HARBINGER STRATEGIES

Trade & Geopolitical Update

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EXECUTIVE SUMMARY

The interim June 17 MOU between the U.S. and Iran continues to face violent tests as Iran attacks commercial shipping and the U.S. responds with military strikes against IRGC sites. Both sides temporarily stood down and reconvened last week through Qatari mediators in Doha. The back-and-forth hostilities center around Article 5 of the memorandum—who controls the strait—which is Iran's only real leverage. Yet even as the politics whipsawed, the physical recovery cautiously continues. Gulf oil exports have returned to near pre-war levels and Brent has fallen sharply from its wartime peak, even as this week's re-escalation has renewed volatility. Forecasters now predict crude below $60 barrel before the end of the year.

At home, the economy continues to move in opposing directions: record S&P 500 margins, a historic second-quarter rally, and a never-ending AI capital cycle (e.g., government nuclear loans, utility megadeals, SK Hynix's listing, and $2.77 trillion in total dealmaking) vs. just 57,000 jobs added in June, a housing market that continues to struggle, and inflation running at multi-year highs. The new Warsh Fed is holding hawkish through it all as the bond market prices rate increases and the White House studies how to remove Governors Lisa Cook and Jay Powell. In the President's favor: May's inflation reading looks like the peak as oil prices fall. Running against him: consumer relief as a lagging tail.

Abroad, Washington is continuing to build its leverage throughout the globe. The Administration is reconstructing its tariff regime through Section 301, threatening 100% tariffs on any country that taxes U.S. tech and fighting the EU on numerous non-trade barriers. The U.S./China contest is widening from critical minerals to AI models to the multilateral system, while trade diplomacy quietly resumes and both leaders prepare for a late September state visit in Washington. Rounding things out, the Western Hemisphere consolidates rightward with conservative candidate wins now official in both Colombia and Peru, and a U.S. relief-and-reconstruction opening in earthquake-stricken Venezuela, all further extending the reach of the Donroe Doctrine.

THE FIVE TAKEAWAYS

TAKEAWAY 1: The Iran ceasefire is "over" but diplomacy continues. Tit-for-tat strikes on shipping and U.S. bases have resulted in both Doha talks and renewed concerns about safe passage of Hormuz. The MOU is bending, but has not exactly broken, as both sides remain incentivized while also flexing their leverage (military and economic power vs. control of shipping). As we await the aftermath of this week's attacks, the August 18 nuclear deadline is fast approaching.

TAKEAWAY 2: Oil has normalized faster than predicted even without U.S./Iran progress. Gulf exports are now back to near pre-war levels despite recent strikes and every major forecaster sees Brent retreating lower. The rapid supply recovery means May's PCE is the likely inflation peak of the war and the most important economic indicator for central banks, global markets, and cost-of-living concerns.

TAKEAWAY 3: The Fed is holding while Chair Kevin Warsh remakes the institution. Of concern, June hiring slowed to 57,000 and housing has yet to rebound in a fulsome manner. But equity expansion is undaunted as a booming AI capital cycle results in record margins, $2.77 trillion in deals, and a Q2 rally that added more than $8 trillion in value. The White House is now reportedly studying how to remove Fed members Lisa Cook and Jay Powell, following the Supreme Court's recent decision on independent agencies in the hopes of blunting the investor consensus that rate increases are inevitable.

TAKEAWAY 4: Washington's rebuilding of global trade alliances moves forward as Section 301 investigations near completion. A 100% digital-tax retaliatory threat and the unsurprising announcement against USMCA renewal add predictable volatility to ongoing trade talks, particularly with respect to the EU and Canada. Meanwhile, the Administration welcomed right-aligned candidates in Latin America, bringing two more countries under the Shield of the Americas security framework. The Donroe Doctrine still faces uncertainty, however, as Delcy Rodríguez's handling of the earthquake response faces domestic criticism and the humanitarian crisis reaches an energy tipping point in Cuba.

TAKEAWAY 5: The existential race for AI dominance is widening from inputs to the IP of frontier models. Both sides seek to counter each other and gain leverage via alliances throughout the Indo-Pacific, European continent, and Western Hemisphere.

KEY DATES AHEAD

The week has been dominated by the NATO summit in Ankara and escalating attacks in the Middle East. Key economic data points have included the Fed's minutes, the IEA oil report, China CPI, and SK Hynix's U.S. debut.

Today

- Diplomacy: Secretary of State Marco Rubio meets with Saudi Ambassador Reema bint Bandar Al Saud at the White House
- Economy: IEA Oil Market Report; Ecofin meets in Brussels; Brazil IPCA June inflation index; Canada releases June jobs; France and Germany report June CPI; Mexican industrial output for May; Delta Airlines Q2 results; SK Hynix's U.S. listing begins trading
- Legislation: Bipartisan housing legislation becomes law absent a presidential veto

The Look Ahead

- July 14-15: House Financial Services hearings with the Fed and the CFPB
- July 19: World Cup final (Trump to attend)
- July 20: U.S./Mexico joint USMCA review meetings (Mexico City)
- July 23: House scheduled to depart for the August Recess
- July 24: Section 122 10% global reciprocal tariffs expire (replaced with Sec. 301 and/or renewed)
- July 29: FOMC
- August 7: Senate scheduled to depart for the August Recess
- August 27-29: Jackson Hole Fed Conference
- August 31-September 1: G20 Finance Ministers and Central Bank Governors Meeting

- September 16: FOMC
- September 21: UN Week
- September 24: President Xi Jinping official state visit to Washington expected
- September 30: U.S. discretionary government funding expires

Note: Section 702 of FISA remains expired (Trump pushing for inclusion of the SAVE America Act)

GEOPOLITICAL UPDATE

The MOU Buckles

The MOU's ceasefire is seemingly "over." What began over a week ago with an Iranian drone strike on the Singapore-flagged Ever Lovely escalated into a tit-for-tat exchange that by Wednesday had become a Trump-announced end to the ceasefire. U.S. Central Command hit Iranian missile and drone storage and radar sites last Friday, followed by Iran striking a second vessel, the Panama-flagged Kiku, on Saturday. The U.S. answered with strikes on roughly ten Iranian military targets near the strait. On Sunday, the IRGC fired ballistic missiles and drones at the U.S. Ali al-Salem air base in Kuwait and the Fifth Fleet's headquarters in Bahrain, attacks both Gulf states condemned as violations of their sovereignty.

The rhetoric has escalated with the strikes. Trump warned that Washington could be forced to "militarily complete the job" it had started, adding that if so "the Islamic Republic of Iran will no longer exist." Vice President JD Vance, the U.S. diplomatic lead, framed the U.S. position bluntly: the deal has been honored, and disagreements should run through the channel the two sides set up rather than the battlefield, but "violence will be met with violence."

Last week's Doha meetings suggested that the deal's architecture was centering around commercial traffic rather than advancing to the more existential question of nuclear disarmament. A Qatar-brokered U.S.–Iran hotline was the most concrete deliverable coming out of the meetings, conceived to neutralize rogue actors posing as IRGC units. The immediate fight between both sides is fundamentally about Article 5 of the MOU. Iran insists it alone manages transit and that vessels must use its northern, Iranian coastline route. The U.S. and Western navies, however, have been steering ships to a southern corridor along the Omani coast, which Tehran treats as a violation. For Iran, command of Hormuz is its only real leverage at the table and evidence shows the IRGC has been mining the Strait's Omani route to force vessels into its purview, making it easier for Tehran to control traffic and collect tolls.

Despite the Doha de-escalation last week, attacks continued coming out of the weekend. U.S. Central Command released a statement Tuesday night detailing strikes against 80 Iranian military targets launched in response to Iranian attacks on commercial vessels. The Department of War accused Iran of "targeting and attacking commercial shipping crewed by innocent civilians in an international waterway," saying Iranian actions in the Strait of Hormuz were "unwarranted, dangerous, and a clear violation of the ceasefire." Secretary Pete Hegseth, meanwhile, traveled to Israel on Wednesday to meet with Prime Minister Netanyahu.

The IRGC responded with more attacks early Wednesday on the same U.S. military facilities in Bahrain and Kuwait. The latest strikes came hours after President Trump revoked a license that had temporarily allowed Iran to sell oil following signing of the

MOU. When asked to opine by reporters later on Wednesday, Trump said the U.S.-Iran ceasefire was “over” while seated next to NATO Secretary-General Mark Rutte. The President did say he would allow U.S. negotiators to keep talking with Iranian representatives but his plans to bomb Iranian sites would move forward and operations could involve taking Kharg Island. Trump: “We’re going to hit them hard tonight, but we’ll see how it all works out.” Brent crude rose 5.2% on the day at around $78 a barrel while government bonds sold off sharply.

