HARBINGER STRATEGIES

Trade & Geopolitical Update

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EXECUTIVE SUMMARY

The conflict with Iran has moved decidedly away from the June 17 memorandum and entirely toward control of the Strait of Hormuz. What began as a tenuous ceasefire devolved into a return to all-out aggression this month, with a renewed blockade and increasing sanctions, rising crude, and the first U.S. servicemember deaths in months. Temporarily sidelined, the Houthis have now begun striking Saudi tankers in the Red Sea, expanding the conflict's theater beyond the Persian Gulf, while Iranian missiles have repeatedly hit U.S. bases throughout the region. Crude once again breached the $100 mark—the first time since May. The receding inflation data prints of June may thus prove to be a temporary reprieve as central banks meet this week for rate decisions. But as is typical of the conflict's ebbs and flows, both sides spent the weekend deescalating and oil futures have responded favorably as today's early trading digests the news.

The on-again, off-again hostilities and blockade of Hormuz continue to test the global supply and the price tolerance of consumers while producing efficiencies and infrastructure that will long outlive the conflict. Despite the innovations of the market, the present inflationary picture will weigh heavily on the FOMC. June's inflation print was likely the last good one the U.S. should expect for some time. Headline falling to 3.5% and core flat are positive signals, though unlikely to hold so long as the conflict remains undecided and available shipping, refinery, and strategic supplies already stretched to their max. Diesel margins are back to record levels and gasoline above $4, realities that will spread throughout the economy during the third quarter. Hence the Administration's carve-out for oil, gas, fertilizer, and food under the new Section 301 forced-labor tariff regime. Fed Chair Kevin Warsh told Congress on July 14 that the job was not done—he may very well have to follow-through on his assertive statement earlier than expected.

The constant behind it all remains the Administration's trade regime. With IEEPA giving way to Section 122 and now Section 301, President Trump continues to wield the tariff cudgel far and wide, with new actions taken against Brazil and Canada, as well as a non-tariff digital trade irritant reaching a boil with the EU. Also constant is the Chinese economy's reliance on mass exports to prop up a domestic economy that continues to miss consumption expectations. Despite U.S. bans and growing frustration within the EU, China still has willing buyers for its million-a-month auto exports.

Our final item revolves around an AI technology gap that has decidedly closed despite unprecedented private sector spending and U.S. export controls. The Administration continues to squeeze Chinese access to physical inputs such as advanced lithography, leading-edge chips, and air-gapped clouds. But Chinese open-weight models that likely benefited from disguised distillation and smuggled Western chips, have upended the AI policy debate in Washington with performance matching American frontier models at 40% of the price. A private sector rift is now dividing the Western ecosystem between safety and innovation. All the while, China is standing up an alternative AI coalition composed of the Global South, developing countries, and rogue nations. Pax Silica remains the Western counter, but without an answer to the pricing problem, the U.S. industry could soon find itself behind its Chinese counterparts for the first time in this fast-moving and existential race.

THE FIVE TAKEAWAYS

TAKEAWAY 1: The Iran war has become a fight over shipping lanes, and it has drawn American blood. Iran killed two U.S. service members in missile strikes on the Muwaffaq Salti Air Base in Jordan, the first American fatalities since March. Meanwhile, the Houthis reentered the fray, striking two Saudi tankers in the Red Sea and threatening an active Hormuz workaround. Crude breached $100 for the first time since May, threatening the June inflation reprieve. At the end of last week, Trump said he was weighing "a massive attack, bigger than ever before," with Kharg Island and the Pickaxe Mountain nuclear complex both under consideration. But after a weekend spent at the White House, the President seems inclined to now pursue de-escalation as the week opens. Brent has responded in kind, now below $90.

TAKEAWAY 2: The AI buildout is now a credit story, as the bond market questions ROI and raises the cost of financing. The six largest AI borrowers have issued $182 billion of investment-grade paper this year, and creditors and investors are punishing the long end through higher yields and equity hits; Alphabet posted $112 billion in quarterly profit, then raised capex to $205 billion and reported negative free cash flow. Gulf sovereign capital is filling the gap as Saudi Arabia and the UAE show signs of friction, with the United States rewarding each for its continued alignment and patronage.

TAKEAWAY 3: The global tariff regime was replaced, as expected, with Section 301. Section 122's 10% surcharge expired on July 24 and was immediately replaced by Section 301 forced-labor duties of up to 12.5%. A long list of exemptions points to the Administration's inflation concerns, with oil, gas, fertilizer, and food carved out to spare consumer prices. The tariff burden is here to stay and is now as durable as ever. Inflation has turned less on trade than it has on energy, strengthening the case for a Fed rate hike before December.

TAKEAWAY 4: Washington punished Canada with a dormant 1930 statute and rewarded Mexico the same day. Three proclamations under Section 338, the Smoot-Hawley Act, imposed 50% tariffs on roughly $40 billion of Canadian autos, alcohol, and dairy, with no expiration and no USMCA carve-out. The energy and potash exemptions split Alberta and Saskatchewan out of Canada's retaliation coalition before it could form. A 30-day statutory clock leaves room for a deal before the duties take effect. Meanwhile, Ambassador Greer finished his third bilateral round of USMCA talks with a "pragmatic" Mexico, citing progress but remaining issues tied, as always, to rules of origin. USTR's goal for both negotiations is interim bilateral agreements by year-end.

TAKEAWAY 5: Beijing has built an alternative AI infrastructure regime, while Washington weighs more controls. Twenty-nine countries founded the Shanghai-headquartered World AI Cooperation Organization, and Moonshot released Kimi K3, bifurcating global AI alliances through its perennial weapon of cheap products shipped widely. Pax Silica still reigns supreme, but U.S. corporate use of Chinese models is rising as the AI race enters a pricing phase. The Administration is weighing procurement limits and Entity List designations, a fight that is splitting U.S. engineers and investors into safety and innovation factions.

KEY DATES AHEAD

The week will be dominated with G10 central bank decision-making, with most expected to hold, as well as key inflation and GDP data. On the legislative front, the U.S. Senate remains in session and could take steps towards codifying significant policy (e.g., government funding, Russian sanctions, digital assets, and/or war supplemental funding).

