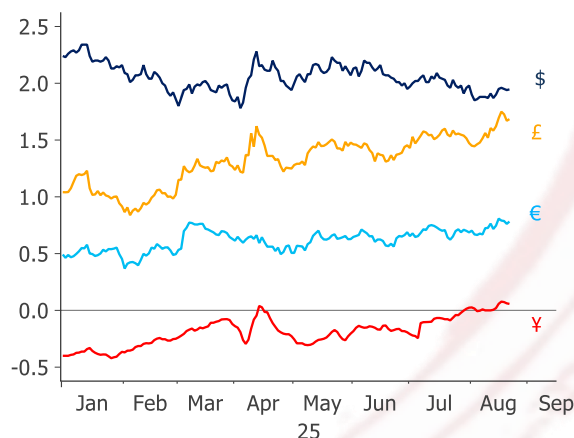
5y5y inflation swaps or nearest proxy, %



Source: Bloomberg, Satori Insights.

But to divergent real yield dynamics

Global 10y real yields, %

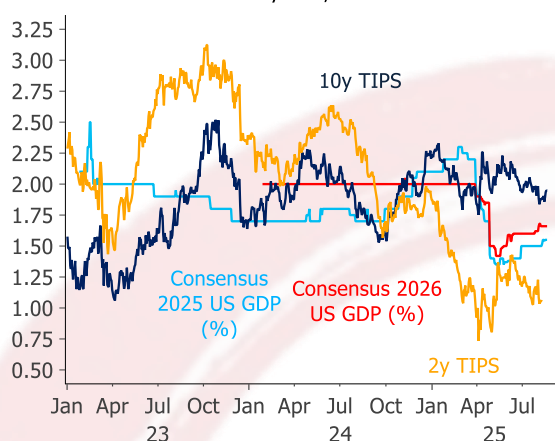


Source: Macrobond, Bloomberg, Satori Insights.

Real yields normally rise and fall in line with growth expectations, unless markets have reason to believe tight policy will specifically required to deal with an inflation problem. So the fall in US real yields from January to April, and subsequent small rise in May, can be seen as reflecting the changing consensus view of growth prospects under tariffs. What stands out is the way US real yields have declined through June and July – even as growth expectations have continued rising. Even more striking is the way that these falls in real yields have been accompanied by a rise in term premium.

Recent TIPS rally not growth-driven

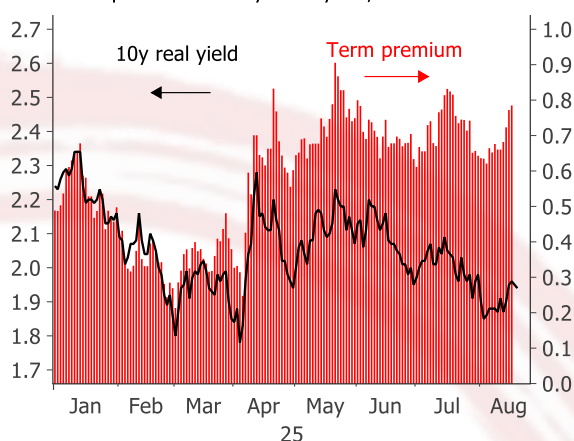
Consensus GDP vs US real yields, %



Source: Bloomberg, Satori Insights.

US: real yield fall offset by TP rise

ACM term premium vs 10y TIPS yield, %

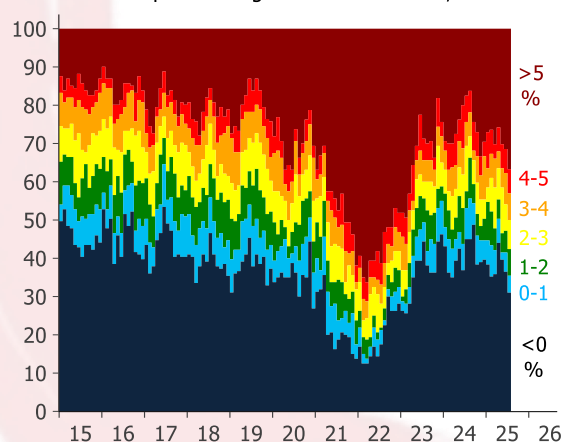


Source: New York Fed, Satori Insights.

Far from demonstrating the credibility of the US, this is therefore the market responding to the repeated attacks on the Fed – and the prospect of a more dovish Chair next year – by pricing in easier future policy but also beginning to demand a higher risk premium as compensation.⁶

This doesn't look healthy

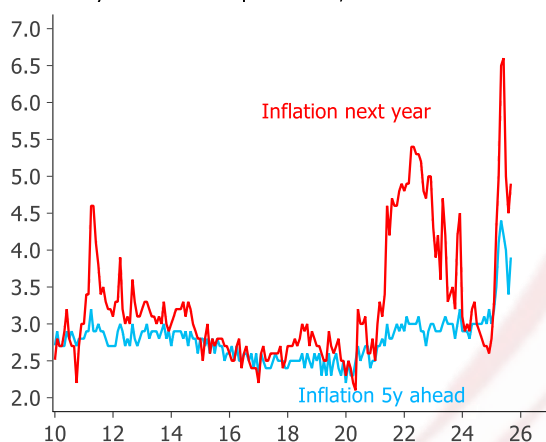
Distribution of price changes on US CPI items, % basket



Source: BLS, Macrobond, Satori Insights.