Indeed, the President has received Pentagon briefings on a possible return to all-out war with Iran, according to the Wall Street Journal, and is said to be comfortable ordering one-off strikes as he sees fit, evidenced by this week’s kinetic activity. Overnight, CENTCOM hit another 90 targets along the Iranian coastline and the IRGC responded with more drone attacks on U.S. bases in Kuwait and Bahrain. With an August 18 deadline for a nuclear deal approaching, the U.S. position is managed brinksmanship: keep the MOU alive and the timeline flexible but use the military option as needed.

A Lebanon Framework

Meanwhile, Secretary of State Rubio announced a U.S.-brokered framework agreement between Israel and Lebanon, signed at the State Department by the two countries’ ambassadors. In Rubio’s words: “a framework agreement between the sovereign government of Lebanon and the government of Israel, with the mediation and support of the United States of America.” The performance-based, trilateral deal sets a path toward a fuller peace. As an opening move, Israel will pull back from two small occupied areas under “pilot zones” that the Lebanese army will take over, its first withdrawal since expanding operations. Israel will keep its southern “security zone” until Hezbollah is disarmed, however. Prime Minister Benjamin Netanyahu cast the deal as “a major blow to Iran” and Lebanese President Joseph Aoun declared Lebanon to have “no partner” in its sovereignty, a reference to Tehran’s historic influence efforts.

A Hezbollah-aligned lawmaker warned enforcement could mean “civil war,” underscoring how much rests on disarming its militia and preventing future Iranian support. Hezbollah’s leader Naim Qasem went further, dismissing the agreement as “null and void” within a day. Israeli strikes in southern Lebanon continue.

Frozen Funds

As Iran presses for release of $12 billion in frozen assets, the Administration asserts the funds will sit in escrow under U.S. control and be spent only on American food and medical goods. Iranian Foreign Ministry spokesman Esmail Baghaei insisted Tehran’s assets would be employed with “absolute liberty,” directly contradicting the U.S. account and confirming the worry of Iran hawks that the regime will route the cash toward rebuilding its military.

Vice President Vance framed the mechanism as a Kushner-designed structure giving the U.S. and Qatar joint control of the funds once unfrozen, with the proceeds steered to American farmers. Qatar, which has held some Iranian assets since the 2023 prisoner swap, denied reports it had “offered” the $12 billion to close the deal while hosting Iran’s central bank governor Abdolnaser Hemmati in Doha recently. Secretary of State Rubio, meanwhile, recently completed a Gulf tour of UAE, Kuwait, and Bahrain to reassure allies that the MOU protects each country’s security and economies.

President Trump posted on Truth Social on June 24 that Iran had informed the U.S. of “NO TOLLS, NO INSURANCE COSTS, & NO OTHER CHARGES OF ANY KIND BEING

SOUGHT OR RECEIVED BY IRAN ON SHIPS TRAVELING THE STRAIT OF HORMUZ," adding that the talks would end if such a system were put in place. He also denied that any money has been released to Iran at this point. Any funds freed, he said, would go to U.S. "Farmers and Ranchers, for the purchase of Corn, Wheat, Soybeans, and more," adding: "Food is desperately needed in Iran, and we will be purchasing it for them exclusively from the United States."

War Funding Supplemental

The bill for the four-month war is quickly coming due. President Trump formally asked Congress for nearly $88 billion—$67.1 billion of it for the Pentagon, including $21 billion to rebuild the missile stockpiles spent against Iran, alongside $17.3 billion for operations, $1.7 billion for readiness, and $1.5 billion for fuel—with the balance directed to farm aid and disaster recovery. Senate appropriator John Hoeven asked the Administration to broaden the package to fold in agricultural support and disaster relief for fire- and weather-hit states such as California and Hawaii, a combination meant to gain bipartisan support. But the President has since upped the price tag to a previously reported $250 billion combined with the SAVE America Act, a gambit that would force Congress to attempt a third reconciliation package in just over one year.

It will be a hard sell. House conservatives are wary of large new outlays but any spending offsets will meet resistance from moderates and swing-district Members in a difficult midterm election cycle. While the House Freedom Caucus has shut the floor down over lack of movement on the SAVE America Act, the Senate's vote count remains short of a simple Republican-only majority. Should the reconciliation gambit fail, a slimmed down supplemental will still face difficult odds. Armed Services Ranking Member Jack Reed (D-RI) says an Iran supplemental cannot move in isolation—only after both parties settle on topline defense and non-defense numbers. With a few weeks remaining before the August congressional recess, Majority Leader John Thune (R-SD) has stressed the need to replenish depleted munitions as an urgent need.

NATO

NATO's Mark Rutte is selling preservation of the alliance as an investment in American defense firms, noting that European demand supports tens of thousands of U.S. defense-industry jobs. Prior to this week's Ankara summit, Rutte was in Washington to showcase more than $1.2 trillion in additional European and Canadian defense spending since 2016, a near-20% jump in 2025 alone. Rutte credited President Trump with a burden-sharing shift no president since Dwight Eisenhower had managed to accomplish. Individual capitals, with a few notable exceptions (e.g., Spain), are heeding Rutte's words. Outgoing U.K. Prime Minister Keir Starmer has committed at least £1 billion more for defense than previously planned. Germany is going further, planning to borrow more than €800 billion by 2030, a decisive break with its traditional fiscal restraint, to fund its defense buildup.

The media has keyed in on Trump's rhetoric leading up to this week's summit: "I'm not happy with NATO because of what they did with Greenland, and I'm not happy with NATO because of the fact that they didn't want to help us with the number one state sponsor of terror, that's Iran." But despite the worry about what Trump might say or do at the NATO summit, all signs were decidedly positive coming away from the meetings as multiple tangible NATO deliverables were announced on the U.S. side.

The summit began with President Trump signaling he would allow Turkey to access the U.S. F-35 program. The following day, Trump told reporters he was considering giving

Ukraine a license to produce Patriot air defense systems. Ahead of a bilateral meeting with Ukrainian President Volodymyr Zelenskyy, Trump said: “One of the things we’re going to be talking about is, we’re going to give a license to you to make Patriots. That’s pretty cool, right?” The remark goes beyond Ukraine’s requests for more Patriot systems and interceptors. Trump framed the idea as a way of shifting responsibility to Ukraine to manufacture the weapons itself.

Coming out of the summit, the Administration notified Congress of its intent to rescind Syria’s designation as a State Sponsor of Terrorism (SST) which followed bilateral meetings in Ankara. Lifting sanctions on Syria unlocks international trade and investment, allowing the new Syrian government to rebuild. According to a State Department release: “A stable, unified Syria at peace with itself and its neighbors benefits not only the region, but the entire world.” The rescission follows the President’s June 30, 2025, Executive Order (EO) directing sanctions relief for Syria following counterterrorism actions taken by the Syrian government under President Ahmed al-Sharaa.

Finally, Berlin announced that it, too, had reached a deal with the U.S. at the NATO summit, allowing Germany to buy American Tomahawk cruise missiles and strengthen its deterrence against Russia. The move suggests a thaw in U.S.-German tensions between Chancellor Friedrich Merz and President Donald Trump. In May, the U.S. said its long-range missile unit would no longer be deployed to Germany and 5,000 troops would be withdrawn from the country after Merz criticized the Iran war. Merz now says that the summit had exceeded “all my expectations” and declared NATO “united, strong and confident.”

To be sure, the President hit the alliance on Greenland and Iran, while threatening a trade embargo against Spain. Specifically, Trump called Spain a “wasted cause” during the summit and told reporters returning aboard Air Force One that “A lot’s gonna depend on Greenland” with respect to U.S. troop levels. But separating rhetoric from reality, no new drawdowns were announced and tangible U.S. commitments to the alliance were made, which Secretary of State Marco Rubio framed as the beginning of a “NATO 3.0.”

> **BOTTOM LINE:** Just two weeks into the signing of the MOU, the ceasefire has ended. Passage of the Strait of Hormuz is front and center for the immediate future and nuclear talks are now on the backburner. Despite this, the MOU remains in place. This week’s attacks will not only provide insight into whether the diplomatic track remains viable but may very well act as a harbinger of future U.S. participation in NATO. Turkey’s hosting of the annual leaders’ summit proved productive with renewed comity between leaders and fresh commitments by the U.S. Should allies come off the sidelines as military operations restart in the Middle East, NATO may very well end the month in a far more durable spot than has been predicted.

ECONOMIC OUTLOOK

The economy looked sturdier in hindsight. The third estimate of first-quarter GDP revised growth up to a 2.1% annual rate from 1.6%, a notable upgrade driven mostly by a downward revision to imports alongside firmer investment, exports, and government spending. It marks a clear acceleration from the fourth quarter’s 0.5% and shows consumer spending holding up even against the Iran war’s drag and higher fuel costs.

Treasury Secretary Scott Bessent argued the figures put the economy on track for roughly 3% annualized growth by year-end as the war winds down, an optimistic read given renewed military strikes.