Monday, July 27

- Canada opens Gordie Howe International Bridge; China June industrial profit figures; Moonshot publishes the full weights of Kimi K3; Japan June PPI data; Bank of Pakistan interest rate decision; Singapore interest rate decision

Tuesday, July 28

- Senator Lindsey Graham’s (R-SC) funeral at the National Cathedral in Washington (various world leaders expected to attend); U.S. Conference Board releases July consumer confidence index; Chile’s central bank interest rate decision; Keiko Fujimori inauguration as president of Peru (U.S. delegation led by Deputy Secretary of State Christopher Landau to attend)

Wednesday, July 29

- Fed’s interest rate decision; Microsoft, Meta, and SK Hynix report earnings; Australia June CPI data

Thursday, July 30

- Commerce Department releases PCE index (Fed’s preferred inflation measure); U.S. Bureau of Economic Analysis releases first estimate of second-quarter GDP; Apple, Amazon, and Samsung report earnings; Bank of England (BoE) interest rate decision; EU flash Q2 GDP estimate and June unemployment figures; France flash Q2 GDP estimate; Germany July CPI and preliminary HICP inflation rate data

Friday, July 31

- University of Michigan final consumer sentiment survey for July; U.S. oil and gas majors report earnings (Chevron and ExxonMobil); Canada May GDP estimate; EU July HICP estimate; France CPI and June PPI data; Germany June and Q2 labor market statistics; Bank of Japan (BoJ) interest rate decision

August Outlook

- Cyber executive order deadline; Venezuelan joint agenda between the Rodríguez government and the 2015 National Assembly begins (August 1)
- OPEC+ meeting (August 2)
- Abelardo De La Espriella inauguration as president of Colombia (August 7)
- South Carolina holds Republican primary for Graham vacancy (August 11, August 25 if necessary)
- Deadline for a U.S.-Iran nuclear agreement under the June 17 MOU (August 18)
- Section 338 “Smoot-Hawley” tariffs on Canadian autos, alcohol, and dairy take effect absent a deal (August 19)

September Look Ahead

- Fourth round of U.S./Mexico USMCA trade talks (Washington)

– War supplemental consideration possible in House and Senate under budget reconciliation rules
– Trump–Xi summit, with the U.S.-China Board of Trade a possible deliverable and the Boeing order still unresolved (~September 24)
– Government funding expires (September 30)

GEOPOLITICAL UPDATE

Locked and Loaded?

Late on July 10, the President warned on Truth Social that “1000 Missiles are Locked and Loaded and aimed at the Islamic Republic of Iran,” with thousands more to follow, should Tehran act on what he described as its threat to assassinate him. The threat followed funeral ceremonies for Ayatollah Ali Khamenei, killed in the February 28 strike that began the war, complete with six days of processions staged as a show of strength.

The harder question is who is deciding Iran’s posture. Mojtaba Khamenei was proclaimed supreme leader by a clerical assembly in early March and has still not been seen or heard in public. A regime that staged the largest funeral in its history to prove unity boasts a leader who didn’t appear. For Washington that is a negotiating problem and it raises the odds that a threat against the President reflects factional freelancing rather than settled state policy.

The President’s threat is not necessarily rhetorical. The Wall Street Journal reported that at a July 14 Situation Room meeting the President weighed a material escalation: seizing Kharg Island and bombing the fortified Pickaxe Mountain nuclear tunnel complex. He confirmed interest on Fox News while floating a non-U.S. ground force: “we have other people that will do the ground campaign for us.” The case for striking Iran’s assets has since strengthened. Israeli intelligence now assesses that Iran has moved nuclear centrifuges into the Pickaxe Mountain complex. If accurate, Tehran is reconstituting enrichment inside a facility built to survive bombing campaigns.

The rhetoric escalated again on July 23. In an Axios interview, the President said he is “considering a massive attack. Bigger than ever before. I am close to making a decision. We are all set for it.” Without giving a timeline for the decision, U.S. intelligence reportedly assesses that recent bombing is unlikely to shift Iran’s negotiating position despite Iran’s rial falling to a record low. That directly correlates to the President’s comment that the regime has not “received enough pain yet” to move negotiations forward. Foreign Minister Araghchi responded with non-typical bellicosity, saying, “Our defense doctrine is clear: eye for an eye.” Secretary of State Marco Rubio one-upped Araghchi: “The president’s policy is a head for an eye.”

But as is a hallmark of this war, the weekend saw tensions subside. After daily volleys, the U.S. has not launched attacks on Iran since Thursday and both sides are said to be renewing an interim ceasefire agreement. Weekend negotiations discussed a compromise whereby Iran would oversee vessel transit through the Strait of Hormuz with fewer restrictions and both countries would pause attacks. Speaking on NBC’s “Meet the Press” yesterday, U.N. Ambassador Mike Waltz said, “What the president is doing right now, as we've seen all along, is giving the talks some space.” According to the NYT, part of the President’s calculation involves the depletion of the Pentagon’s supply of munitions, which was a key topic of discussions at a White House war meeting on Friday. Predictably, futures have responded in kind. Global oil prices fell by more than 5% and Brent retreated to $91.87 at Asia’s opening.

Lebanon’s Chicken and Egg Dilemma

Lebanon, supported by Secretary Rubio’s June 26 framework, continues to receive Administration support but is handcuffed by Hezbollah’s resilience. Under the Administration-sponsored framework, Israel is to withdraw from two southern “pilot zones,” allowing the Lebanese Armed Forces to take exclusive control and deny Hezbollah a staging ground. If successful, a further Israeli pullback would take place. On July 9, Ambassador Michel Issa said a U.S. military delegation would arrive in Beirut within days to stand up those zones in order “to avoid any vacuum when the Israeli forces withdraw.”

The reality is far from achieving those metrics. Israeli Defense Minister Katz said Israeli forces would stay “as long as necessary” and needed no one’s permission. For its part, Hezbollah’s Qassem called the framework null and void and refused to disarm. Members of Uri Tzafon, an Israeli group advocating settlement in southern Lebanon, crossed the border on July 7, prompting Lebanon’s deputy prime minister to compare the movement to West Bank settlement.

President Joseph Aoun laid out the conflicting leverage points directly: only America can move Israel and only Iran can move Hezbollah. Now that the U.S. and Iran have returned to hostilities, it is decidedly unlikely either will force concessions between Israel and Hezbollah and the Lebanese government has little ability to push back on its own. Despite the stalemate, Secretary Rubio and Aoun met on July 19 to codify the negotiations and implement a “Trilateral Framework.” The State Department issued a post-meeting statement commending Lebanon’s “determined effort to reclaim sovereignty, disarm Hizballah and dismantle its terrorist infrastructure.” That puts the onus back on Beirut.

Following his State Department meeting, Aoun met President Trump at the White House on July 21, the first visit by a Lebanese head of state in nearly two decades. Aoun was expected to present a Hezbollah disarmament plan to the President though nothing tangible has yet emerged. Further detail may be revealed this week when Israeli Prime Minister Benjamin Netanyahu (along with Ukrainian President Volodymyr Zelensky and other world leaders) attends the late Senator Lindsey Graham’s funeral on Tuesday afternoon at the National Cathedral.

