Sumus' Version

June 2025

In the past few months, the focus has been on the structural imbalances of the US economy. The high fiscal deficit is the main source of concern, however if there is no change, a market stress could occur next year. For the second half of this year an easing cycle by the Fed will increase liquidity and maintain markets in good shape.

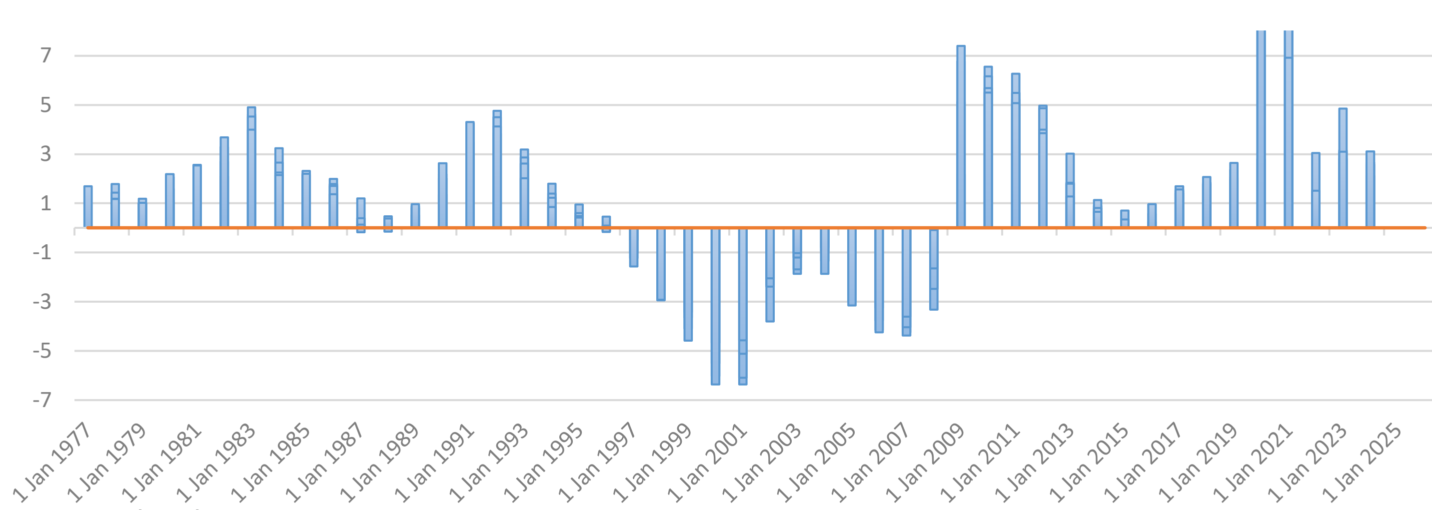
Since April, markets have paid a lot of attention to the imbalances of the US economy. In the past, structural imbalances, had led to several crises.

Looking at the Fed Flow of Funds data, there is a picture of potential imbalances in various sectors of the economy. The private sector has now a healthy surplus (it is spending less than what it earns) and so there are no imbalances mounting.

In the late '90s the investment boom due to the arrival of internet and mobile telecommunications led the corporate sector into a significant deficit; while between 2000 and 2002 the economy (and financial markets) had to digest these excesses.

In the years 2007 and 2008 was the household sector to lead the private sector in a significant deficit to finance the housing bubble. Thereafter, since 2009, the private sector has always been in good shape.

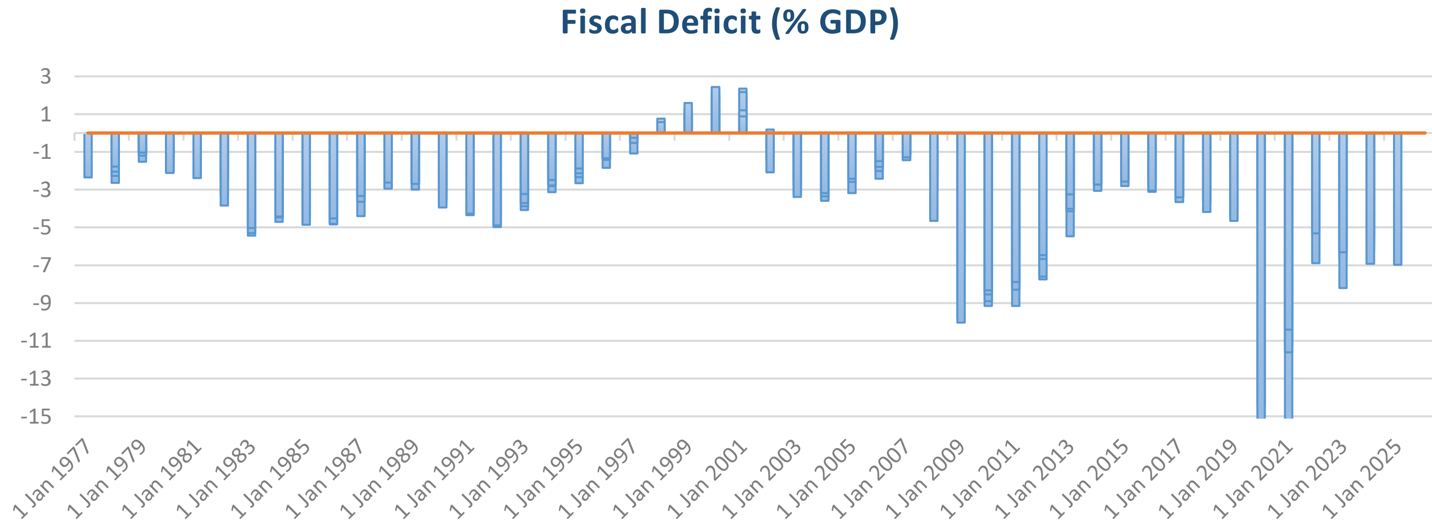
Financing Gap Private Sector (% GDP)