U.S. business activity expanded at its fastest pace in five months in June, with S&P Global's flash composite PMI rising to 52.2 (readings above 50 signal expansion), driven largely by stronger demand for manufactured goods. The detail is softer than the headline. S&P Global Market Intelligence chief business economist Chris Williamson described services growth as subdued and warned that factory growth continues to be "temporarily buoyed by inventory building amid supply fears." Input prices are still climbing, albeit more slowly, while supplier delivery times have lengthened. Manufacturers are stockpiling materials to ride out the disruption even as they shed staff. Headcount fell at both factories and service providers in June and the manufacturing employment index sank to its lowest level since May 2020. Factory payrolls now sit about 38,000 below where they stood a year ago.

The labor market cooled with nonfarm payrolls rising just 57,000 in June, roughly half what economists expected and down from a downwardly revised 129,000 in May. The prior two months were also cut by a combined 74,000, denting the spring's strong reports. The unemployment rate ticked down to 4.2%, but due to some 720,000 people leaving the labor force, pushing participation to a five-year low. Household employment fell by more than half a million. Wages rose 3.5% over the year, still trailing inflation. Beneath the monthly noise, hiring has still averaged about 92,000 a month this year, a steady improvement on the net losses of roughly 8,000 a month in the second half of 2025.

Finally, U.S. existing-home sales fell 2.4% month-over-month in June to a seasonally adjusted annual rate of 4.09 million but rose 2.8% year-over-year. Median prices hit $440,600, an all-time high and the 36th consecutive month of YoY price gains, though up only 1.8% from a year ago. Inventory sat at 1.56 million units (4.6-month supply), and the Housing Affordability Index registered 102.3, up from 95.5 a year ago, with affordability improving across all regions. Buyers remain highly sensitive to mortgage-rate fluctuations, particularly given that inflation continues to outpace wage growth. The 500,000+ job gains YTD provides some limited support.

The Warsh Effect and the Fed's Dilemma

The data on soft hiring hands the Warsh Fed a conflicting economic narrative: cooling labor argues for patience while sticky inflation argues for a hike. The two-year Treasury yield has approached last month's peak this week and the yield on the 10-year Treasury has climbed to 4.58%, its highest mark since late May. The moves were spurred in part by recent rising oil prices and inflation worries. That short-term yield, which closely tracks expectations for the Fed's monetary policy, rose as much as five basis points to 4.23%. Interest-rate swaps showed traders see about a 33% chance that the Fed will raise rates at its meeting later this month.

Pushing the hawkish narrative, PCE—the Fed's preferred gauge—rose to a 4.1% annual rate in May, the highest since April 2023 and up from 3.8% in April. Core PCE, stripping out food and energy, reached 3.4%, its highest since October 2023. Headline CPI ran at 4.2% and producer prices at 6.5%, the steepest wholesale inflation since 2022. An FT poll found 68% of voters disapprove of the President's handling of inflation, up ten points since April, with a heatwave compounding energy bills. The New York Fed's latest

Survey of Consumer Expectations, published on Tuesday, showed that inflation expectations have risen to their highest level since September 2023.

On the dovish side, spending and incomes each climbed 0.7% on the month and the saving rate ticked up to 3%, showing consumers are weathering the inflationary storm. The University of Michigan's inflation expectations also eased modestly in June. Moreover, the May reading predates June's oil retreat, so most economists read it as the likely peak, with headline inflation expected to ease in the second half provided the Strait of Hormuz stabilizes. The Administration is simultaneously providing its own policy-driven relief, temporarily lifting duties on Moroccan phosphate fertilizer and urging retailers to lower prices (Walmart is cutting ground-beef prices by about 15%). The UN food-price index reflected the marginal relief, dropping 0.3% in June. The dollar is also benefitting, advancing Wednesday for a second straight session (the Bloomberg Dollar Spot Index climbed as much as 0.2%).

That leaves the Warsh Fed a delicate call. May's data still argue for a hike, but forward-looking energy (while volatile this week) argues for patience. The risk is that the disinflation the market is pricing leans heavily on oil staying down; this week's Hormuz strikes are a reminder of how quickly that assumption can wobble. The Fed's FOMC minutes released on Wednesday demonstrate the split, with officials laying out competing cases for hikes or cuts. True to Warsh's disdain for forward guidance, the minutes offered little on the path ahead beyond "incoming information." On inflation, the committee expects costs to remain elevated in the near term before declining as tariff and Hormuz-related effects wane. Risks still tilted to the upside, particularly with respect to AI infrastructure demand and electricity prices. The dot plot narrowly tilts toward one hike this year, then cuts in 2027–28.

Overall, Warsh has steadied the Fed since his confirmation despite prognosticator predictions to the contrary, reaffirming the bank's 2% inflation target. Warsh used the European Central Bank's (ECB) Sintra conference to insist there would be "no changes" to the Fed's independence. Governor Chris Waller also publicly backed Warsh's reform efforts, including paring back the Fed's forward guidance. And this week, Warsh announced appointments to the Fed's new tasks forces:

- Communications: Peter Fisher, Arminio Fraga, Mervyn King
- Balance Sheet Policy: Karen Dynan, Raghuram Rajan, Jeremy Stein
- Data: Raj Chetty, Doug McMillon, Kevin Murphy
- Productivity and Jobs: Marc Andreessen, Charles Jones, Asha Sharma
- Inflation Frameworks: Greg Mankiw, Thomas Sargent, William White

Overall, Warsh is bullish on AI's potential to drive productivity, spur growth, and eventually lower inflation. Warsh's credibility will ultimately be tested by the data and the White House's campaign to reshape the institution around him. Bloomberg reported that senior administration officials and outside allies are studying how to remove Governor Lisa Cook and Jerome Powell from the Fed's board, using the Supreme Court's recent Cook ruling as a roadmap (Trump said he remains intent on firing Cook). More immediate is the open Atlanta Fed presidency.

The Earnings Boom and American Exceptionalism

The bull case for the economy rests on profits, and they are booming. S&P 500 net margins hit a record 14.8% in the first quarter, while the second-quarter rally was historic: the S&P gained 14.9% and the Nasdaq 21.4%—their best three months since

2020—adding more than $8 trillion in value. And the bull run is not just a tech story. Analysts now project roughly 25% earnings growth over the coming year. Goldman Sachs's equities desk alone is on track for a third straight record quarter, clearing $5 billion on volatility and AI-driven hedge-fund flows. Dealmaking hit $2.77 trillion by late June, up 48% on the year and the busiest first half since 2002. 47 deals of $10 billion or more (the NextEra–Dominion among them) have been announced as buoyant markets grew corporate war chests and regulators have pared back from the Biden years. IPOs surged too, to roughly $169 billion worldwide, up 246% with Anthropic's possible debut among the megadeals still to come and OpenAI now expected to list in 2027. The Dow now sits above 52,000 for the first time. Trading volume is not just at the institutional level. Retail investors bought nearly three-and-a-half times their average on down days, per Citadel Securities. JPMorgan and BlackRock both argue the expansion has room to run.

Zoom out from the week's data and the larger question is whether American financial primacy holds. Charles Schwab's Liz Ann Sonders made the bull case in the FT, arguing that U.S. centrality rests on four mutually reinforcing advantages that would all have to erode at once for the system to tip: market depth (U.S. equities are now about 65% of global market cap, up from 40% a decade ago, and Treasuries remain the only truly deep, liquid "risk-free" asset); the dollar's self-reinforcing network effect; institutional credibility; and an innovation engine supercharged by an AI boom whose frontier labs and hyperscaler capital spending are overwhelmingly American. The counterweights are China's fast-improving open-weight models and its grip on EV, battery, and solar supply chains. But the U.S. deploys 57% of the world's venture capital, has become its largest natural-gas producer, and has watched the EU's economy shrink to a third smaller than its own since 2008. Each advantage faces pressure; collectively, Sonders argues, they have proved "remarkably resilient." One additional advantage not mentioned by Sonders: geographic insulation. The U.S. is protected by vast oceans to the east and west, friendly and stable economies to the north and south, and buoyed by abundant resources below its feet.

M&A's Power Buildout

The AI buildout is also rewiring the power sector through a wave of consolidation. Mergers and acquisitions in U.S. power and utilities hit a record $203.6 billion in the first five months of 2026, already more than 40% above the $141.7 billion logged for all of last year, according to Deloitte. In addition to NextEra Energy's bid for Dominion, BlackRock's Global Infrastructure Partners and EQT announced an acquisition of AES Corp at a $33 billion enterprise value. Utilities are meeting scale for the datacenter demand and spurring efficiencies to help fund the expansion.

Meanwhile, private capital has added to the funding surge through buyouts and minority stakes. Deloitte's Thomas Keefe says the AI boom has so transformed the outlook that some operators now forecast 50-100% revenue growth over the next five to ten years. It is the same demand curve behind the Administration's nuclear-loan push and the capital-goods import surge. The AI buildout has now moved into M&A tables.