Waning Democratic Leverage

In a two-page letter dated July 10, the President notified Congress that U.S. military action against Iran had resumed with strikes on July 7, describing them as limited, measured, and defensive, with no ground forces involved. The letter technically satisfies the War Powers Resolution’s 48-hour requirement and starts a fresh 60-day clock (running to roughly September 8), though the argument rests upon whether hostilities ever actually ended.

The Iran campaign officially began on February 28, with the Administration telling Congress on May 1 that the April 7 ceasefire had “terminated” the war and stopped the clock despite the U.S. blockade remaining in place at the time. The Administration’s deeper position—much like those before them—is that the 60-day limit is itself unconstitutional, a claim yet to be tested in court. Senator Cory Booker (D-NJ) voiced the Democratic position promptly, contending that the President had usurped the legislative branch’s war powers and was in violation of the Constitution.

On July 15, a House amendment by Rep. Thomas Massie (R-KY) to cut off military funds for Israel drew the support of 103 House Democrats (a majority) and not a single House Republican. Yes votes included Minority Whip Katherine Clark (D-MA), former Speaker Nancy Pelosi (D-CA), centrist Rep. Seth Moulton (D-MA). Though the amendment was easily defeated, it is emblematic of the seismic anti-Israel shift within the Democratic Party and one that has become a defining characteristic of its primaries this midterm cycle.

The Administration remains undeterred by the Democratic position or the small fraction of right-wing influencers opposing the war. Operating under a legal construct that runs until early September, we view congressional governors on presidential war-making powers and/or Israeli support as unlikely to gain ground absent hypothetical court intervention. The only real leverage Congress retains is over the purse.

The war's price tag came into focus on July 20 when Secretary of War Pete Hegseth told Senate Appropriations that the U.S.-Iran conflict has cost $37.5 billion, roughly $9 billion above earlier projections. But Democrats may very well be talking themselves out of their Article I power to influence Pentagon spending. Following the Hegseth hearing, Senate Democrats took an openly hostile posture to the war funding supplemental, leaving congressional Republicans with likely one remaining option to refill war spending: reconciliation.

Indeed, the House-passed budget resolution providing for a third reconciliation package has gained momentum in the Senate and could come to the floor before the upper chamber adjourns for the August Recess. In addition to the House's successful vote, the Senate is under increasing pressure from the White House to act on both a war supplemental and some element of the SAVE America Act. In a Friday Truth Social post, President Trump called on the Senate to adopt a budget resolution "before leaving for the August recess" and vowed to "work side-by-side with the Senate to get this done for the American People!" Passing a party-line budget is a difficult task given the Senate GOP's narrow majority, competing viewpoints on the underlying policies, and a general disinclination to vote on politically charged issues of the Democrats' choosing during yet another "vote-a-rama."

The Saudi-Emirati Rift

Recent reporting shows the U.S.-aligned Gulf state coalition does not come without friction. Bloomberg published a piece on July 12 detailing tension between Saudi Arabia and the UAE that Wall Street is caught in the middle of. Firms have had to navigate separate logistics for both countries to manage their relationships and business equities. As an example, one fund manager was told by Saudi counterparts it could raise only for kingdom-focused vehicles, forcing the firm to pick between the two sides.

At stake are the deepest pools of investable capital outside of the U.S. and China, equal to roughly $3 trillion. The rift, in addition to a competitive economic rivalry, centers on involvement and relationships over Yemen, Sudan, and Israel. As Riyadh and Abu Dhabi compete for financial-hub status and sovereign-fund prestige, the rivalry is expanding into AI and civilian nuclear partnerships with the U.S.

Gulf sovereign capital has become a principal funder of the American AI buildout. With the bond market questioning the long-term payoff of AI-driven capex, U.S. firms cannot afford to lose benefactors in either country. Commerce's American AI Exports Program, built to bundle chips, models, and security into full-stack packages for allied buyers, drew just 78 applications in its first round against the hundreds officials expected. Thus, on July 10, the Bureau of Industry and Security reclassified the UAE into Country Group A:5, giving approved Emirati entities (G42 and Core42) and U.S. firms operating in the UAE (Amazon, Apple, and xAI) license-free access to advanced AI chips and servers. The UAE is now the only country in that privileged tier that does not belong to the multilateral export-control regimes; the rest are NATO members and treaty allies. In acting, Commerce cited decades of Emirati cooperation against Iran, as well as G42's previous divestment from its Chinese holdings.

Not to be left without its own diplomacy win, Saudi Arabia secured a favorable civil nuclear agreement with the U.S. on July 22. President Trump approved a thirty-year civilian nuclear cooperation agreement with Riyadh, which will be submitted to Congress shortly. The agreement complements roughly $1 trillion in spending commitments spanning nuclear energy to F-35s and a critical-minerals framework. The Wall Street Journal and New York Times report the deal opens a path to uranium enrichment on Saudi soil following a two-year joint study, under a "black box" arrangement that would not transfer sensitive technology.

Interestingly, the agreement would not hold Riyadh to the stronger nonproliferation terms the U.S. required of the UAE in 2009, which nonproliferation experts call "the gold standard." Riyadh has already said it will pursue a nuclear weapon if Iran obtains one and signed a mutual-defense pact with nuclear-armed Pakistan in 2025. For the U.S., the deal offers the U.S. nuclear industry (e.g., Westinghouse) the prospect of lucrative contracts while bringing Saudi Arabia even closer into Western alignment.

But it comes with a high cost for the Crown Prince. On July 23, President Trump conditioned the nuclear agreement on "Saudi Arabia joining the very respected and successful Abraham Accords." While the UAE has already normalized relations with Israel, the Saudis have heretofore resisted, seeing it as political suicide in a country that remains decidedly conservative. Mohammed bin Salman has reiterated privately that any agreement with Israel must include a Palestinian state.

> **BOTTOM LINE:** The Iran campaign has no legislative constraint until roughly September 8 and is yet to demonstrate a durable diplomatic off-ramp. With centrifuges reportedly moved into Pickaxe Mountain and both capitals publicly committed to retaliation, shipping remains the first hurdle for the two sides to clear. Watch the hard facts, not the rhetoric: Senate progress on the war supplemental and the Saudi response to the President's normalization demands.

OIL SHOCK

Russian Sanctions

Despite its high energy producing status, Russia is now struggling to meet its own needs, increasingly squeezed by an advancing Ukrainian counterattack. The early media narrative of the war boosting Russian revenue and allowing it to continue its assault on Ukraine has now been flipped. Adding to the Kremlin's issues, the Treasury Department declined to renew its waiver permitting purchases of Russian oil and gas, depriving President Vladimir Putin of an estimated $150 million a day in revenue. The White House further pressed its advantage at the NATO summit in Ankara at the beginning of the month, committing to license Patriot interceptors to Ukraine.