Your anchor's dragging!

US surveyed inflation expectations, %



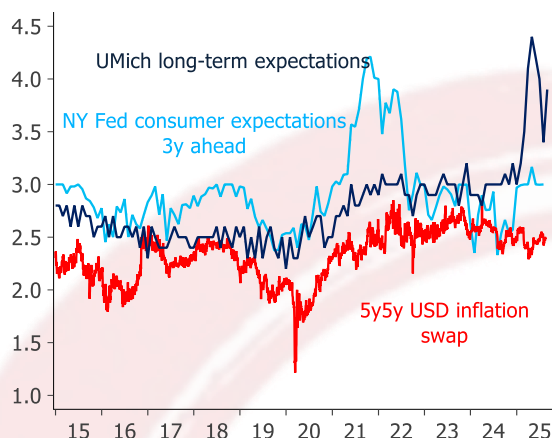
Source: University of Michigan, Satori Insights.

Coming months seem likely to bring still more of the same. The latest CPI report shows signs of at least stickiness if not resurgence in many goods and services – even before tariff increases have been much in evidence – and surveyed inflation expectations likewise appear considerably less well-anchored than Bessent claimed.

⁶ It contrasts, for example, with Japan, where higher term premium has been accompanied by higher real yields – suggesting that the market sees a problem but also expects the BoJ to act to fix it.

Market is more optimistic

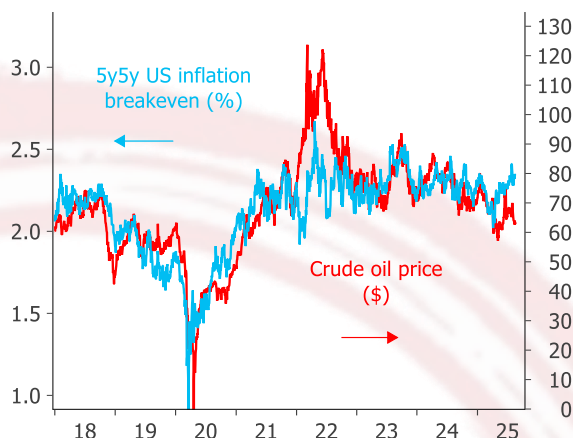
US long-term inflation expectations, %



Source: NY Fed, University of Michigan, Macrobond, Satori Insights.

Likely because of oil

WTI vs inflation breakevens



Source: CME Group, Macrobond, Satori Insights.

While it may be objected that the University of Michigan expectations have become particularly extreme since the survey went online in 2024, it is not the only survey to show expectations above target, and if anything it is market inflation breakevens which look like an outlier to the downside, most likely thanks to help from falling oil prices.

When reins become reigns

Even if Bessent's willingness to be a little economical with the truth is mildly disappointing, it is hardly surprising for a Treasury Secretary to want to overstate the country's credibility. What is much more alarming is the effect of Trump's demands for loyalty at the expense of honesty from other officials. The increasing lengths to which he has demonstrated he is prepared to go in this regard – undermining the independence of the judiciary, firing the head of the BLS, openly musing on the “problem” of potential Fed Chairs being “very good” until appointed and then “not doing so good” – are of course leaves taken straight from every autocrat's playbook.⁷

To see the direction of travel, look no further than new Fed Governor Stephen Miran's March 2024 [paper](#) on reforming the Federal Reserve – which almost makes his infamous, subsequently disavowed [paper](#) on restructuring the global trading system look tame by comparison. Rather like Trump's policies in general, what we find distressing is the way the paper starts with perfectly reasonable statements of intent based on existing failings, but then presents policy proposals which seem highly likely to make the problems worse – justified by such an extreme manipulation of the facts that the reader struggles to suppress the feeling that the intent was disingenuous all along.

⁷ [“Trump's chilling assault on economic data”, FT, 5 Aug.](#)

In the case of the proposals for the Fed, the aspiration that the FOMC “conduct monetary policy free from short-term political considerations” is obviously admirable, as is the desire to “check the ability of the U.S. president to completely dominate the balance of power on the FOMC”. But the idea that this could be achieved by “increased presidential oversight for the Board of Governors”, “clarifying the members serve at the will of the U.S. president”, and ultimately by adopting a system in which both board members and Reserve Bank leaders “should be subject to at-will removal by the president” is laughable.⁸

All in all, the paper to us exemplifies almost everything that is wrong with the US political system at present – and indeed with populist demands to reform institutions the world over. Absent entirely is any notion of the well-intentioned bureaucrat performing a function to the best of their ability and in line with constitutional safeguards and guidelines. What instead takes their place is are proposals that would lead to the extreme politicization of the Fed – in just the same way as the US justice system has already become politicized – shrouded under a veil of achieving “greater democratic accountability”. Claims which at first sight may appear reasonable (“pure independence is incompatible with a democratic system”) fall apart upon closer inspection. Presumably the authors feel similarly about an independent judiciary.