Non-Linear Correction

That is not to say the buildup is without its detractors and fears of a "bubble." After losing roughly $1 trillion in market value in less than two months, Nvidia's stock is now the cheapest it's been since before the AI boom kicked off. BofA's Paul Ciana warns the rally is showing exhaustion and urges investors to hedge further gains and brace for a possible “three-wave correction” over the coming months: a slide to as low as 6,850, roughly 7.6% below current levels.

The caution comes as the Magnificent Seven have shed more than $2.3 trillion in value in recent weeks with investors pivoting from the megacaps. The S&P slipped 1.1% in June and the Nasdaq 2.8% as money moved out of the megacaps and into industrials and defensives. The risk was outlined in a career analysts’ draft Treasury report that found the economy’s dependence on the AI boom has left it exposed. The draft was quickly rebuked by Treasury politicals.

Rather than demonstrating less appetite, recent trades may simply be showing a broadening of the market rather than a pullback. The small-cap Russell 2000 recently hit a record and new research finds that those companies leaning hardest into generative AI are hiring white-collar workers at a rate that is 10.2% faster than its peers that have not. Nvidia aside, investors are still showing plenty of appetite to fund the sector. SK Hynix’s listing is more than 7x oversubscribed, raising $26.5 billion in a share sell yesterday. Positron, a rival of Nvidia, is in talks to raise about $750 million that could value it at $5 billion. That trend extends to the previously hesitant Bank of America which has provided OpenAI with a $520 million credit line after previously spurning Sam Altman’s requests.

Bain Capital is evidence of the upside, cashing in its investment in Japan’s Kioxia with shares up more than 4,500% from their debut. The current repricing is thus about who captures the AI returns, not whether they are real. All told, venture capital firms have poured $412.7 billion into start-ups in the first half of the year, more than any full year in the past decade, according to a new report by PitchBook and the National Venture Capital Association. AI deals drove much of the frenzy and accounted for 86% of the investments. The hyper-focus concentrates risk and returns are likely to be contained to “a small number of winners.” In fact, nearly 90% of the V.C. money invested in start-ups in the first six months of 2026 went to deals valued at $100 million or more.

Up next is an August 1 deadline for President Trump’s cyber executive order framework with industry. While voluntary, the recent export-control suspension of Anthropic’s Mythos and Fable models will continue to influence developers and U.S. tech partners in today’s national security environment.

Eurozone’s Muddled Picture

The euro is at its weakest against the dollar in more than a year. Yet Eurozone business activity contracted less than expected in June: the S&P Global composite PMI rose to 49.5 from 48.5, a third straight month below 50 but the best reading in three months, with services stabilizing and input-cost pressures easing to their slowest since the Middle East war began. Green shoots were seen in Germany, Europe’s largest economy, where factory orders rebounded and exports unexpectedly rose in May, extending a run of growth to a fourth straight month helped by a rebound in shipments to the U.S. A softer-inflation read added to cautious optimism with Eurozone inflation falling more than expected to 2.8%. Overall, the bloc is showing just enough resilience to stay out of recession.

Despite the positive signals, the ECB is still expected to hike by September and a Bank of England (BoE) quarter-point rate rise is fully priced in by the end of the year (at the start of this week, the BoE was not expected to increase rates until midway through 2027). ECB Minutes released today show members backing a 25bp hike as the energy shock proved more persistent and indirect effects broadened. June staff projections have headline inflation averaging 3.0% in 2026 (revised up 0.4pp), 2.3% in 2027, and 2.0% in 2028. Markets are pricing a second hike in September and an 84% chance of a third by year-end.

Ultimately, the growth outlook for the continent is still hostage to the EU regulatory state and its energy reliance on other nations, friend and foe alike. Volvo Cars and Stellantis have warned Parliament that European carmakers face higher costs and smaller markets if Brussels keeps advancing rules aimed at American tech, the same flag USTR Jamieson Greer has raised repeatedly. Separately, the U.S. and Qatar warned that European Commission plans to implement new rules governing emissions of methane and greenhouse gases starting January 1 will deepen the continent's gas-supply crunch. Oil and gas executives chimed in, too, pushing for a delay which has garnered the support of more than half of the bloc's 27 member countries. At stake are billions of dollars in natural gas exports to Europe. American oil and gas producers say it's all but impossible to provide the level of detail required under the new rule, which mandates that fuel imports are produced with little methane. The new rules would effectively shut U.S. and Middle Eastern supplies out of the major market as companies mix supply from various fields and basins to chill into a liquid before exporting. The new rules ultimately increase regulatory uncertainty and costs for European consumers already stretched by the war's inflationary pressures. Energy security is indeed a preeminent weak spot for Europe. The bloc is entering the upcoming heating season with its lowest gas storage in at least fifteen years. European LNG hubs are asking the Commission to delay its 2027 ban on Russian LNG or risk swapping dependence on Moscow for dependence on Washington. Similarly, the European Union aims to increase the amount of protein feed crops, such as soybeans, that are sourced from within the 27-nation bloc, hoping to cut dependence on U.S. and Brazilian suppliers.

Asian Downgrades

South Korea's SK Hynix plans to raise up to $29.4 billion in a U.S. listing with American depositary receipts set to begin trading July 10. The listing represents one of the largest U.S. share sales on record and a fresh marker of investor appetite for memory chips. The world's top supplier of high-bandwidth memory, now valued near $1.2 trillion after overtaking Samsung as Korea's most valuable company, will steer the proceeds into added capacity and EUV lithography. But the aforementioned memory-chip selloff is a reminder of how two-way the trade has become. As a result, South Korea has fallen into a bear market with the Kospi retreating more than 20% from a June peak with sentiment turning against both SK Hynix and Samsung Electronics.

Asian currencies underscored the strain: the yen slid past ¥162 to the dollar, its weakest since 1986 and down more than 3% this year as Tokyo strains to curb inflation. Japan's borrowing costs have shot to their highest in 30 years as investors accelerate the tumbling yen backed by concerns over $2 trillion in long-term spending plans on top of the country's existing debt.

Elsewhere, the Indonesia downgrade has accelerated. S&P put the south-east Asian market on its watchlist for reclassification, citing issues with shareholding transparency. Australia felt the crosscurrents too, posting a surprise May trade deficit as exports fell 6.9%. And though Samsung announced a third straight record operating profit (near $55 billion), its shares fell 10% as investors questioned the returns.

Finally, China's headline CPI came in today at 1.0% YoY, missing the 1.1% consensus and slowing from 1.2% in May. Core CPI came in at 1.0%, down from 1.1%. PPI jumped

4.1% YoY in line with forecasts and the strongest print since July 2022. Month-on-month factory-gate prices actually fell 0.3%, a one-year low. Core softening underscores persistent disinflationary forces at play in the domestic Chinese economy. Imported cost pressures on manufacturers are running up against weak domestic demand. China's passenger-car market contracted again in June, with data showing a widening split between domestic demand and overseas shipments. The Politburo's late-July meeting acts as the next policy inflection point for the CCP.

Global Economy

In its World Economic Outlook, the IMF said that while the global economy had weathered the conflict better than expected, the threat of fresh hostilities "looms large." The Fund predicted global inflation would increase from 4.1% in 2025 to 4.7% this year, higher than it estimated in April. Inflation will then fall back to 3.9% in 2027. Global growth, meanwhile, will retreat from 3.5% in 2025 to 3% this year, marginally weaker than previously predicted and before bouncing back to 3.4% in 2027. It warned that renewed conflict would drive up commodity prices and worsen supply shortages as well as exchange rate pressures. The release of oil inventories helped ease the shock in energy markets, but these now approach multiyear lows and "could reach stress levels should supply disruptions persist or hoarding gather steam." Such a risk would put global food security under further threat.

> **BOTTOM LINE:** The U.S. data cut both ways: an upgraded Q1 GDP print and a five-month activity high against a slow housing market and June hiring at just 57,000. Wall Street and the AI trade set records throughout. Inflation is still near multi-year highs at 4.1% PCE, but May looks like the peak. Bond markets still expect Warsh to hold the line and are now pricing rate hikes where they once expected cuts. In Europe, a less-bad PMI and a sliding euro quietly pull the EU about recession but the global recovery continues to be mixed, with Asia still showing the most signs of wear.

OIL SHOCK

Supply Snaps Back

The supply picture is recovering faster than forecast as United Arab Emirates (UAE) oil exports have been restored to pre-war levels. UAE shipments of crude and condensate jumped roughly 30% last month to more than 3.9 million barrels a day, just shy of a high in data going back to 2017, and up from about 1.9 million bpd in March. More tankers than previously known were able to successfully transit the Strait undetected and additional crude was routed through the Habshan-Fujairah pipeline (backed by the 42-million-barrel Mandous storage complex).