On July 10, Senators Lindsey Graham (R-SC), Richard Blumenthal, Jeanne Shaheen, and Roger Wicker announced agreement with the Administration on an updated "Sanctioning Russia Act," as Graham visited Kyiv. With Graham's sudden passing following his return from Ukraine, the long-stalled bill has gained new momentum, surpassing 60 cosponsors and now viewed as a legacy memorial to the late senator. The revised bill includes mandatory sanctions of 500% on Russian exports, as well as secondary tariffs—lowered to 100%— on the top five importers of Russian petroleum and uranium. The renamed "Lindsey O. Graham Sanctioning Russia Act of 2026" provides the President with discretion to waive the tariffs as circumstances warrant and now includes additional Iranian sanctions at the request of the White House.

Senate Republican Leadership is now working to schedule consideration the week of July 27, timed with Graham's funeral in Washington and following Jay Clayton's confirmation as DNI Director. Ongoing discussions around amendments will determine the timing. Congressional Democrats, once broadly supportive of sanctions, have since pulled back, uncomfortable with providing President Trump any new tariff authority. Prominent committee leaders like Senate Finance Committee Ranking Member Ron Wyden (D-OR) and House Ways and Means Committee Ranking Member Richie Neal (D-MA) have voiced the opposition, but given the number of cosponsors, we view cloture as likely to be invoked.

The aftereffects are worth considering. The largest buyers of Russian crude are China and India. President Xi's visit to Washington in roughly two months and the final negotiations over the U.S.-India Agreement on Reciprocal Trade (ART) will weigh on the President's calculation. So too will rising inflation as crude again advances. Citi's low-$60s Brent forecast has been reset and supply will be further pinched with the inability of customers to procure Iranian or Russian oil. Yet despite the American squeeze against Russia, Europe is wavering. The bloc has repeatedly failed to adopt its 21st sanctions package. Needing unanimity from its member states, the EU position has been weakened by resistance from Greece (LNG shipping) and Austria (bank claims worth €2 billion). Moreover, the bloc imported a record volume of Russian LNG in the first half of 2026, 18% more than a year earlier, and is set to further delay penalties. As is often the case, Europe's actions do not match its tough rhetoric.

Hormuz Workarounds

Perhaps the most consequential energy story of the year is the engineering underway to defang Iran's Hormuz leverage. The list of projects and ventures continues to grow. Chevron signed preliminary accords with Baghdad on July 17 to invest in two southern oil fields—West Qurna-2 and Nasiriyah—and to join a consortium studying the revival of a 500-mile pipeline from Kirkuk to the Syrian port of Baniyas on the Mediterranean. The deals were featured at a roughly $60 billion U.S.-Iraq summit led by U.S. envoy Tom Barrack and coinciding with Prime Minister al-Zaidi's Washington visit.

Baghdad exports roughly 95% of its oil through Hormuz. The Strait's on-again, off-again closure has cut Iraqi output from about 4.2 million barrels a day in February to as low as 1.45 million by May, triggering a domestic financial crisis. Washington provided further incentive for the new project by announcing its decision to rescind sanctions against Syria. Private capital has moved quickly: ConocoPhillips signed with Syria's new government in June and HKN signed a 25-year contract on the Rmeilan fields and agreed to develop Iraq's Hamrin field. Post-Assad Syria and the new Iraqi administration are thus joining a growing U.S.-backed energy alliance that already includes Guyana, Panama, Paraguay, and Venezuela.

Meanwhile, DP World is planning a new Gulf of Oman terminal on the UAE's east coast to create an overland bypass of Hormuz. As Jebel Ali throughput has fallen by 95%, the new project is estimated to be completed in just 18 months. The workaround, however, depends on Saudi trucking routes, another potential point of friction as already outlined above and accentuated by the UAE's OPEC exit which adds pricing pressure to an already squeezed Saudi budget that relies on higher crude prices and limiting supply.

The insurance market is further enabling the workaround. Premiums for upstream energy cover—drilling new wells, building offshore platforms—have fallen about a quarter since January, with some insurers cutting rates by half and Allianz, Axa XL, and Tokio Marine Kiln at times underwriting below their own break-even models, according to the FT. The Iran war's supply shock has pushed oil majors to expand production outside the region (e.g., BP's Gulf of America expansion) and carriers have responded with discounts as they compete to retain clients.

The same cannot be said for the Persian Gulf as asset owners have been forced onto war-risk cover. The workaround became all the more urgent following Houthi militants attacking Saudi oil tankers in the Red Sea the week of July 20. The Saudi pipeline route to the Red Sea was the war's first workaround for a closed Hormuz. Now, top shipping insurers are telling brokers that they will not sell war cargo insurance to Saudi Arabia-linked ships in the Red Sea. The physical map of Middle Eastern energy is indeed being redrawn and adapting in real time.

Dwindling Supply Cushion

Crude touched $100 a barrel on July 22—the first time since May—before retreating on de-escalation signs, and the IEA reported on July 17 that member states have already released almost three-quarters of the 400-million-barrel emergency drawdown announced in March.

The refined-products market is where the squeeze is sharpest. U.S. refineries are running at 96% of capacity and those in the Midwest and Rocky Mountains at 100%. Exports of diesel and jet fuel are also at record levels, spurred on by successful Ukrainian drone strikes that have limited Russian refining capacity (down roughly 40%). Moscow has banned diesel exports as a result and, remarkably, is importing fuel from India, more than 90% of whose 2026 crude came from Russia in the first place.

U.S. wholesale diesel futures have jumped 26% this month and the average per-barrel margin American refiners earn converting crude into gasoline and diesel is the highest on record. Higher prices are flowing to producer balance sheets. BP cut net debt by as much as 13% and energy groups raised $12.6 billion through IPOs in the first half of the year, the fastest first-half pace this century.

The other side of the coin shows inflationary signals pointing higher. Diesel prices flow directly into freight, food, and every delivered good. European gas prices have risen nearly 50% over the past month, driven partly by cooling demand in an above-average heatwave, as well as dwindling supply. Policymakers are warning of winter shortages compounded by tight markets and the bloc's desire to wean itself off Russian LNG.

> **BOTTOM LINE:** The lowered barrel consensus of June assumed a normalizing Gulf and a more generous surplus than originally anticipated. Both glimmers of good news faded in July. The IEA cushion is three-quarters spent, the Red Sea workaround has

> been struck, and seven million barrels a day of Russian exports sit under a live secondary-tariff threat. The refined-products squeeze—diesel futures up 26% this month—will ripple throughout the global economy. Industry ingenuity produced by market efficiencies may very well solve the long-term chokepoint of Hormuz, but the near-term pain remains.