The final irony is the paper’s extended lament about the “revolving door between the executive branch and the Fed” and despair that “partisan figures have been placed in top leadership positions” – which Miran himself now so neatly personifies.

As previously, the issue is less the likelihood of Miran’s proposals actually being enacted, and more the piecemeal erosion of each of the checks and balances which had hitherto contributed to the prosperity of the US, and the concentration of ever more power in the office of the president.

By construction, autocratic or feudal systems are strong but brittle, and prone to being overturned in civil wars or revolutions. Whatever their failings, constitutional democracies are more likely to live to fight another day – at least until they begin to erode their own foundations. As Johan Norberg writes of the Dutch Republic under the Prince of Orange: “The Dutch decline started with despotic ambitions, political centralization and censorship. The country that had led the world in open debate started tightening the noose... Books were banned and universities purged of secular ideas. Immigration

⁸ *Reform the Federal Reserve’s Governance to Deliver Better Monetary Outcomes*, D. Katz & S. Miran, Manhattan Institute, Mar24.

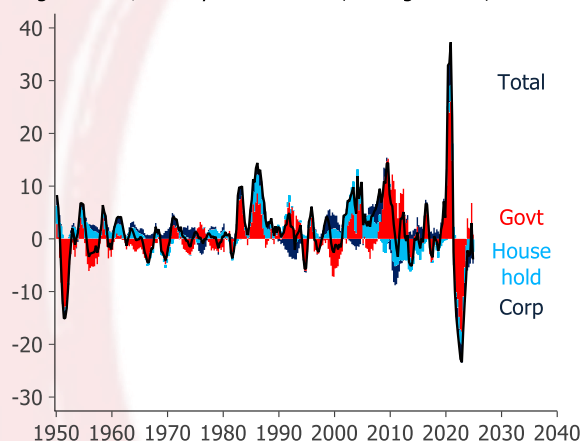
declined and foreign students started to leave the formerly leading Dutch universities.”⁹ In the present context it all sounds depressingly familiar.

How to trade it

However compelling the lessons of history, the snag for investors is knowing how to trade it. Again and again, regimes which have embraced openness, trade, immigration and innovation have overcome those which resorted to rigidity, uniformity, isolation and despotism. But drastic though the subsequent changes often are, they frequently play out over decades or even centuries – which is of scant consolation to the poor portfolio manager answerable for quarterly or even daily performance.

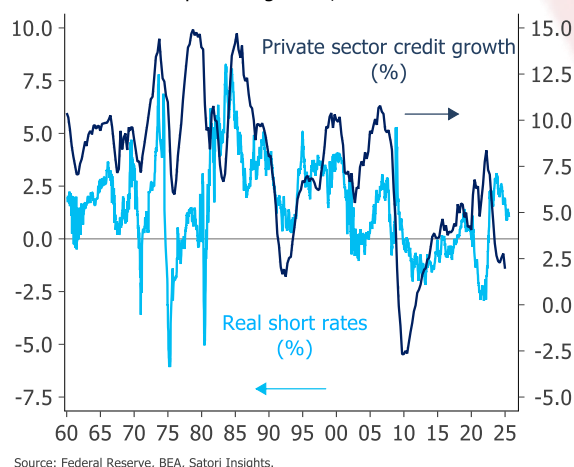
Credit swings larger and govt-driven

Chg in credit/GDP by nonfin sector, rolling annual, %



Higher rates slow non-govt credit

US HH+nonfin corp credit growth, %

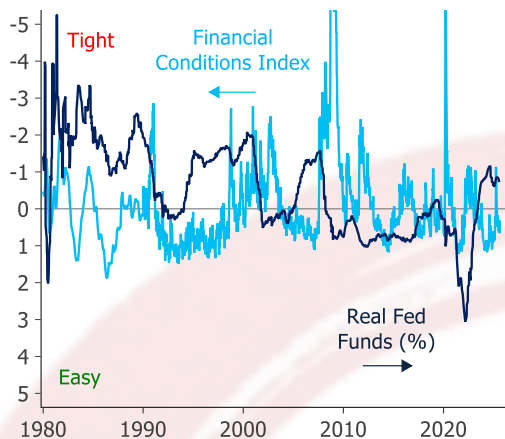


Equally, though, the magnitude of the associated risks for us makes it impossible simply to engage in “investment as usual”. As credit swings in recent cycles have become larger and more government-driven, so it has become harder to invest on the basis of traditional notions of an interest rate cycle driving private-sector credit expansion. In this cycle in particular, higher rates have slowed private-sector credit growth, but this has failed to have much impact on either markets or economic growth because ongoing fiscal stimulus means credit has continued to be created – and to seep into markets – regardless.

⁹ *Peak Human*, J. Norberg.