Additional data shows Saudi Arabia was able to lift its Red Sea exports from Yanbu via the East-West pipeline from 2 million to more than 5 million bpd. Saudi crude exports have now climbed back to roughly 6.3 million barrels a day, also close to pre-war levels, as the Kingdom clears its backlog of stranded supply and increases spot sales into Asia.

On gas, Qatari Prime Minister al-Thani said normal LNG output would resume "within a few weeks" from undamaged trains at Ras Laffan, where strikes early in the war knocked out roughly a fifth of capacity and triggered force majeure at a facility that supplies about 20% of global LNG. The above timelines all beat analyst expectations and point toward an easing of the supply shock, despite renewed hostilities. OPEC+

added to the resupply last Sunday, agreeing to raise output for a fifth straight month to 188,000 barrels a day.

To the West, Canada is using the supply shock to advance efforts to reach more buyers, particularly hard-hit Asia. Prime Minister Mark Carney and Alberta Premier Danielle Smith advanced a new Pacific-coast oil pipeline, running from Edmonton to a deepwater terminal in British Columbia. The pipeline is designed to ship up to a million barrels a day to Asian buyers via supertankers. Carney, who wants to double Canada's non-U.S. exports over the next decade and make the country an "energy superpower," cast it as a way to escape the price discount Canadian crude suffers selling almost exclusively to the U.S. The project is estimated at $35 billion and will take years to complete, but is a long-term strategy that shows the resilience and ingenuity of the energy market.

And despite early warnings following the MOU, demand is holding up. The International Energy Agency (IEA) cautioned this morning of a possible drop later this year should prices stay elevated and the global economy keep slowing. U.S. gasoline demand, on the other hand, remains robust and accounts for roughly one-third of worldwide consumption. Despite elevated prices, the U.S. summer driving peak is already on track for a record high.

Concerns over an impending jet fuel supply crunch also failed to materialize as refinery operators focused on aircraft fuel over vehicle fuel early in the conflict. U.S. jet-fuel use topped 1.8 million barrels a day in April, a record for the month. Europe's energy commissioner Dan Jørgensen told the FT that concerns remain: "We still think that jet fuels will face problems before diesel, but in the long term, if nothing changes, then that can indeed also become a problem." Unprecedented overseas demand for U.S. diesel, propane, and other fuels will likely result in downward pressures elsewhere, however, as the IEA cautions that cumulative supply losses of 1.3 billion barrels will still leave "lasting marks on the global energy sector."

The Price Outlook

Wall Street is beginning to treat the relief as durable, though President Trump's announced end to the ceasefire has not yet been fully accounted for. Citigroup previously told clients that Brent could fall to as low as $60 a barrel by year-end. With Gulf supply snapping back, Citi sees balances turning structurally soft and capable of a significant surplus if producers accelerate the recovery. Saudi Arabia drove the point home, cutting its main Arab Light price to Asian buyers by $11 a barrel to $1.50 below the regional benchmark, its first discount since 2020 and the deepest monthly cut in a quarter-century. The supply surge is now forcing producers to compete for buyers. The direction is near unanimous: every major forecaster now sees oil lower, reinforcing the case built into the inflation data that May was the peak.

The Russian Factor

The same supply recovery is letting Washington reopen its pressure campaign on Moscow. Through the war, the Administration granted a series of narrow waivers permitting purchases of already-loaded Russian seaborne crude. Treasury first announced a 30-day carve-out for India on March 5 and then extended it to all "energy-vulnerable" countries. The waivers created a temporary boon for Russian oil revenue. Treasury chose not to renew the waivers on June 17 with Gulf barrels again flowing. Trump: "Soon we'll be able to [increase sanctions on Russia] because the oil is now flowing." Russia has since announced a short-term ban on diesel exports amidst domestic shortages. President Trump no doubt senses an opening to end the Russian invasion, as evidenced by his aforementioned pledge of Patriot interceptors to Ukraine.

Market Efficiencies

The war's energy squeeze converged with the AI buildout to bring about widespread developments and ingenuities in the energy market. In addition to pipeline projects already discussed, a few new developments are worth highlighting.

First, the Department of Energy recently finalized up to $17.5 billion in federal loans to accelerate ten large nuclear reactors. The loans will be spread across five two-reactor projects at roughly $3.5 billion in debt each, paired with up to $5 billion in combined equity from utilities and Westinghouse. The theory is to quickly feed the power demand of hyperscale datacenters. Energy Secretary Chris Wright cited "tremendous interest" from datacenter developers and utilities, calling the loans a low-risk to taxpayers and framing the public capital as a first move with dozens more plausible. Construction is targeted to begin by 2030, with power online in the mid-2030s. Datacenters consumed 4-5% of U.S. electricity in 2024, a share the government now expects to triple in less than two years' time.

The nuclear push is just one piece of a broader supply buildout which includes a wave of gas-turbine orders and solar investments (despite the loss of tax credits), and the improving economics of deep-well drilling. Even without its Biden-era tax credits, the cost of solar has fallen well below that of fossil fuel generation. By 2030, Rystad estimates that the cost of electricity for solar power plants in the U.S. will be between $70-$80/megawatt hour, compared to an estimated $100-$120/megawatt hour for gas plants.

Meanwhile, U.S. shale is also due to expand due to lower costs. According to a new report from Kimmeridge, technological advancements are making once uneconomical deep wells increasingly competitive with shallower wells. Analysts have warned that U.S. shale production growth has diminished as operators have already developed the best spots. Now new technology to drill deeper flips that narrative. Kimmeridge estimates that the cost to drill a deep well has fallen from about $3.50 per thousand cubic feet equivalent to roughly $0.95 today. Deep high-pressure wells are projected to account for roughly a quarter of new developments within five years as drilling costs fall another 20-30% over the same period.

Combined, U.S. spending on fossil-fuel power generation is set to outpace China's for the first time in decades. The investments are a measure of how deep U.S. reserves are, the booming economics and efficiencies the war has prompted producers to pursue, and an affirmation of the AI energy load demand.

> **BOTTOM LINE:** Crude and gas are normalizing weeks if not months ahead of schedule, pulling the near-term inflation threat down with them. The same shock is accelerating structural investments to avoid a repeat in the near-term or long-term, betting on everything from pipelines to nuclear and solar to deep well shale. Combined, global producers are meeting the moment of the war's supply shock while planning for long-term AI-driven demand.

SHIPPING

The reopening's risks turned real last Thursday and have only worsened since. Iran's drone strikes follow IRGC warnings against vessels using the U.S.- and Oman-backed southern corridor and insistence that they instead keep to Iran-designated northern routes. The IRGC's extortion efforts have forced several ships to instead turn back. As a result, the Joint Maritime Information Center raised the Strait's threat level to "substantial" and published a mine-warning area spanning much of the usual transit route with an estimated 80 naval mines. The UN's International Maritime Organization was forced to pause its operation to evacuate stranded vessels and crew. More than 1,200 vessels, 11,000 seafarers, and an estimated $125 billion in cargo remain stranded in the Gulf awaiting passage.

Iran's leverage to impose tolls is bounded as long as the southern Omani route stays open. As such, the Western-aligned Omani corridor has been subsequently widened to allow for two-way traffic. Transits have since dipped though they have not stopped and the U.S. says its safe-passage coordination continues. Daily voyages through the Strait have more than quadrupled from their wartime lows of one or two a day as coordination improves and war-risk premiums have been halved (dropping from roughly 5% to about 2% of a ship's value).

The New York Times reports that Oman itself has floated a plan to charge ships using the corridor it now shepherds, a prospect that is causing strains with both Washington and Riyadh. Oman has publicly rejected the reporting. Sultan Haitham bin Tariq met President Emmanuel Macron in Paris recently with the two reaffirming freedom of navigation "without conditions or restrictions," including the right of transit passage under the law of the sea.

The uncertainty and rerouting has been a windfall elsewhere: namely the Panama Canal, Red Sea, and Suez. Panama now expects the Canal to beat its $5.2 billion fiscal-2026 revenue forecast as diverted traffic passes through it instead, with some ships paying millions to jump the queue. Maersk and Hapag-Lloyd have also begun routing ships back through the Red Sea and Suez Canal for the first time since the war began as container demand shows no signs of abatement. Maersk upgraded its 2026 outlook on strong Asian volumes, now seeing global container growth near 4%. U.S. and China vessel utilization surged to 98.9% as importers front-loaded cargo.

BOTTOM LINE: As the reopening proves uneven and Iran's tolling extortion continues, global shipping is relying on the U.S.-backed Omani route to offload stranded supply and re-routing ships outside the Gulf to other global passageways. Demand has not waned, forcing operators to pay premiums that will keep inflation sticky until Hormuz finally settles.