Source Bloomberg

Between 2009 and 2013 was the public sector to build a big imbalance. During this period countries with high debt levels were under strong pressure especially in Europe with the default of Greece.

Fiscal Deficit (% GDP)



Source Bloomberg

Since 2020 to date, once again there has been a period of very high fiscal deficit, and the recent Big and Beautiful Bill will lead to high deficit in the near future as well.

The question is how long the markets will accept seeing this imbalance without a reaction from the Bond Vigilantes (investors in US Treasuries).

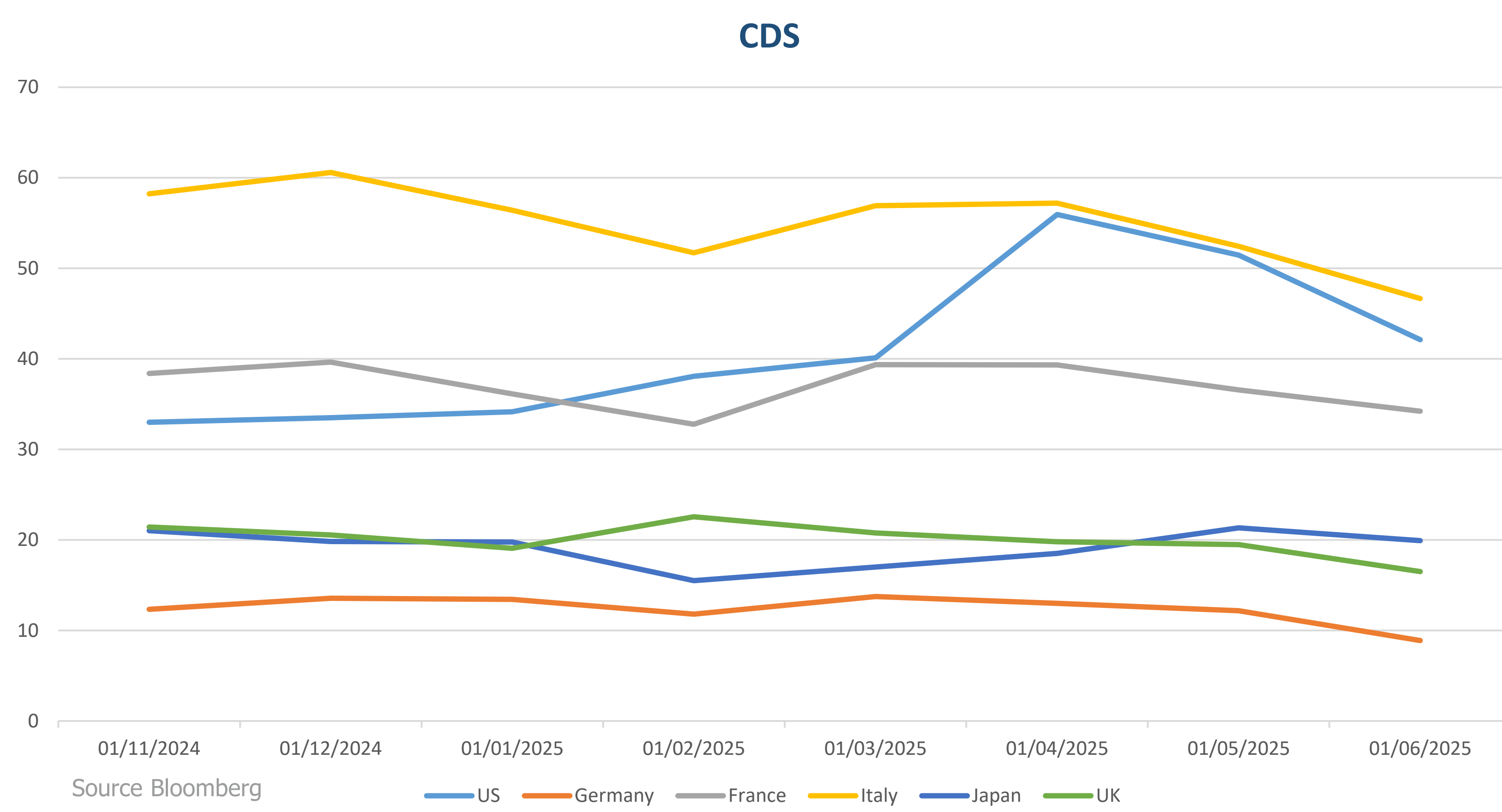
The US Debt/GDP is at 121, high but still manageable, however the trend is unsustainable and will reach 128 in 2030 according to the IMF.