But they no longer drive risk in markets

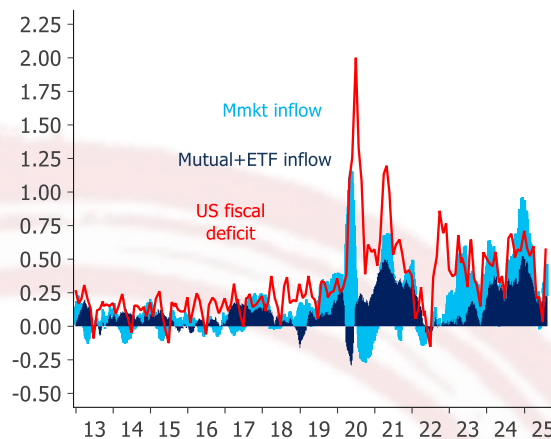
US financial conditions vs real rates



Source: Fed, New York Fed, Bloomberg, Satori Insights.

Fund flows increasingly deficit-driven

US fund flows vs fiscal deficit, rolling 3m, \$tn



Source: ICI, Fed, US Treasury, Macrobond, Satori Insights.

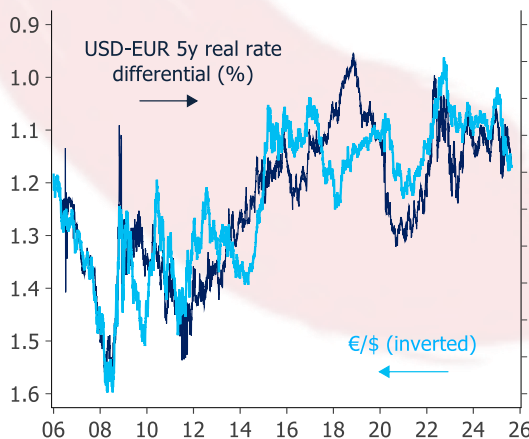
The paradox is that while government-driven flows can in the short term feel unstoppable, at the same time they are ultimately less diversified, and more brittle and prone to abrupt turnaround, than more ‘organic’ private sector flows. Trading them therefore requires a simultaneous mix of forensic analysis to try to analyze them, coupled with judicious long-term positioning which doesn’t require spotting a precise turning point. The more the Trump administration undermines its own credibility, the greater the chance of an EM-style sudden stop. This is the lens through which we think the most popular trades should be assessed.

Short \$

The most obvious “end-regime” trade is through shorting the currency. \$ weakness to date has largely followed real yield differentials – and has yet to acquire any sort of Liz Truss-style discount.

\$ weakness still follows differentials

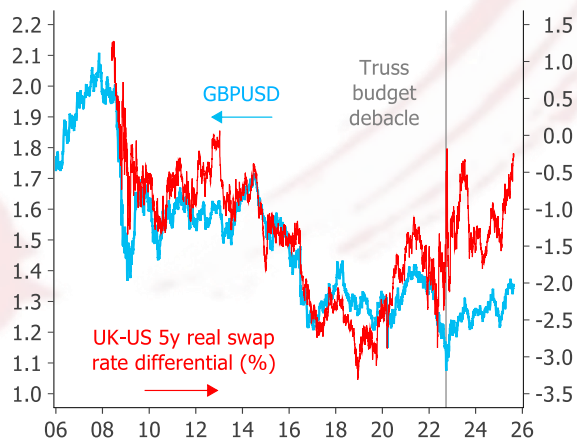
Real yield differential vs FX



Source: Macrobond, US Treasury, Satori Insights.

£ trades with a post-Truss discount

GBPUSD vs real yield differentials

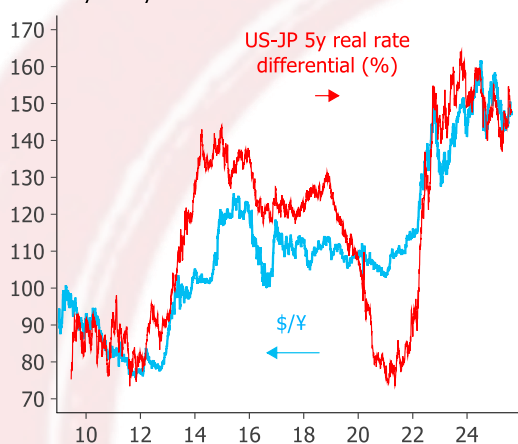


Source: Macrobond, Bloomberg, Satori Insights.

The more pressure the Fed comes under, the greater the likelihood the US acquires such a discount – most likely with equal suddenness.¹⁰ While the evidence on \$ FX hedging is mixed – with some reports of significant increases in hedging,¹¹ and others pointing to still very low levels,¹² in general what seems remarkable in both the TIC data and the fund flows is how little shift there has been in US-oriented fund flows post-April.

No discount in \$/¥ either

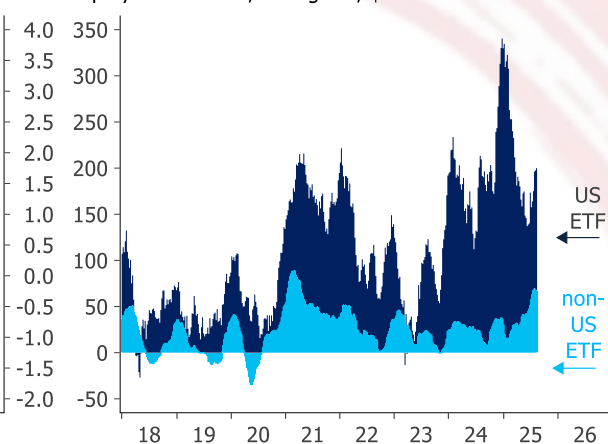
US-JP 5y real yield differential vs FX



Source: Macrobond, Bloomberg, Satori Insights.