TRADE UPDATE

Tariff Refunds

More than $165 billion was collected before the Supreme Court struck down the Administration's use of IEEPA, with Customs and Border Protection (CBP) telling the Court of International Trade (CIT) that roughly $85 billion has been accepted for processing. Bloomberg Intelligence notes that how companies book the money is becoming a second-quarter test for investors. Early disclosures show a wide variation. Some firms have run their refunds through gross profit, lifting reported margins; others have parked them outside adjusted results; and still more are keeping them entirely off the balance sheet pending Administration appeals. The inconsistency makes headline Q2 profit harder to compare for analysts. The refunds also do not end the tariff burden as the Administration’s IEEPA duties have been replaced with a 10% Section 122 levy. In other words, importers are clawing back old payments even as they keep paying new ones. Of the $22 billion in tariffs collected by Treasury in May, an estimated $9.2 billion came from Section 122 tariffs, $7.4 billion from Section 232, and $2.4 billion from Section 301, according to data released by a coalition of small businesses on Wednesday.

The Administration’s appeals fight continues to sharpen. In a June 25 brief to the CIT, the Justice Department urged the court to reject an importer coalition’s bid for class-action treatment. DOJ argued the request came too late, after the merits were decided, and that Rule 23 “and bedrock principles of equity” bar a plaintiff from waiting to see a favorable judgment before seeking certification. The government’s lawyers further added that the claim does not fit into a class action since it seeks individually calculated refunds rather than a single shared award. If DOJ prevails, the roughly $30 billion-plus in finally-liquidated duties gets repaid one lawsuit at a time.

Section 301 Investigations

USTR Ambassador Jamieson Greer said his agency can move “to a conclusion” on Section 301 forced labor tariffs “fairly quickly,” given the report’s release and requisite hearings already underway. USTR’s separate investigation into overcapacity is on a slower track but Greer still expects resolution “in a matter of weeks, not months” with a draft already on his desk. Whether the Administration chooses to extend the existing Section 122 tariffs once they lapse on July 24 remains to be seen. At issue will be whether sufficient 301 tariffs can backfill the reciprocal duties in time, as well as ongoing negotiations with pivotal trading partners like Brazil, India, and Switzerland.

The Trade Deficit

The U.S. merchandise-trade deficit widened 27.4% in May to $105.8 billion, the largest gap in more than a year and far above the roughly $85 billion economists expected. Exports fell 5.4% and imports climbed 3.6% to a 14-month high. U.S. crude and petroleum shipments, which had spiked to records in April, pulled back and Asian refiners trimmed intakes of American barrels with steep shipping costs. The import side reflects the AI buildout. Capital-goods imports, including computers, semiconductors, and telecom gear are up nearly 42% from a year earlier. Trade will thusly weigh negatively on second-quarter GDP if the equipment import binge does not correspond with an increase in services exports.

The broader trade balance—goods and services combined—released by the Commerce Department this week told much the same story, posting its widest gap since March 2025. Imports rose 3.3% in May while exports fell 3.2%, the first decline in five months, driven by a drop in the volatile nonmonetary gold category. Overall exports remain up nearly 13% from a year ago.

European Union

The transatlantic tariff deal cleared its last hurdle ahead of President Trump’s July 4 deadline following the Council of the EU formally adopting regulations that enacted the bloc’s tariff commitments. The “Agreement on Reciprocal, Fair, and Balanced Trade” is thus in place nearly one year after the sides reached a framework at Turnberry in August of 2025. The vote follows the European Parliament’s approval earlier this month and completes the EU legislative process. The main regulation eliminates the EU's remaining duties on U.S. industrial goods and opens preferential access, including tariff-rate quotas, for certain U.S. seafood and farm products, while a second regulation extends tariff-free treatment for U.S. lobster. A strengthened safeguard mechanism lets the Commission move quickly against import surges and suspend preferences if Washington fails to meet its commitments or introduces discriminatory measures, with a specific trigger if U.S. steel and aluminum tariffs remain above 15% past year-end.

That hedge may well be tested. House committee chairs Brett Guthrie (Energy and Commerce), French Hill (Financial Services), and Jim Jordan (Judiciary) sent a joint letter on June 25 to EU Ambassador Jovita Neliupšienė opposing the Corporate Sustainability Due Diligence Directive (CSDDD), the bloc's human-rights and environmental due-diligence regime that reaches extraterritorially into the value chains of U.S. companies. The chairs cast the directive as "anti-competitive and anti-American," arguing the EU is now exporting beyond its borders the heavy-handed model that has hindered European growth.

A recent study put initial compliance costs of CSDDD at $637 billion to $1.093 trillion for U.S. firms, on par with the combined costs of every current U.S. environmental and financial regulation. The U.S. Chamber of Commerce, the National Association of Manufacturers, the American Council for Capital Formation, the International Franchise Association, and the Small Business and Entrepreneurship Council have similarly been pushing against the regulation, warning that "economic growth would slow, supply chains would suffer, and transatlantic" relations would only worsen. The fight adds a congressional ally to the same regulatory complaint espoused by USTR Greer.

Digital Services Taxes

More pressing is President Trump's threat of a 100% tariff on all goods from any country that imposes a digital services tax on U.S. companies, adding that the levy would override any existing trade deal. A 100% tariff would, of course, dwarf the 15% ceiling on the EU and blow through the ART just implemented. France has run a 3% digital tax since 2019 and Trump has previously threatened a 100% duty on its wine and champagne exports. The U.K. also taxes large platforms at 2% and several other European capitals are weighing their own. Canada is the test case for the President's threats having scrapped a planned DST last year under U.S. pressure.

The digital friction is not just limited to taxes. Last week, the EU's top court upheld a record €4.1 billion antitrust fine against Google. And more litigation is on the way. The U.S. Supreme Court's decision to curb the independence of U.S. agencies threatens the U.S.-EU Data Privacy Framework. The deal rests on the FTC acting as an independent privacy regulator. Activist Max Schrems, who has already stopped two prior versions of the framework in EU courts, is urging Brussels to let European firms make "an orderly exit" and vowing a fresh legal challenge. The Commission responded by saying it will "carefully analyze" the Court's decision. Should the framework collapse, U.S. firms would be forced to change the manner in which they move Europeans' data.

The EU and Eurozone individual countries are pressing their advantage against U.S. tech on various other fronts, including a Brussels-proposed "tech sovereignty" law that would effectively bar U.S. cloud providers from many of Europe's largest public contracts. Germany and the UK are simultaneously layering new mandates on U.S. streamers, requiring platforms to reinvest more revenue locally and provide greater prominence to public-service news. The proposals are described by opponents as protectionist and would directly impact the likes of Meta, Netflix, YouTube, and other U.S. tech firms.

India

India this week pushed back against the threat of higher U.S. tariffs, arguing that Washington failed to provide evidence that the country lacks policies preventing forced labor and is disadvantaging American businesses. Testifying at USTR's Section 301 hearing, India is seeking to ensure that its eventual trade deal does not rise above the limits announced in an earlier framework nor disadvantage it vis-à-vis its competitors. For now, a trade agreement continues to slip past self-imposed deadlines, namely pushed by Indian negotiators.

Switzerland

Swiss President and Economy Minister Guy Parmelin has been in dialogue with USTR Jamieson Greer during his June 29-July 9 North American tour aimed at finalizing a trade deal. Switzerland is among the countries USTR identified in its Section 301 forced-labor investigation and was placed in the higher 12.5% duty cohort along with Brazil, China, India, and Japan.

The framework that the two sides reached in November capped U.S. duties on Swiss goods at 15% after Washington had originally raised them to 39%. Under that deal, Switzerland and Liechtenstein secured the 15% cap in exchange for zero tariffs on U.S. seafood and certain farm goods and at least $200 billion in promised Swiss investment, while maintaining the zero duties adopted in 2024 on U.S. industrial goods. In question is whether the new forced-labor duties stack on top of the capped rate or are absorbed by it. If stacked, the question moves to whether Swiss labor laws can eventually alleviate the 12.5% burden. Switzerland believes there is a "good chance" of locking in a long-lasting 15% rate.

USMCA

This week, President Trump heralded the news of Toyota moving production of its Tacoma pickup from Mexico to San Antonio ($3.6 billion investment) as confirmation of his tariff reshoring strategy. The investment could also help ease the Administration's demands of Mexico over auto rules of origin. The U.S./Mexico official joint review already up and running will next take place in Mexico City on July 20. Both sides are expressing renewed optimism and Mexico has shown flexibility in the eventual mechanism, opining that a bilateral reciprocal agreement similar to the ones already reached with the EU, Japan, South Korea, and others could be an acceptable alternative to USMCA. In addition to irritants like energy, labor, rules of origin, and transshipments, the security question remains live. Mexico's military deployment to the state at the heart of the country's drug trade has so far failed to curb fentanyl exports and bring down its homicide rates according to a report from Brussels-based International Crisis Group.