SHIPPING

The Guardian of the Strait

On July 13, the President announced the resumption of the U.S. naval blockade against Iran and that the U.S. would be "reimbursed, at the rate of 20% on all cargo shipped" through Hormuz, declaring America its "Guardian" and saying on Fox the U.S. would "probably run it." The proposal lasted a day. On July 14, the President withdrew his proposed levy, replacing it with "MASSIVE" Gulf investment commitments.

What replaces it is more interesting than what was withdrawn. The security of the strait has been converted from a public good into a commodity, sold as investment commitments extracted from the states that benefit. The President's dealmaking follows a similar playbook (e.g., the Gordie Howe bridge). Importantly, the construct could bring further strain to the Riyadh/Abu Dhabi rivalry, asking both countries to bid for U.S. protection, while essentially taxing its exports in return. Sticks with one hand and carrots with the other (e.g., Saudi nuclear deal, UAE license-free access to American chips).

Iran's military warned Gulf neighbors against cooperating with Washington, calling U.S. governance of the strait "an unbreakable red line." The regime backed up its threat on July 16, instructing the Houthis to prepare to close Bab el-Mandeb; the following week the Houthis attacked two Saudi tankers in the Red Sea. The cost is real. The Saudi pipeline, which diverts Gulf oil to the Red Sea, has significantly increased capacity and now carries roughly 7% of global energy supplies. Closing Bab el-Mandeb means that oil is just as trapped at the end of the pipeline as the oil sitting on Gulf tankers waiting to transit the strait. A Saudi-led coalition responded forcefully, striking Houthi targets in Yemen, the first attack inside the country since a truce signed four years ago. The tit-for-tat continued on Saturday as the Houthis claimed to have hit Saudi Aramco's facilities in Jizan and Yanbu on the Red Sea coast. Greece, part of the Saudi coalition, confirmed that its air-defense systems had instead intercepted two ballistic missiles launched from Yemen while a Greek missile battery shot down a drone. Major General Turki al-Maliki, a spokesperson for the Saudi-led coalition, said the air strikes hit "legitimate military targets" that "threaten commercial vessels in the Red Sea… while preserving the capabilities of the brotherly people of Yemen."

As Secretary Rubio put it, strikes against Iran now relate to one thing: stopping the regime from attacking ships. But Iran will not relent until the U.S. withdraws its influence over shipping. Meanwhile, the Administration will no longer underwrite the maritime commons as a public good, a genuine change in the arrangement that has governed seaborne trade since 1945. At least one ally is responding. On Friday, new UK Defense Secretary Wes Streeting discussed a proposal with Secretary of War Pete Hegseth to convene a meeting this week to examine standing up an international coalition to safeguard shipping in the strait. This goes beyond what the UK (and France) have previously offered, which instead relied on an end to hostilities. Whitehall is now actively considering helping lead a multinational effort to secure the strait regardless of a ceasefire.

While ship owners wait for safety reassurances, one logistics industry is booming: the container trade. Hapag-Lloyd raised full-year guidance on July 13, lifting expected EBITDA to a range of $2.7 to $3.7 billion from $1.1 to $3.1 billion, its shares rising about 6.5% on the news. Bloomberg Intelligence reads China's 27% June export surge as confirming the demand outlook for Cosco, Maersk, and Ocean Network Express, and both Hapag-Lloyd and Maersk have resumed Suez sailings.

The carriers are among the few clear beneficiaries of the disorder. Disruption drives rates which raise revenue: war-risk premia, longer routings, and importers front-loading ahead of the July 24 Section 122 tariff expiration. The front-loading is visible at the docks. The Port of Los Angeles handled record cargo in June. Container companies that entered the year staring at a possible loss are now guiding to a solid profit. Of course, oversupply will erode rates once conditions eventually normalize and companies like Hapag-Lloyd are flagging "high uncertainty" amidst their growing profits.

> **BOTTOM LINE:** The 20% Hormuz levy is withdrawn, but its premise remains a dispute at the heart of the recent hostilities. Rubio says it is not America's job to protect global shipping forever, and the toll is being collected instead through Gulf investment commitments. The blockade may yet lift again, but Iranian control of the strait must permanently relax for any de-escalation to hold. All else remains on hold for now: sanctions relief, frozen assets, and the nuclear question.

ECONOMIC OUTLOOK

The Last Good Print?

Released on July 14, the June inflation print came in soft across the board as headline CPI fell to 3.5% year on year from 4.2% in May, below the 3.8% consensus. Prices were down 0.4% on the month, the largest one-month decline since April 2020. Energy dropped 5.7% and the two-year yield fell about ten basis points to 4.15%, prompting futures to move the next expected quarter-point hike from October to December.

Stripped of food and energy, core prices were flat on the month and the annual rate fell to 2.6% from 2.9%, against a 2.8% consensus. Used cars, trucks, and apparel fell month-on-month, as high gas prices consumed more of household budgets, leading consumers to pull back elsewhere and forcing companies to compete on prices. Thus, core disinflation is not normalization, but rather weak consumer demand. Wells Fargo, with the clearest window into household spending, reported consumers have been able to tread above water.

June retail sales rose 0.2% on the month, below consensus and down from May's revised 1%, as gasoline receipts fell on lower pump prices. Stripped of gasoline, spending rose 0.7%. The internals continue to show a K-shaped consumer with a solid labor market upholding spending while lower-income households retrench. Consumer sentiment demonstrates the same. The June baseline of 49.5 was clawed back from May's all-time low of 44.8 but remains far below pre-war levels. June's improvement was concentrated among stockholders, the same divide apparent in the spending data. The University of Michigan's final consumer read of July is due this Friday.

But June’s CPI was likely a temporary moment as the Iran ceasefire officially collapsed on July 8 and the U.S. naval blockade was reimposed on July 13. Oil again rose, Brent touching the $100 mark on July 22 before retreating on de-escalation signs, with national retail gasoline above $4/gallon and diesel north of $5. Global storage, which helped blunt the price shock during the first phase of the war, is all but gone. Remaining governors include a pullback in Chinese demand and increased production outside the Gulf.

The ten-year Treasury yield is now near 4.7%, pushed up by a wary bond market. That, in turn, has sent the 30-year fixed rate mortgage rate to its highest of the year. Federal Reserve Chair Kevin Warsh told the House Financial Services Committee on July 14 that June’s data does not amount to “mission accomplished,” calling inflation “an undue burden on American households and businesses” that the Fed has “no tolerance” for. Warsh promised lawmakers that the Fed will get its policy right and demonstrate that the inflation surge of the last five years is firmly behind us.

Evercore’s Krishna Guha reads the report as a gift that relieves near-term pressure while letting Warsh position the Fed as unambiguously committed to target. With Warsh telling Congress that the job is not done, the July 28–29 FOMC meeting and rising oil prices seem to affirm the hawkish dot plot that were already tilted toward tightening.