Non-US higher, but no US outflow

Equity ETF inflows, rolling 3m, \$bn



Source: ICI, Macrobond, Satori Insights.

Admittedly from a short-term perspective a case could be made that the timing is bad. Positioning indicators show large \$ shorts vs history already, in particular vs longs in things like EM carry currencies. This could prove vulnerable to temporary correction in the event of Powell pushing back against extreme easing expectations at Jackson Hole. But so great is the likelihood of Trump eventually getting his way – with real yield differentials falling either because of US economic weakness or because of even greater pressure on FOMC members – that we would simply consider this a better entry point.

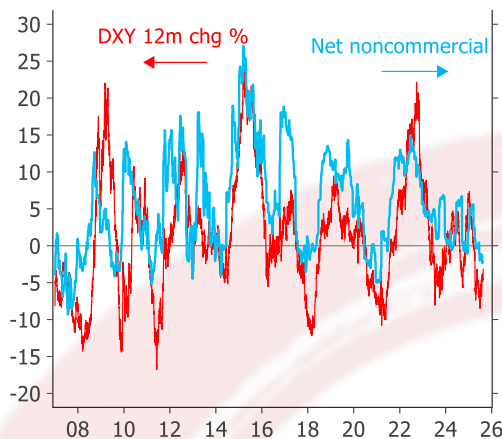
¹⁰ *Gradually, then suddenly*, 30 Apr.

¹¹ *"It's a run to hedge the dollar, not a run on the dollar"*, FT Alphaville, 19 Aug.

¹² *"Global Investors Cut Back Dollar Hedging, State Street Says"*, Bloomberg, 18 Aug.

USD shorts not large but near record

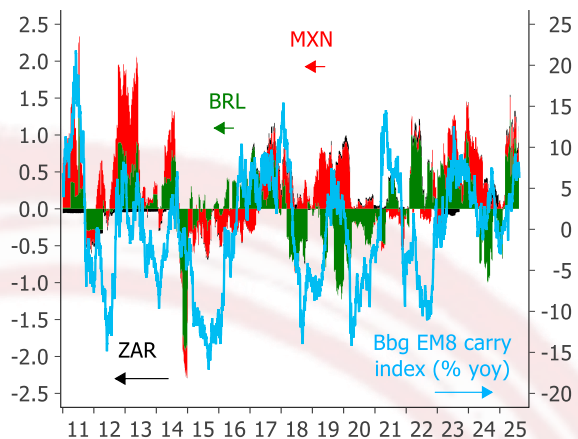
USD futures & options positions (contracts) vs FX



Source: CFTC, Macrobond, Satori Insights.

EMFX longs also extended

EMFX noncommercial futures & options positions (\$bn)



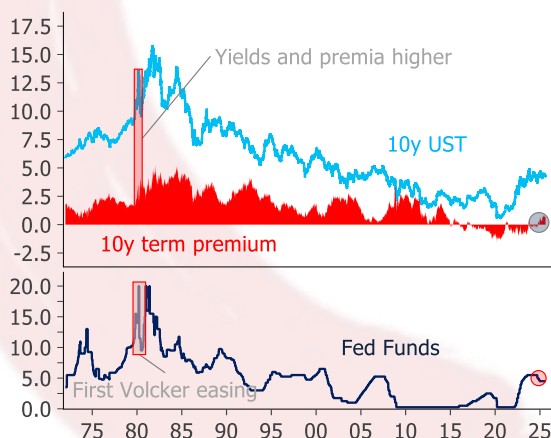
Source: CFTC, Bloomberg, Satori Insights.

Curve steepeners

The second most obvious – and equally crowded – US debasement trade comes through curve steepeners. At some point, if pressure on the Fed to ease is sufficiently great and sufficiently unwarranted, a simultaneous run on the dollar, spike higher in term premium and steepening of the yield curve is the likely result – just as was the case with Volcker's first rate easing in 1979. While there has been renewed foreign official selling of Treasuries, we see no reason why this should not run much further.

When easing causes tightening

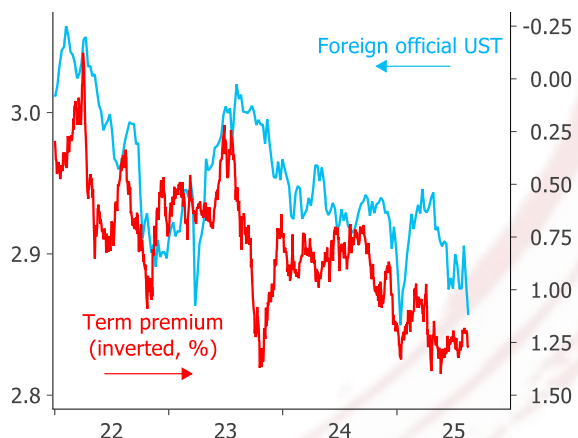
US Fed Funds, yields and premia, %



Source: U.S. Treasury, New York Fed, ICE, Macrobond, Satori Insights.

