2024, THE AMERICAN POWER AND THE NEW YEAR

The year 2024 has been the year of the United States of America. Donald Trump's “America First” and Joe Biden's “America is back” mottos represent the two sides of the same coin. Both indicate a desire to restore the absolute power the United States has known since the fall of the Berlin Wall. Biden, in the vein of the Democrats' strategy, is convinced that his country's values are the best in the world and therefore should be exported and managed. Businessman Donald Trump, interpreting Republican isolationist pragmatism, believes that his country is large and developed enough to focus exclusively on his interests: America first. To succeed, both have put fiscal leverage in the service of growth while the Federal Reserve, as part of its goals (fighting inflation and unemployment), has not skimped on market liquidity. The explosion of defense spending has enabled the technological strengthening of the military, which has enhanced the digital transition.

Wall street has realized that the new geopolitical dynamic predisposes the United States to growth. In the past two years the S&P has risen 70 percent and the tech Nasdaq 90 percent. But even the old economy index, the Dow Jones, has risen 50 percent. The dollar (Dollar Index), admittedly influenced by the rate trajectory charted by the Federal Reserve, has broken out of the trading range it has been in since early 2023 with a revaluation of nearly 10 percent from its September 30 low in 2024. This is the period when the market begins to discount the return of Donald Trump. While it is true that the approaches of the two leaders express the will to power and the centrality of Washington, Trump's approach appeals more to Wall Street because it is more focused on corporate America, which he intends to stimulate by reducing its taxation and pushing it to identify with American power.

The year 2024 was the year of the United States of America also and especially because of the role of New World technology companies in the development of artificial intelligence. The Nyse FAANG Index[1] from its lows in 2022 exploded 223%, while in 2024 it put up +57%.

Last year, the use of Artificial Intelligence (AI) began to contaminate the U.S. business, just four years after Microsoft disclosed OpenAI's GPT-3 models. According to the Department of Labor, productivity[2] in the United States grew in the third quarter by 2 percent year-on-year. This is the fifth quarter in a row in which productivity gains have been at least 2 percent. In the five years leading up to the pandemic, there were only two quarters with such meaty features.

The post-Covid-19 economy has changed. Businesses have learned first to make better use of the digital world (such as, for example, communications via Zoom, instead of expensive travel), then, especially in 2024, to become aware of the benefits of AI. Also to be considered is the changing labor market, which has pushed the best people to move to more productive and better-paid jobs, leaving the many immigrants with more manually intensive jobs.

Of course, increased productivity is not always good news for workers: one way to increase productivity is to downsize. New technologies derived from AI can create new occupations, making workers more efficient, or take their place: the ease with which AI can write algorithms has left many programmers at home. [3]

The Biden administration has also realized the importance of AI in the geopolitical arena. That is why it has pushed companies to bring back the most sensitive manufacturing by also banning exports of particularly high-performance chips, such as the high-end of those from Nvidia, or machines from the Dutch ASML, a world leader in extreme ultraviolet (EUV) lithography. The U.S. market has appreciated the focus on AI even though

[1] The index is composed of: Apple, Amazon, Broadcom, Crowdstrike, Alphabet, Meta, Microsoft, Netflix, Servicenow, Nvidia.
[2] Productivity is understood as the total output of the economy divided by labor hours.
[3] Justin Lahart, Lauren Weber, “Workers, companies in U.S. become more productive,” The Wall Street Journal, January 3, 2024.

at times it has had to contend with reduced profits caused by declining sales in China for some companies.

Corporate productivity as well as national security is at stake in the field of AI. Particularly deserving of attention is a book written by three hands, by Henry A. Kissinger, the historic secretary of state who died a centenarian in November 2023, Eric Schmidt, among the founders of Alphabet, and Daniel Huttenlocher, dean of the Massachusetts Institute of Technology (MIT)[4], in which these Washington consensus figures outline the transformative power of AI that will redefine human identity and the very criteria of power. “The introduction of nonhuman logic into military systems and procedures, the three authors write, will transform strategy. Armies and security services that train or operate in collaboration with artificial intelligence will achieve surprising and sometimes puzzling insights and results.” [5]

According to the three experts, by examining huge amounts of information, artificial intelligence cyber weapons can learn to “penetrate defenses without requiring humans to discover exploitable software flaws.” [6]

The United States, which, thanks to its military, corporate America and research institutions now has an objective advantage over everyone, has decided to preserve it as long as possible. The main fear is certainly that China, which has already achieved digital highs, will challenge Biden's “America is back” by preventing it from becoming Trump's one, great power again (“Make America Great Again,” abbreviated MAGA). But there is more. AI know-how must be preserved vis-à-vis everyone, including allies, because the geopolitics of power can change quickly. Indeed, even “smaller nations that do not possess nuclear weapons and have a limited conventional weapons stockpile can exert disproportionate influence by investing in artificial intelligence and state-of-the-art cyber arsenals.”[7] Trump, in choosing Elon Musk as his technological *alter ego*, has extolled markets already

[4] Henry A. Kissinger, Eric Schmidt, Daniel Huttenlocher, *L’erA dell’Intelligenza artificiale, Il futuro dell’identità umana*, Mondadori, Milan, 2023, 206 p.

[5] *Op.cit*, p.135.

[6] *Ibidem*, p. 137.