While Canada and Mexico have both pushed to extend USMCA for sixteen years, the July 1 joint review deadline produced a predictable non-renewal by President Trump and Mexico's evolution on the pact's form brings Canada's fate into further question. The pact, of course, remains in effect and is now subject to annual review absent any country unilaterally withdrawing. A senior U.S. official signaled that Washington prefers a quick conclusion, however, rather than a drawn-out annual negotiation.

> **BOTTOM LINE:** Trade policy is being rebuilt through the more durable Section 301

with final determinations possible before Section 122's expiration on July 24. With the IEEPA tariffs struck down, refunds are acting as an earnings wildcard for corporate America which the Administration's legal challenges will continue to drag out through this year's earnings. Bilateral reciprocal agreements continue to move forward (and may now replace USMCA) but irritants remain, particularly with existing and proposed EU regulatory regimes.

DONROE DOCTRINE

A year of elections has tilted Latin America decidedly to the right and Donroe Doctrine-alignment. Winning margins have been narrow but the campaign platforms have been unambiguous: harder security, anti-migration, open markets, and austerity. The cumulative effect is a hemisphere consolidating around the Trump Administration's "Shield of the Americas," the anti-cartel coalition the President stood up in March that authorizes counter-narcotics operations and the deployment of U.S. troops on member soil. The coalition already counts Argentina, Chile, Ecuador, and El Salvador as members and creates domestic political challenges for both Brazil and Mexico. The regional wave of alignment now runs from Buenos Aires to San Salvador.

Brazil

Senator and conservative presidential candidate Flávio Bolsonaro is seeking to distance himself from U.S. trade policy. While Bolsonaro has fully embraced the Administration's security measures he is now forced to react to souring public opinion towards U.S. tariffs and the resulting effects on the Brazilian economy. USTR's Section 301 investigation focuses on Brazil's digital-commerce and payment rules (including Pix), ethanol, IP, and deforestation. Bolsonaro was in Washington this week to testify at USTR's Brazil hearing, defending Brazilian firms and championing the Pix instant-payment system. With the first round of presidential elections just over two months away, the conservative candidate and the Donroe Doctrine are walking a tightrope with Brazilian voters.

Colombia

Conservative outsider Abelardo De La Espriella won Colombia's June 21 runoff by under a point (49.66%) against leftist Iván Cepeda (48.70%), a gap of roughly 250,000 votes. Record turnout resulted in the most-voted presidential candidate in the country's history. Trump-endorsed, De La Espriella takes office on August 7 and has said Colombia will join the Shield of the Americas the very same day, ending what he frames as a government complacent toward narcoterrorism. Colombia will now be open to authorizing U.S. anti-trafficking operations within its own borders. The realignment is not without future friction, however, as domestic politics could easily turn negative and De La Espriella has already opined on renegotiating parts of the U.S.-Colombia free-trade agreement that he deems damaging to Colombian sectors like dairy.

Cuba

Cuba's recent economic reforms have not bought it any relief. In a June 23 post, Secretary of State Rubio said the island's situation is "devolving" as the regime prioritizes total control over its people. Rubio announced new designations targeting the military-run conglomerate GAESA, the main vector through which regime elites divert the island's resources toward repression and anti-American subversion. The measures hit GAESA network entities that move the conglomerate’s money and physical assets, including mineral and metal reserves. Rubio warned foreign banks and companies servicing those entities to immediately suspend activity or risk sanctions themselves.

The pressure reached critical mass on Monday, when Cuba’s national grid suffered a wholesale collapse and plunged the island into a total blackout. Fuel reserves are now all but dry and the decrepit power system has since buckled under the U.S. oil blockade. President Díaz-Canel accused Washington, which has threatened tariffs on any country supplying oil to Cuba, of trying to “incite social unrest by strangling Cuba’s fuel supply.”

Behind the sanctions, a potential negotiating channel is surfacing. Raúl Guillermo Rodríguez Castro, the 42-year-old grandson of Raúl Castro, gave his first-ever interview to U.S. media, telling USA Today he is ready to deal directly with Washington. “I can negotiate with anyone designated by the U.S.,” he said, but insisted that Cuba would never compromise its 1959 revolutionary principles nor its sovereignty. The younger Castro has cultivated ties no other Cuban official has been able to achieve, speaking frequently with Rubio and meeting with CIA Director John Ratcliffe in May. Notably, Castro remains unsanctioned, a sign that Washington views him as a credible interlocutor. He has also hinted at flexibility, saying Cuba would consider releasing “people deemed political prisoners” under the right conditions. Ultimately, political change is what the Administration wants, not just economic reform, and it remains to be seen whether the younger Castro can deliver.

Peru

The rightward wave rolled on in Peru. After a month-long count, electoral authorities declared conservative Keiko Fujimori the winner of the June 7 runoff last Friday with 50.135% to leftist Roberto Sánchez’s 49.865%. Similar to Colombia’s close vote, only 50,000 votes out of 18 million separated the two candidates. Fujimori hailed “a new chapter” for her country, pledging to promote private investment in the world’s third-largest copper producer and to take a hard line on crime, voters’ dominant concern. Moody’s has already provided positive financial approval, saying her win would preserve policy continuity and likely unlock stalled mining projects. The transition may be rough, however, as Sánchez refuses to recognize the result and has appealed to the Inter-American human-rights commission alleging overseas-vote irregularities. When Fujimori is sworn in on July 28, she will be Peru’s ninth president in a decade, demonstrating work is still needed to stabilize domestic politics. Her party enjoys the largest bloc in government but is still short of a majority.

Secretary of State Marco Rubio pledged U.S. support following the certification, citing deeper security, investment, and trade cooperation. Combined with conservative wins in Chile, Colombia, and Honduras, Fujimori represents the region’s rightward, U.S.-aligned turn, all to the detriment of China. The anti-Beijing thread runs through the courts, as well. A Peruvian court ordered the government to take oversight of a Chinese-owned port near Lima, aiding Washington’s push to curb China’s foothold in the region.

Venezuela

Venezuela’s devastating earthquakes have destroyed hundreds of buildings and the death toll continues to climb well into the thousands. President Trump has been quick to send aid, saying the U.S. stood “ready, willing, and able to help.” U.S. federal agencies, including the Department of War, prepared a rapid response, while Secretary Rubio promised a whole-of-government effort that would be “big, fast, effective.” The disaster provides both a risk and a further opening for U.S.-alignment.

Washington has allocated $300 million in aid and mobilized more than 2,000 personnel, including 310 search-and-rescue specialists. A U.S.-led relief and reconstruction push thus deepens Washington's infrastructure footprint and leverage at China's expense. But the Administration's backing and close ties to interim President Delcy Rodríguez risks turning public anger over the Venezuelan government's response against the U.S. presence. Rodríguez, heckled with shouts of "Get out!" at her lone appearance at a rescue site, drew a 63.3% disapproval rating in a post-disaster AtlasIntel/Bloomberg poll. Residents of the hardest-hit areas say little state help has arrived and the port of La Guaira has not yet been cleared to reopen. U.S. officials have praised Rodríguez's "total transparency" and voiced "a great deal of confidence," while going out of their way to sideline opposition leader María Corina Machado, rebuffing her attempt to return. In the name of stability, Washington is backing a government many observers expect to use the disaster to postpone a presidential election that the population is growing more and more impatient with.

Even before the quake, Venezuela was preparing to disclose roughly $240 billion in total debt, well above the $150–$200 billion markets had assumed, and setting up what would be the largest sovereign restructuring on record. With the economy around $100 billion, down from $370 billion in 2012, the implied debt-to-GDP ratio is now above 200%. The absence of an IMF-endorsed sustainability analysis complicates the country's Centerview Partners-led path back to global markets.

> **BOTTOM LINE:** The Western Hemisphere is consolidating into a U.S.-aligned bloc, albeit through close margins. Colombia's De La Espriella joins the Shield of the Americas on August 7 and Keiko Fujimori's win in Peru extends a rightward wave now running from Buenos Aires and Bogotá to Lima and San Salvador. The Administration is tightening its pressure campaign against the holdouts through fresh GAESA sanctions on Cuba and the Section 301 investigation on Brazil. Key inflection points this year include the fate of Cuba, the Brazilian elections, Venezuela's debt offering, and USMCA negotiations with Mexico. For now, the Donroe Doctrine is banking wins at China's expense.

CHINA

The Alliance Front

The U.S./China competition for dominant alliances is best viewed through the deepening China/Japan rift. Beijing is again wielding critical minerals as the lever. China has choked shipments of some forms of tungsten to Japan and let rare-earth magnet flows fall to their lowest since May 2025 when the CCP first rolled out its global export-control regime. The move has squeezed Japanese automakers, electronics, semiconductor, and defense suppliers and is prompting industry calls for Prime Minister Sanae Takaichi to find a diplomatic off-ramp with Beijing. Friction has been escalating between the two since Takaichi's November statement that a Chinese move against Taiwan would be a "survival-threatening situation" for Japan. Beijing answered the statement with a January directive curbing dual-use exports that could aid Japan's military and added dozens of Japanese firms to restriction lists. With Japan still 60-70% dependent on Chinese critical minerals, Takaichi has carried the supply-chain fight to the G7 as she refuses to soften support for Taiwan. Beijing paired the economic pressure with a show of force, launching a ballistic missile carrying a dummy warhead into the Pacific, its first such test since 2024.