Only France has a worse trend in the Debt/GDP ratio.

IMF Debt/GDP evolution:

	USA	Japan	Italy	France	Germany	UK
31/12/2024	**121**	**237**	**135**	**113**	**64**	**101**
31/12/2025	122	235	137	116	65	104
31/12/2026	124	234	138	119	67	105
31/12/2027	125	232	139	122	69	106
31/12/2028	126	231	138	124	70	107
31/12/2029	127	231	138	126	72	106
31/12/2030	**128**	**232**	**138**	**128**	**75**	**106**

Since last November, there has been a small increase in US credit risk, with the CDS now higher than that of France and close to the Italian one.

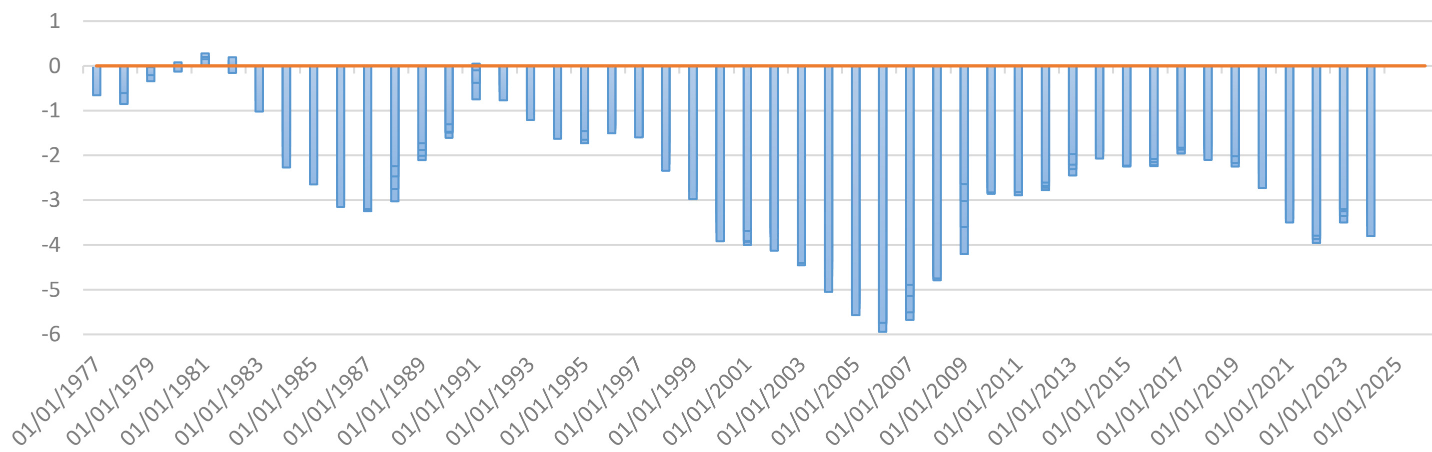


In conclusion, the current situation is not yet leading to a strong reaction by the bond vigilantes and in fact US Treasury yields are lower than the beginning of the year. In 2026, if nothing changes, financial stress may start to be tangible.

For the second half of 2025 the markets will react more to the possibility of lower rates from the Fed, and they will continue to be supported by higher liquidity.

In addition, another imbalance in the US economy is about the current account deficit, which is high at 3.8% of GDP.

Current Account Deficit (% GDP)



Source Bloomberg

Reducing the fiscal deficit could reduce domestic demand and thus the current account deficit, but this is not the way the Trump administration intends to fix it. Instead of reducing domestic demand, they are implementing a series of tariffs increase to reduce imports. These polices will increase import prices and at the end reduce domestic demand.

To conclude we are not expecting a "Sell America" trade in the second half of the year, but in 2026 some structural issues need to be addressed.

With lower growth due to tariffs implementation, we are not going to increase the equity exposure, while US rates can go down after the summer with a probable start of an easing cycle by the Fed.

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