Supply-and-Demand vs. Price Coercion

As inflation lingers and the midterms close in, the Administration is turning its price-fighting effort on individual companies. The President previously attacked Walmart for blaming his tariffs, telling it to “eat the tariffs,” and has since claimed credit for the retailer’s roughly 15% cut to ground beef prices. The White House maintains that its economic populism is merely supply-side orthodoxy, contending that as supplies increase, prices should fall. Results of this newly styled Republican economic theory have been seen from declining egg prices (avian-flu containment + price-gouging probe) to falling prescription drug prices (most-favored-nation + 17 private sector agreements). Indeed, cash discounts on the TrumpRx platform are significant: Plavix down from $756 to $16, Reyataz from $1,449 to $217, and insulin at $35 a month.

Whether the result of supply-and-demand or state coercion, industry-specific price drops are a hallmark of the Trump Administration. That is not to say that all consumers benefit. The discounts are outside of the health insurance deductible, meaning insured Americans do not see the savings. Moreover, roughly 900 brand-name drugs rose in list price in early 2026 at a median of 4% despite 16 of the companies already signing a White House agreement. The deeper problem is that rhetorical pressure signifies a government policy toolbox that is all but spent and the Fed will not cut so long as the war and tariffs push the other way.

Earnings vs. Credit

Investors have begun selling the long end of Big Tech’s debt, refusing to underwrite it thirty years out. Amazon, Alphabet, Meta, Nvidia, Oracle, and SpaceX have issued roughly $182 billion of investment-grade bonds in 2026, against about $13 billion a year earlier; those six now account for nearly 15% of all U.S. corporate issuance and more than half the growth of the entire IG market. Seven offerings of $25 billion or more have closed this year.

The market is pricing the difference between building and earning. Amazon’s $25 billion sale drew a cold reception, its outstanding bonds quoted seven to ten basis points wider, and S&P cut Oracle to the lowest rung of investment grade over its spending. Meta also faces steeper borrowing costs on its $12 billion data-center deal. The project is offering yields of more than 7% during initial discussions. The pressure is most acute in maturities of ten years and longer. Oracle's own report warns the buildout may not pay off and an MIT study found that 95% of organizations are generating no return from generative-AI projects. Indeed, Big Tech free cash flow is the weakest since the dot-com era according to Goldman Sachs.

Bond investors do not get the upside—they simply get repaid—making them a more clear-eyed referee of the AI trade. Though solvency is not the issue for Big Tech, duration is. The buildout is funded from the bond market rather than from cash, driving the cost of financing the AI cycle higher and potentially hampering the U.S. side of the race.

July 23 provided the data. Alphabet reported $112 billion in quarterly profit, roughly four times a year earlier, with cloud revenue up 82% to $24.8 billion and advertising up about 14% to $81.6 billion. At the same time, Alphabet raised its full-year capital spending again, from $195 billion to $205 billion, and reported negative quarterly free cash flow. Similarly, Intel reported $16.1 billion in the June quarter, its fastest revenue growth in 15 years and up 25% year on year. The chipmaker added $2 billion to its capital spending, raising total capex for the year to $20 billion. Thus far, the month has been defined by AI selloffs and rising Treasury yields, leading to back-to-back weekly losses in the S&P 500 and Nasdaq, the first such streak since March.

Hyperscaler CEOs are doubling down on the trade. Sundar Pichai said the investments are "redefining what's possible" while Elon Musk told Tesla investors that "massive capex" will "yield incredible returns." Similarly, Anthropic agreed to buy up to two gigawatts of AMD's latest chips, with AMD investing up to $5 billion in return. OpenAI has reportedly raised projected compute spending to $750 billion through 2030. The question is whether the capex can withstand competition from cheaper Chinese models. Amazon, Meta, and Microsoft all report this coming week.

The other side of that ledger is a record quarter for the banks underwriting the buildout. The five largest U.S. banks (JPMorgan, Goldman Sachs, Bank of America, Wells Fargo, and Morgan Stanley) all posted blockbuster second quarters with equities trading revenue reaching $25.7 billion across the group. JPMorgan alone reported $16.9 billion with every business line a record and Morgan Stanley was up 58%, becoming Wall Street's principal architect of AI-infrastructure financing. The $86 billion SpaceX IPO on June 12 and Iran-driven volatility drove the numbers. Oversimplified, banks are the toll collectors while buyers carry the risk. U.S. banking success is producing a recalculation across the Atlantic as EU regulators are set to loosen bank capital rules, citing American earnings.

Yet the market remains skeptical of the ROI. JPMorgan's beat was met with a 2.4% drop; Wells fell 1.9%; and BofA fell 1.3% (only Goldman rose). The same skepticism extends to producers. Samsung's record posting resulted in a 10% drop.

Small Caps Rising

The Russell 2000 rose about 21% in the first half of the year, its strongest start since 1991, overperforming the S&P 500 by roughly 1,240 basis points (the widest small-cap margin since 2003). The rotation out of expensive megacap tech reflects a Russell that entered the year near 18 times forward earnings, benefiting from restored bonus depreciation and immediate R&D expensing.

16 of the Russell's 50 best performers this year are chip-related, several up more than 400%. Consensus earnings growth for the index was revised from roughly 23% to 38% with AI infrastructure the overwhelming driver. Investors are swapping exposure from the companies that spend on AI to those that receive its spending. But that trade is not without risk. Small caps carry more floating-rate debt and refinancing risk than any other equity segment. Bank of America calculates that each additional quarter-point hike will cut the Russell 2000's operating earnings by roughly 2%. With reversing oil prices and a tariff burden that has hardened, a Fed decision to raise rates would disproportionally affect the sector just as its earnings have jumped.

Y'all Street Opens

The Texas Stock Exchange began live trading on July 10, the first fully integrated national exchange the SEC has approved in decades and the most heavily capitalized to register with roughly $275 million from BlackRock, Citadel Securities, Schwab, JPMorgan, Goldman, and Bank of America. All National Market System symbols will arrive by end of July, exchange-traded products in the third quarter, and corporate listings in the fourth.

The operating theory is state governance. Under Texas Senate Bill 1057, any corporation—wherever incorporated—can adopt much higher thresholds to block non-financial shareholder proposals provided it primary-lists on a Texas exchange, turning the listing venue into an anti-activist shield. Texas is selling governance protection. The bet that pro-business state governance can compete into new investment fields has accelerated across the board post-COVID, as American migration from Blue states to Red states reshapes the political landscape, as well as the balance sheets of state capitals, affecting everything from education to housing.