If Beijing aims to fracture U.S. alliances in the region, the CCP's moves are having the opposite effect. The U.S. and Japan held their 11th Cyber Dialogue recently in Washington, pulling in the NSC, ODNI, FBI, and CISA alongside their Japanese counterparts to deepen cyber-security cooperation. Japan and India—Asia's second- and third-largest economies—also agreed to tighten economic and security ties in response to an assertive Beijing.

On Wednesday, the U.S., Japan, and South Korea signed a Memorandum of Cooperation (MOC) to establish cooperation on small modular reactor (SMR) deployments in other countries, with an initial focus on the Indo-Pacific. The MOC is designed to advance nuclear energy security interests between the three and help partner countries meet their energy security needs through competitive alternatives. In support of the initiative, the U.S. committed over $10 million in new funding for the Department of State's Foundational Infrastructure for Responsible Use of Small Modular Reactor Technology (FIRST) Program, which will provide technical support to countries in the Indo-Pacific region. Industry partners will include GE Vernova, Hitachi, Samsung C&T, and SGE.

Also moving in the Administration's favor is the World Bank, which agreed to phase out lending to China by 2031, capping it at $2 billion until then, with no carve-outs. The move answers a long-standing U.S. demand and one that House Financial Services Committee Chairman French Hill (R-AR) welcomed and urged the Asian Development Bank to follow. Treasury similarly called it "a step in the right direction." The World Bank retreat is not limited to China. Under U.S. pressure the Bank also dropped its climate-finance target, part of a broader remaking of the multilateral system along Washington's lines.

The AI Race

The U.S./China contest, meanwhile, is a race for the rest of the world's AI business. With Chinese open-weight models closing the capability gap and undercutting American frontier systems on price, the Administration is pushing allies to standardize on the U.S. stack. Undersecretary of State for Economic Affairs Jacob Helberg recently announced that 35 countries had signed a "Declaration on AI Opportunity" under Pax Silica, the State Department's initiative to build a U.S.-led AI and chip supply-chain bloc.

The summit unfolded as industry absorbed the government's decision to impose export controls on Anthropic's newest models, complicating the American AI export push. The EU has leaned harder into its own digital sovereignty since the decision. The UAE's assistant foreign minister for advanced technology, Omran Sharaf, also voiced caution, framing his country's aim as "strategic autonomy through international collaboration with trusted partners," and saying it was "too early to tell" what the long-term market effects of the Anthropic directive would mean. Allies are content to build on American AI, but every abrupt change to the exportable stack is an argument for sovereignty and a cheaper Chinese model is always one click away. Cohere's head of global government affairs, A.J. Bhadelia, summed up the emerging consensus: governments will join Pax Silica and "work with the U.S. ecosystem where we can," but "build around what we can't."

The deeper AI contest between the U.S. and China is over power. Global datacenter electricity demand jumped 19.7% to 788 terawatt-hours, for which the U.S. accounted for about 40% of that demand. U.S. demand is growing faster (25.5%) than that of China (20.3%). Meanwhile, China holds the structural edge in supply. The PRC commands 50.3% of the world's installed solar capacity (1.2 terawatts after 35.5%

growth last year), against 8.8% for the U.S. Globally, renewables have topped 19% of electricity and, with nuclear and hydro, now out-generate coal, with solar alone up 30%. The American answer is its nuclear-and-gas buildout. China's answer is the sun, along with the hardware and critical minerals it controls.

The Distillation Front

In a June 10 letter to Senate Banking Committee leaders Tim Scott (R-SC) and Elizabeth Warren (D-MA), Anthropic accused Alibaba and its Qwen AI lab of orchestrating what it called the largest known "distillation" attack on its Claude models, using roughly 25,000 fraudulent accounts to generate more than 28.8 million exchanges between April 22 and June 5. The attack was allegedly aimed at harvesting Claude's most advanced software-engineering and agentic capabilities. Distillation trains a weaker model on a stronger one's outputs; Anthropic says the campaign followed the pattern of an earlier effort it attributed to DeepSeek, Moonshot, and MiniMax, which together used some 24,000 accounts and 16 million exchanges.

Anthropic urged Congress to close loopholes that let PRC labs obtain advanced U.S. chips and to penalize labs behind distillation attacks, framing model theft as a national-security matter rather than a commercial dispute. The White House, which in April called industrial-scale distillation of U.S. AI "unacceptable" and vowed to hold offenders accountable, is aligned with that push, and Senators Bill Hagerty (R-TN) and Andy Kim (D-NJ) have drafted an amendment to the National Defense Authorization Act (NDAA) to sanction Chinese firms found improperly accessing U.S. models.

On the House side, Oversight announced a subcommittee-level "Roundtable" next Tuesday, July 14, entitled "Winning the Economic Competition with China: Working Families, the AI Race, and Energy." The committee describes China as increasingly leveraging threats against American energy dominance and economic strength to boost its own competitiveness. Witness participants will include the U.S. China Economic and Security Review Commission, the America First Policy Institute, the Hoover Institution, and the Center for Industrial Progress. Whether or not legislation moves this year and/or specific industry claims are substantiated, the above episodes convert a private intellectual-property grievance into fuel for further chip-and-model export-controls.

The Trade Track

Even amid the tech war, the trade tracks stay open. Washington and Beijing are working to roll back tariffs on some agricultural products and as a goodwill marker, China has resumed buying American soybeans. Though the pace has fallen short of last year's pledges, the U.S. this week reported sales of 472,000 metric tons of soybeans to China, the largest daily export since November of 2025. The thaw is building toward a Xi state visit to Washington around September 24.

But frictions remain, particularly over electric vehicles. Michael Lohscheller, CEO of Sweden's Polestar, declared an end to auto globalization following a U.S. decision to bar future sales of its electric vehicles. Lohscheller: "I think it just accelerates the regionalization everywhere, not only for us but for the entire industry. The days are over when everything was global." The comments came after Polestar, which is majority owned by China's Geely, was denied authorization and barred from selling new EVs in the U.S. beginning next year. The new U.S. rules are explicitly designed to restrict Chinese technology.

The trade talks with China have extended to the EU as Brussels and Beijing agreed to set up consultations and working groups on their trade disputes. An October deadline has been set to show progress: the EU wants to address China's export controls and market-access barriers, while Beijing—reluctant to rein in its own exports but open to buying more from Europe—insists any concessions be reciprocated. The EU's trade chief conceded not everything would be resolved by October but hoped for a clearer path to rebalancing trade flows.

BOTTOM LINE: China's tech conflict is widening on three fronts: a calibrated minerals embargo on Japan to force a Taiwan retreat; an Anthropic-Alibaba distillation fight hardening into legislation to wall Chinese labs off from U.S. chips and models; and a U.S. government-wide effort to lock allies onto the American AI stack and prevent the growth of Chinese technology. The bind is that Washington's own export controls, now reaching U.S. firms' frontier models, are nudging allies toward digital sovereignty and cheaper Chinese models and vehicles.

OUTLOOK / ANALYSIS

The MOU remains but the ceasefire does not. Control of Hormuz under Article 5 is decidedly unresolved and now the source of renewed military operations. While we expect attacks to continue, the question is whether subsiding inflation will again flare. Both sides have leverage and risk in the sputtering talks. Iran retains the ability to disrupt Hormuz but wants its funds and sanctions relief; Washington controls the revenue and the air but needs commercial shipping flowing and the price of oil down. For now, the nuclear track is on the back-burner and is likely to run past the August 18 deadline.

The economic story is a race between a cooling real economy and a booming financial-AI complex, refereed by an inflation print that has likely peaked. If oil keeps sliding toward $60, the disinflation the market is pricing could arrive in time for the midterms. What Warsh does in the interim depends a great deal on data yet to arrive. A softening jobs market, sticky inflation, and booming margins point in different directions.

Abroad, the second half of 2026 will be defined by the Administration's creation of a lasting tariff regime centered around reciprocal trade agreements and Section 301 duties. Tariff refunds, non-tariff barriers, USMCA, the China truce, and the rightward shift of Latin America all act as daily inflection points. Resting above all is an energy industry that is quickly reforming, rerouting, and reimagining itself in the face of the Iran conflict and the AI buildout. Meeting the energy demand is the defining economic and national security issue of the year. As Secretary Rubio aptly puts it, "One of the most important issues in the world today, as we're reminded of even now with events happening in the Straits of Hormuz and in other places, is energy security."

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