Foreigners selling again

Foreign official UST holdings at Fed (\$tn) vs term premia



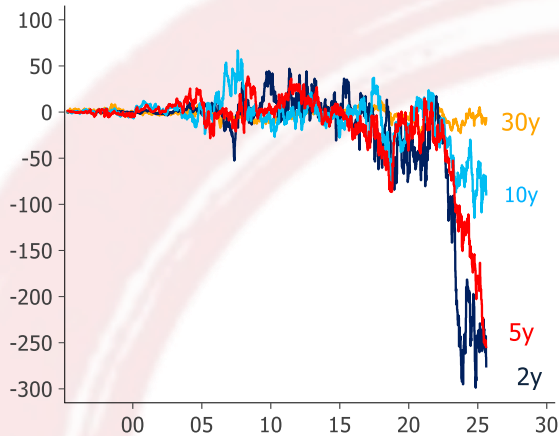
Source: Federal Reserve, NY Fed, Macrobond, Satori Insights.

Once again, it can be objected that steepeners look crowded already, and front-end longs seem particularly overdone relative to the pace of likely rate cuts absent a sharp fall in the stock market. But we are increasingly concerned about long-end rate dynamics more broadly – which we suspect may already be coming under pressure from flows

anticipating Dutch pension rebalancing¹³ – and the potential seems large for real yield flattening at some point to turn back into enforced real yield steepening.

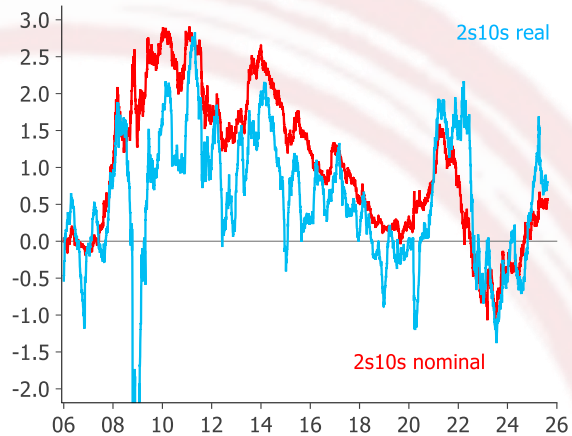
Steeperers in full force

Net UST position by maturity, net noncommercial, \$bn



Real + nominal usually move together

US Treasury yield curve steepness metrics, %



Gold and bitcoin

The other classic debasement trades are to our minds rendered only slightly less attractive by their obviousness, but of the two we continue to have a strong preference for gold.

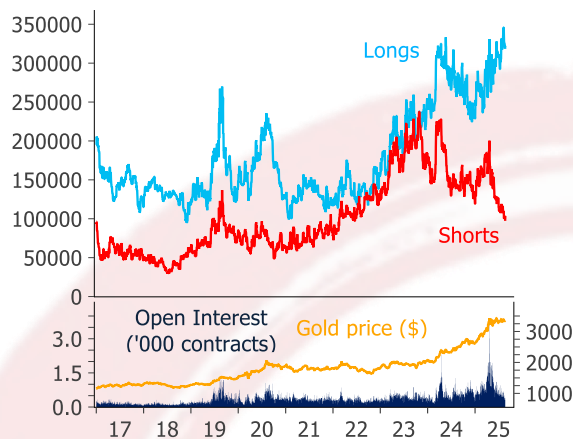
While their lack of income stream means neither can boast any sort of intrinsic value and are therefore essentially punts on continued buying producing price appreciation, both seem likely to benefit from future Fed rate reductions. Gold seems recently to have hit a ceiling – perhaps associated with strong Asian demand temporarily becoming exhausted – but we see no reason why both central bank and private demand should not drive prices significantly higher. Interest to buy through options remains notable by its absence.¹⁴

¹³ Reallocation towards risk may even be part of the reason for the ongoing strength in equities. But most sources expect these flows to accelerate only from Jan26. "[Dutch pension funds set to sell €125bn of government bonds](#)", *FT*, 10 Jul.

¹⁴ See the risk reversal chart in our daily [UST-USD capital flight charts](#) analytics.

China longs at record highs

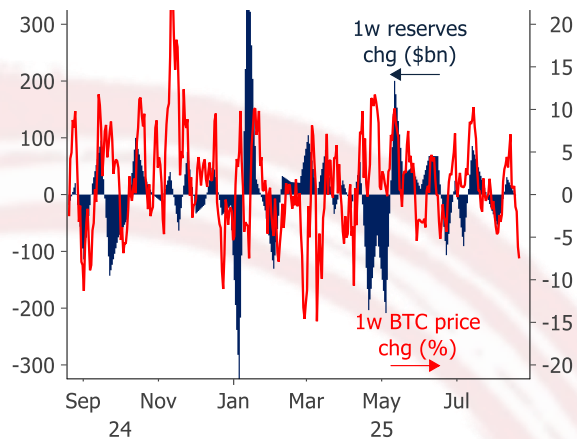
Gold contracts on SFE, number



Source: SHFE, LBMA, Satori Insights.