Revisiting American Exceptionalism

The IMF's July 8 update characterized the global economy as "two opposing currents." On one side is the Middle East supply shock; on the other is the AI buildout. Each country's path is determined by its exposure to the former and integration of the latter. The four largest AI-hardware exporters (Taiwan, South Korea, Thailand, Malaysia) beat first-quarter forecasts by an average of 4.4 percentage points while every other economy undershot (the EU was cut to 0.9%). South Korea grew 7.5% annualized against a 1.8% forecast; the U.S. managed 2.1%; and TSMC reported quarterly profit up 77%, lifted its full-year revenue guidance above 40% growth.

Yet the phenomenon cuts both ways. South Korea's Kospi—the world's best-performing major index this year—fell 9% on July 13 as SK Hynix and Samsung lost 15.4% and 11%, respectively. Foreign investors dumped roughly $1.1 billion of Korean shares in a single session with the index already entering bear-market territory on July 8. The cause: high-bandwidth memory prices are rising more slowly than conventional chips. The repricing of the memory tier, where pricing power is thinner, exposes structural concentration. Samsung and SK Hynix, for example, make up roughly half the Kospi's weight. On July 16, the Bank of Korea raised rates for the first time since January 2023 with the won near a 17-year low and inflation above 3% on imported energy.

The outlier is the U.S., defined by investment diversification, deep capital markets, self-sufficient energy, and widespread innovation. Though the media views the Trump tariff regime as a self-inflicted inflation wound, it has made foreign firms that seek U.S. consumers more likely to build in the United States. The FT-Nikkei Investing in America findings, released July 8, put preliminary BEA figures for foreign direct investment into the U.S. at $232 billion in 2025, with manufacturing more than half of the inflows and Japan the largest source of funding (~$50 billion). Case in point, TSMC has committed a further $100 billion to its Arizona fabs, taking that build-out to $265 billion. South Korean companies flush with cash from the AI boom are also making large U.S. investments as they build onshore capability to avoid U.S. tariffs. The attractiveness of the U.S. is driven by a combination of factors, most especially its talent pool, openness to business, energy resilience, and large consumer market.

Martin Wolf recently analyzed Paul Krugman's comparison of the U.S. and EU economies. Though Europe provides a greater welfare benefit, Wolf notes that the Eurozone is decidedly dependent on U.S. supplies and technological advances. American exceptionalism, driven by innovation, results in ownership of the most important inputs (e.g., models, capital markets, energy), thus providing the U.S. with outsized leverage.

The caveat is a hollowed-out American manufacturing workforce, a problem ironically brought on by cheap goods and free trade. Another obstacle for U.S. manufacturing is energy. Though the U.S. is self-sufficient upstream, it is relatively under-built in grid, pipeline, and nuclear infrastructure. Both private and public sectors are seeking to reverse the infrastructure constraint, with hyperscalers pursuing fusion and the Administration standing up nuclear financing and a $12 billion strategic critical-minerals reserve ("Project Vault"). A second constraint is the equipment required to build the infrastructure needed, most of which is imported. Thus, the tariff regime that seeks to onshore manufacturing is taxing its buildout. AI and foreign investment spending helps boost growth today, but the productivity gains that could ease structural inflation are still in the future.

AI Race as a Pricing War

Earlier this month, xAI shipped Grok 4.5 at $2 and $6 per million tokens. OpenAI followed suit, releasing the GPT-5.6 family in three tiers, the cheapest, Luna, at $1 and $6, after a two-week government-gated preview. Meta launched Muse Spark 1.1 at $1.25 and $4.25, its first paid model. By comparison, Anthropic's Fable 5 lists at $10 and $50 and Opus 4.8 at $5 and $25.

The capability spread has not widened amidst the price wars. On the Artificial Analysis index Fable 5 scores 59.9, OpenAI's Sol 58.9, and Grok 4.5 a 54, with the latter at roughly a fifth of the leader's price. Anthropic retains a real lead where it matters most, holding about 80% on SWE-Bench Pro against roughly 65% for both Grok and Sol. But the frontier is no longer a matter of the most capable models being the most expensive. Meta built its API to speak both the OpenAI and Anthropic formats, so switching to save on price is merely a change of URL. Meanwhile, the format of models is also changing. OpenAI's ChatGPT Work turns its assistant into a background agent. GPT-Live models now listen and speak simultaneously, as voice becomes a primary computing interface.

Given the price wars and easy navigation between models, the aforementioned bond market's evaluation of AI spending gains new context. The hyperscalers are financing thirty-year infrastructure to produce an output whose price has fallen by half—not over a decade but in a single week. The pressure to compete is more than just healthy competition for consumers between American labs; it is at the heart of the existential race for supremacy with the Chinese. GIC, Singapore's sovereign wealth fund, has said the latest Chinese AI models have significantly raised competition with U.S. rivals and will cut the costs of global adoption. Indeed, cheaper open-weight Chinese models are quickly being adopted by even U.S. firms. While previous notes have focused on compute and input needs, the AI race may very well end up turning on price (more in the China Section below).

In Search of Power

The AI power crunch is pulling both speculative technology and corporate balance sheets into the energy market. General Fusion listed on the Nasdaq on July 13 as the first publicly traded pure-play fusion company, rising as much as 50% intraday. With twenty-four years of work behind it, the company has no revenue and concedes it may never generate any. Commonwealth Fusion has shown more promise, joining Librti, a £220 million UK program to prove tritium breeding. The 8-year-old firm that started at MIT is now the most well-funded fusion startup, backed by $3 billion from Bill Gates, Google, and others. With a scheduled reactor switch-on date of next year, it would be the first time a company has achieved the feat of producing more energy than it expends to spark the reactor. If successful, executives say Commonwealth will be the proof of concept for the fusion industry, demonstrating it is capable of bringing excess power to the grid, supplying power plants, homes, and data centers, all while carbon emissions-free.

The technology has faced a long road of failures and skepticism. Moreover, fusion is competing with proven technology like advanced nuclear fission reactors and ever-cheaper solar power and batteries. Despite this, Commonwealth has entered into a partnership with Dominion Energy to build a pilot reactor and has already applied to join the Mid-Atlantic electrical grid, PJM. But without a more robust cost-sharing investment from the federal government, the industry won't be able to scale.

Commonwealth has pushed for $10 billion over ten years to make that happen. In early June, the Department of Energy's top science official, Dario Gil, met with officials from the eight companies receiving aid under the current federal program. Gil reportedly made clear that $10 billion in government funding was unrealistic as the Administration pursues quantum, AI, and nuclear. Moreover, the world's commercial tritium is produced mostly by Canadian reactors but the lithium blanket that would breed more is made in Chinese refineries—yet another technology supply chain risk dominated by the Chinese.

