



# MARKET MONITOR

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## Numbers Tell Us that Trade Cheats Haven't Hurt the USA

BY: MICHAEL ALEXENKO, CFA

We remain indifferent at our own peril to the economic policies promised and enacted by our politicians. These policies are what help to create or destroy wealth today and for decades to come. Good economic policies will provide incentives for people to be their most productive by making the reward potential attainable and lucrative. Stock markets are dependent upon and will respond to good policy because corporate profits will grow and markets will flourish. Economies control stock markets, not vice versa.

It is hard to recall if ever a government policy has had such immediate and clear impact as Trump's "Liberation Day." Markets dropped over 12% in four trading days after announcing Liberation Day and another 8% in the few weeks leading up to it. It's impossible to argue that the cause and effect isn't a 100% correlation. And to be clear, the market is going up now, not because it believes that Trump's tariffs will remain in place and that international trade will be diminished, but because it believes that he's backing away from his preposterous starting point used to terrify trading partners into a deal.

We're told that other countries are getting rich off of us by using unfair trade practices to benefit themselves at our expense. If this is true, then it should show up in the numbers.

Consider the per capita GDP rates of the main European Union countries

and the claim that they are 'ripping us off.' In general, richer countries will have a higher per capita GDP than poorer ones. If they are ripping us off, then who knows what they are doing with the treasure that they steal year in and year out? As of 2023, the USA had a per capita GDP of \$80,706 and the countries that are the accused main trade villains - United Kingdom, Germany, and France - have respective per capita GDP of \$49,224, \$53,528 and \$45,934.<sup>1</sup> Don't bother asking about Italy, because their number is an embarrassment, coming in at a level that is less than half of ours. Using these numbers, it's shocking that the Europeans aren't claiming that we are ripping them off.

How about Japan? A country that decades ago, we were warned by trade protectionists, was in the process of owning the USA. Are you shocked to discover that each Japanese citizen produces about 42% of the average USA citizen? This number means that Japan needs to worry more about who is going to own her.

Trade barriers in the form of subsidies, quotas and restricted market access don't help the countries that practice the foolish policies but it punishes the consumers and taxpayers of those nations. Competition is what promotes a good product at the best price. When you limit international competitors by "protecting" your companies as the President likes to say, the long-term

result of that canard is higher priced, inferior products. It may be true what President Trump says about countries being unfair trading partners, because the numbers confirm that they have done themselves more harm than good by "protecting" their industries. Maybe, the best path to take in this case is to let them keep doing it? It's hard to know what President Trump intends to accomplish with his trade war. Who does he plan to liberate and from what? He seems to believe that countries with a higher percentage of their GDP attributed to manufacturing are more successful. Maybe this is one of the main reasons he believes Europe is ripping us off? He makes these claims, but he never mentions what percentage of our economy is in the Industrial Sector, or how ours compares to Europe's.

The countries that are in Europe, Australia/Asia and the Far East (EAFE) have an industrial base of 18.9%, while our Industrial Sector is 9.84%.<sup>2</sup> Moreover since 1969, the

### World Per Capita GDP

Country	Per Capita GDP
United States	\$80,706
Canada	54,517
Germany	53,528
United Kingdom	49,224
France	45,936
Italy	38,672
Japan	33,806
Mexico	13,790
China	12,509
Brazil	10,295

Source: Worldometer.com

See "Other Culprits"... page 2

<sup>1</sup> WorldOmeter

<sup>2</sup> iSharees.com-Sector breakdown for ITOT and IEFA



## Other Culprits Chip Away at the Blue-Collar Labor Force

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number of companies in the S&P 500 that were in the Industrials' sector was 166, today that number is 78. This is an alarming decline if you believe that we should have a stronger industrial base because it makes us more powerful and wealthier. However, when you consider that the Europe, Australia/Asia and Far East stock index since 1969 has returned 7% on average and the S&P 500 has made 10.29%, despite a decline in our industrial base as a percentage of our economy, it's either demagoguery or irrational to claim that foreign nations have become rich at our expense by stealing our manufacturing.<sup>3</sup> That

3.29% difference for 56 years would result in US investments being worth 5.45X more than the European ones!

Giving President Trump the benefit of the doubt, possibly his trade war is based on the concerns that we've made China richer and more powerful, primarily at the expense of our blue-collar labor force, since it entered the WTO about 25 years ago. Possibly so, considering the real incomes for the bottom 50% of wage earners have gone nowhere since 1967. Compared to the top 10<sup>th</sup> percentile, the numbers are even worse, as high wage earners have done much better.<sup>4</sup>

An alternative thought is rather than looking for a foreign culprit, maybe the cause for lower income groups losing ground in a technology-based economy is a primary educational system that ranks pathetically low on an international level, or the fact that there has been an erosion in the stability of the family unit. Compounding the problem may be unfriendly labor and environmental laws. These are complex socioeconomic questions that require more space and depth of understanding than this newsletter can offer in the moment.

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## Market Snapshot:

### Mr. Trump/Mr. Chaos Could Still Pull Off a Positive Year

BY: MICHAEL ALEXENKO, CFA

In one of his many press sessions President Trump took exception to the characterization of his decision making and policy announcements as chaotic. Whether you hate or love him, anyone paying attention to Donald Trump in action must admit that he enjoys distraction, hostility, obfuscation, and exaggeration as part of his ordinary routine. Thankfully, there seems to be a dose of pragmatism too, because after Liberation Day when things got really ugly for stocks, he began to quickly back away from some of his most strident language and offered some concessions on his harsh trade positions.

Trump's threshold for pain looks to be the avoidance of an official bear market, which is when stocks lose 20% of their value. Have we escaped most of the re-

cession risk now that China and the USA have reached some de-escalation in the trade war, or was too much damage done to trade flow? Will the possibility of another round of unexpected chaos force consumer and investor sentiment into a downward spiral that will result in at least a mild recession? We do have one quarter of negative economic growth in the books, if the Q2-2025 is also negative then the technical line for a recession call will have been breached. First-time jobless claim numbers reported every Thursday morning will provide the best timely risk gauge. Although 2025 started much rockier than 2017, don't be surprised if 2025, like 2017 ends in the black, even with all the "chaos."

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<sup>3</sup> QAD, Inc

<sup>4</sup> Russel Sage Foundation—Chartbook of Social Inequality

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