BTC still mimicking Fed reserves

Fed reserves chg vs BTC



Source: Macrobond, Fed, CFTC, Satori Insights.

Despite some of the same advantages and US policy support, we see bitcoin as altogether more problematic. Its lack of entrenched history gives it a much more speculative flavour, and both fund flows and price action have become disturbingly strongly associated with Fed reserves changes. These are likely to turn negative in coming weeks as a function of ongoing TGA rebuild, with domestic RRP now near zero and no longer able to provide a cushion.¹⁵

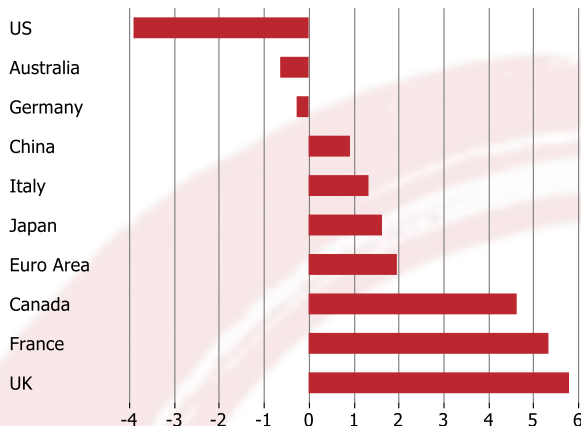
Credit and equities

The same liquidity factors also seem likely to weigh on risk in coming weeks, and obviously another potential “end hegemon” trade would be simply to short US equities or credit. But here is where things become more complicated, and relative or cross-market trades may well prove preferable to outright ones. US households’ willingness both to spend and to pile their savings into equities may appear extreme by global standards, but there is nothing in either the real income or the wealth data to suggest that it needs to stop.

¹⁵ As described in [*When does liquidity turn to fumes?*](#), 1 Aug.

Dissaving exceptionally

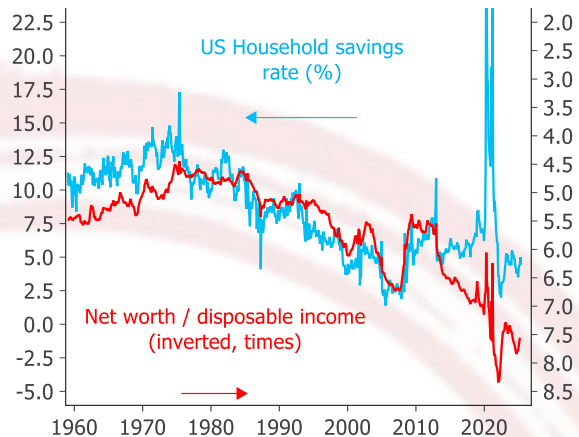
Chg in household savings rate since 2019, %



Source: BEA, Fed, StatCan, INSEE, CAO, Istat, DESTATIS, ONS, ABS, DG ECFIN, OECD, Satori Insights.

With this wealth, why not spend?

US savings rates vs household net worth

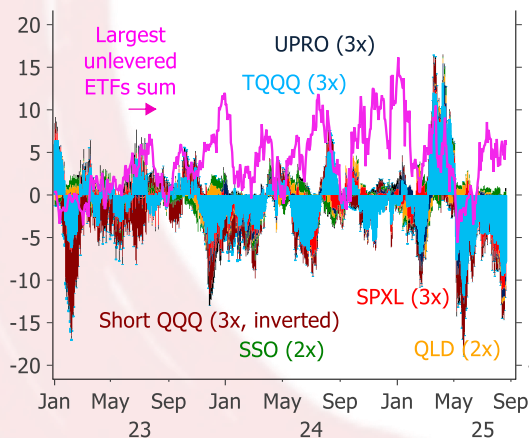


Source: Federal Reserve, BEA, Satori Insights.

Even some of the flow data suggests a moderation in some of the more extreme risk tendencies we saw earlier this year, such as leveraged ETF buying, and the recent surge in credit inflows has been skewed towards safer and shorter instruments rather than riskier ones.

Leveraged ETF unwinding

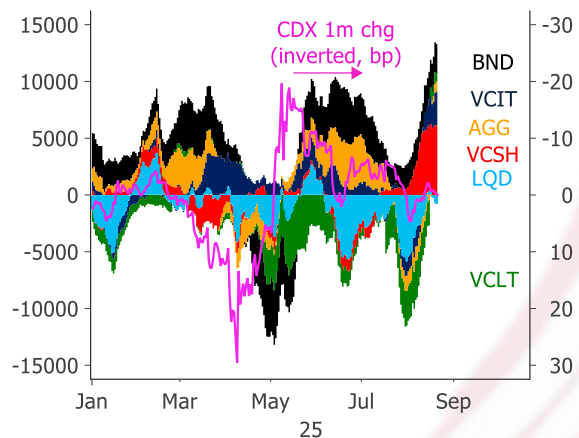
Leveraged ETF inflows, rolling 1m, levered flow, \$bn



Source: Bloomberg, Satori Insights.