[7] *Ibidem*, p. 142

largely predisposed toward the creative destructiveness of AI.

In substantive terms, the centrality of AI allowed Wall Street to manifest its full power in 2024. But in financial terms, Washington has also been a winner: the market has accepted a major budget deficit of 6-7 percent for two years in a row, and debt close to 125 percent of GDP, exceeding that of the 1945 war period. The dollar has even managed to strengthen because flows are going to the United States. Liquidity (M2) has remained at high levels. In 2024, more than 50 percent of the world's central banks began cutting interest rates with the Fed intervening three times, reducing them from 5.5 percent to 4.5 percent, with inflation falling from 3.09 percent in early 2024 to 2.7 percent in November. But core inflation remained stable at around 3.3 percent, a sign that the cost of energy (oil between 70 and 80 usd per barrel) was a major contributor to curbing prices.

Beijing, facing the U.S. challenge and the risks of an excessive slowdown in its domestic market, has initiated a series of interventions that have propelled MSCI China to grow 20 percent by 2024. In addition, China, leveraging the rapid growth of the electric vehicle industry and aggressive pricing strategies, has emerged as the world's largest auto exporter, surpassing traditional leaders such as Germany and Japan. The latter, in addition to indirectly benefiting from the big neighbor's initiatives, is reshaping the governance of its companies, even changing wage policies and rediscovering the inflation long sought after for decades. A staunch U.S. ally in the region, thanks to the weak Yen and carry trade operations, it is a major supporter of both U.S. Treasury bonds and Wall Street. The stock market has rewarded this environment: the Nikkei is up 22 percent in 2024. Excessive appreciation of the yen, caused by the new round of rate hikes, could put U.S. financial assets in trouble. Nevertheless, Biden's power politics blocked the acquisition of U.S. Steel by Japan's Nippon Steel.

Europe and Japan face many similar challenges, including a lackluster recovery in the automotive industry, declining sales of semiconductor equipment and heavy reliance on the Chinese market. Together, these factors have dampened the growth momentum of both economies. But supply chain disruptions have hit Europe hardest, where the trade deficit with China has doubled from pre-pandemic levels. Germany's auto exports also fell by 30 percent compared to the 2015-2019 average while Japan's declined by 10%.

Dependence on the Chinese market is significant for both economies. As an example, nearly 50 percent of Japan's semiconductor machinery exports go to China. And in Europe, the leader in semiconductor equipment, ASML, is 40% dependent on its revenues on Beijing. This dependence not only makes Europe and Japan more vulnerable to changes in China's economic conditions, but also from the potential impacts of U.S. efforts to restrict the Middle Kingdom's supply chains.

Europe, in addition to the weaknesses illustrated, is suffering from the effects of the war between Russia and Ukraine, which has substantially disrupted Putin's economically favorable dependence on gas. Still, the Eurostoxx50 put up +13%, helped by financial stocks, despite political uncertainties in Germany and France. Switzerland remains the tail end: the SMI suffered from a heavy decline in Nestlé and underperformances in Roche and Novartis, which normally give the index a conservative, safe-haven character, while exports suffered from the strong franc and the slowdown in the German economy.

“The American Year” in 2024, however, benefited from several favorable circumstances. First, the global cycle of rate cuts that helped a soft landing of the economy and a strong equity rally driven by AI, also fueled by the expansion of the manufacturing cycle in the first half of the year. [8] The question now is to understand the sustainability of Wall Street's rally given the stellar successes of the past two years. The attempted answer has to be situated at least on two levels. The first has to do with the political and geopolitical aspect: will Trump and Musk's America be able to abandon the robes of first relative power and put on those of absolute power? The second is strictly economic: have the financial multiples of the stock market gone too far?

[8] *JPMorgan Global Manufacturing PMI* touches a high in May 2024 at 51, then falls below the watershed of 50.

In such a complex world, the United States is unlikely to be the sole superpower again. But the choice to use all the tools in its power to consolidate a position of strength is still credible to markets. Expansive fiscal policies and technological innovations should allow the star-studded economy to grow by many predicted to be around 2 percent. Corporate America's fast transposition of AI should continue to improve productivity in 2025. And results in the last quarter of 2024 could confirm this by allowing the market to at least consolidate its successes.

The real danger is that inflation will restart due to tariffs, decreased immigrants and sustained demand. This would prevent the Federal Reserve from continuing the path of rate cuts by revealing Wall Street's overvaluation and causing the dollar to strengthen. In such a scenario, the appreciation of the greenback would increase the difficulties of emerging countries as well as the economies of Eurozone allies and Japan, for which growth is already now estimated at only around 1-1.5 percent. The price of oil and gas will be crucial in containing inflationary escapes. The Trump administration is aware of this, but so is Putin as far as Europe is concerned.

2025, come what may, will still be the year of the United States. Europe will continue to suffer although the beginning of a peace process in Ukraine and the low multiples of its stocks could be an important support. Japan seems to have a somewhat more favorable situation than the Old Continent because of the restructuring it is undergoing. China is under fire and reeling from the volatility of the confrontation with Trump. India is still an opportunity, but it too is at the mercy of the vicissitudes of the dollar as are much of the emerging countries. Large Swiss companies need a weaker franc and a stronger Germany. Gold maintains its protective role in balancing portfolios.

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