ETFs chasing the price action

Largest credit ETF inflows, rolling 1m, \$m



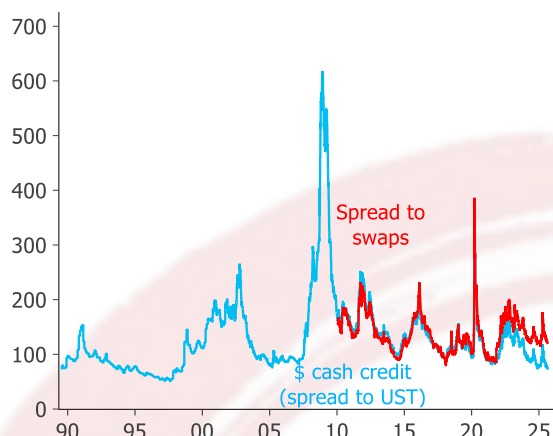
Source: Bloomberg, Satori Insights.

In general this makes us prefer gold longs or USD shorts as expressions of risk-off rather than straight equity shorts – whatever our doubts about the long-term ability of tech to grow into its outsized valuations.¹⁶ For those wanting a purer credit- or equity-based expression, the obvious trade to us would appear to be shorts in HY relative to IG, given that much of the record tightness of IG spreads in fact comes from govies weakening relative to swaps.

¹⁶ [Scale and scalability](#), 30 Jun.

Credit tightness partly govt weakness

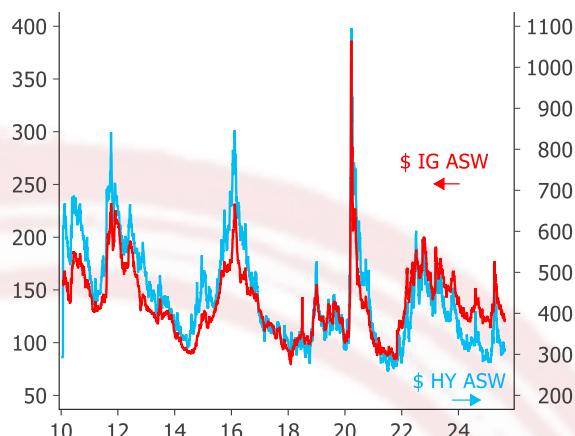
\$ IG spreads to govies and swaps, bp



Source: Bloomberg, Satori Insights.

ASW reveals tightness of HY vs IG

\$ credit spreads to swaps, bp

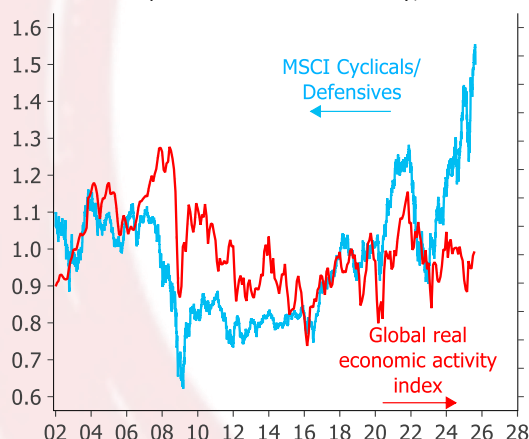


Source: Bloomberg, Satori Insights.

The equity equivalents are probably shorting cyclicals vs defensives or US vs China tech. Obviously as with all bubble-bursting trades, both come with a considerable amount of risk.

Upswing or market froth?

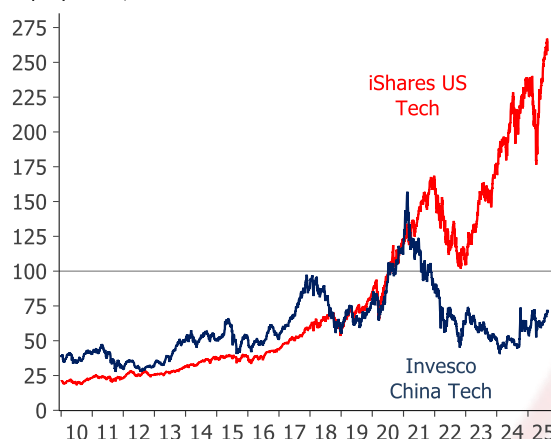
MSCI World equities vs FRB Dallas activity, indices



Source: MSCI, Bloomberg, FRB Dallas, Satori Insights.

An invidious advantage

Equity ETFs, Jul20=100



Source: Macrobond, Bloomberg, Satori Insights.

Conclusion

To sum up, the increasing venality and capriciousness of US politics is not only depressing to see in its own right; it has much in common with other “late-regime” dynamics seen across history. But it is difficult to trade from – unless, perhaps, you have a 50-year investment horizon. Ultimately, though, the combination of constraints on the real engines of economic growth – like trade and immigration – coupled with increasing debt do take their toll. Any self-respecting despot can always print more money – but they can’t always control where it goes. The safer and larger the creditor was deemed previously, the more abrupt is likely to be the subsequent repricing. Current market pricing still fails to reflect that.