All the while, demand continues to grow. GE Vernova booked $2.4 billion of data-center equipment orders in the first quarter alone, more than in all of the prior year, and global data-center electricity demand is up nearly 20% to 788 terawatt-hours. Google has already agreed to take the entire initial output of a 1.6-gigawatt Arkansas solar project from 2029 to offset its grid draw. Google, Meta, Amazon, and Microsoft accounted for 49% of all corporate clean-power deals last year. In addition to expired tax credits, new projects face an additional hurdle by needing to prove their components originate outside China (the PRC holds 50.3% of installed global solar capacity).

Bond investors have already shown their unwillingness to underwrite the thirty-year debt cycle of data-centers, pushing equity investors to fund a pre-revenue fusion industry. Risk appetite has not disappeared, but it has migrated out of necessity.

Central Banks Tightening

The European Central Bank, which spent early 2026 cutting as inflation cooled, reversed course on June 11 with its first hike since 2023. ECB projections show headline inflation up to 3.0% for 2026 while growth falls to 0.8%—stagflation is now very much on the table for the continent. On July 23 the Governing Council held unanimously, leaving the deposit rate at 2.25%, and Lagarde laid the groundwork for a possible September move: she declined to give forward guidance, noted that some governors “did ask themselves” whether a further hike was already appropriate, and markets now anticipate a hike at the September 10 meeting.

Britain’s seventh prime minister in a decade, former mayor Andy Burnham, entered Downing Street on July 20. For markets and the Bank of England (BoE), the relevant fact is that Burnham has pre-committed to the government’s existing borrowing limits, an explicit attempt to reassure gilt investors nervous about a left-wing prime minister. The challenge for the BoE is an economy that grew at just 0.1% in May, while mortgage rates and energy prices climb higher. With Reform UK having led Labour in national polls for more than a year, Burnham’s runway is decidedly short and may very well be decided by BoE policymaking.

Elsewhere, Australia’s Reserve Bank is likely to remain hawkish despite its economy adding 76,300 jobs in June against a 16,400 forecast. The Bank of Korea hiked on July 16 against the backdrop of a collapsing equity market and struggling won. The Bank of Canada held at 2.25% on July 15 despite choppy growth and a weak loonie. In fact, hedge funds held nearly 100,000 contracts tied to wagers on a weaker loonie in the week ending July 21, the largest amount going back to August 2024. The loonie has fallen 0.5% over the past week against the U.S. dollar, pressured lower by escalating trade tensions between the neighboring nations.

Each economy is being tested by the same two forces: an energy shock and tariffs that are lifting near-term headline inflation and tenuous currencies that could further erode if rates are cut too quickly. None of the central banks have the luxury of waiting for the other to move. Meanwhile, U.S. initial jobless claims fell to 187,000 for the week ending July 18—down 22,000, the lowest weekly reading of 2026 and well under the 212,000 expected—with continuing claims easing to 1.796 million. The labor market remains the strongest argument that the American consumer’s squeeze is concentrated rather than general, and the print strengthens the hawkish case going into the July 28–29 FOMC.

> **BOTTOM LINE:** The AI trade is now a financing and pricing story. While the U.S. continues to dominate the sector and attract capital, industry and investors are struggling with how to respond to the new dynamic. Meanwhile, June was likely the last clean print for the foreseeable future. Core inflation went flat, but on a squeezed consumer, and the energy relief has since reversed. With energy concerns again on the rise, the July and August prints face strong forces pointing in the same inflationary direction. The market is priced for a rate hike before the end of the year and Fed Chair Warsh has said the job is not done.

TRADE UPDATE

Tariff Refunds

The largest tariff refund in American history continues to grind unevenly along. In a July 13 declaration to the Court of International Trade (CIT), Customs and Border Protection (CBP) said it had accepted claims for $121.75 billion in IEEPA refunds, about three-quarters of the roughly $165 billion collected before the Supreme Court struck the authority down in February. CBP further reported that it had “completed” $86.3 billion, a word that means certified and sent to Treasury rather than paid, meaning the cash actually reaching importers is smaller and officially unknown. Some 4.77 million entries have failed automated validation, chiefly shipments liquidated more than 90 days ago, the tranche most exposed to the ongoing litigation. Refunds carry 6% statutory interest for corporations, compounded daily.

Section 122 Expires but Litigation Continues

The 10% Section 122 global reciprocal tariffs ("balance of payments") have officially expired. Invoked within hours of the Supreme Court's IEEPA ruling, this marked the first use of the 1974 authority since President Richard Nixon. The hard 150-day limit created an expiry of 12:01 a.m. EDT on July 24. CIT ruled on May 7 that the surcharge was unlawful, finding it invoked balance-of-payments authority while citing trade deficits. The Federal Circuit has since issued a stay (June 11) and in finding the government likely to succeed in its arguments, left the tariffs in place.

On July 15, the Council of Economic Advisers (CEA) published a paper, "Measuring Balance of Payments Deficits," stating that a current-account deficit "has long been a widely accepted measure." The white paper was then used by Justice Department lawyers during an appeal hearing on July 21 to argue that CIT's ruling "virtually ignores" the statute's text by resting on a definition drawn from an earlier unenacted draft and on the headings in a Senate committee-report table. Its substantive claim is a deference argument: "balance-of-payments deficit" is a term of art with a range of accepted meanings, so the President need only adopt an "economically reasonable methodology," not a single court-specified one. Thus, the current-account deficit was the rightful concern the President was addressing when invoking Section 122. The Administration's legal argument is doubly important as it seeks to preserve an authority that, if upheld, could create a durable precedent for a whole class of future tariffs.

Section 301 Replaces Section 122

Though we've argued for some time that the ongoing forced labor and overcapacity Section 301 investigations would respectively act as a long-term replacement for Section 122, there has been additional conjecture over both renewing Section 122 and/or use of Smoot-Hawley. As Section 301 is the most legally secure of all the options, the Administration gave global partners their answer on July 23. USTR officially noticed tariffs of 10% and 12.5% on those countries (outlined below) named in the Section 301 forced labor investigation, coinciding with the expiration of Section 122.

- 10% Rate: Argentina, Bangladesh, Cambodia, Canada, Ecuador, El Salvador, Guatemala, Honduras, India, Indonesia, Jordan, Malaysia, Mexico, Pakistan, Sri Lanka, UK, and Trinidad and Tobago. Products from the EU or Taiwan that have most-favored nation (MFN) tariffs below 10% will be hit with tariffs that bring the net duty up to 10% in keeping with their reciprocal agreements. Products from those countries with MFN tariffs above 10% will be reduced to the 10% rate.
- 12.5% Rate: Japan, Korea, Switzerland, and all other countries in the group of 60 not named above.

Exemptions cover oil, gas, fertilizer, and foodstuffs, as well as: (i) raw materials that could lead to the unavailability of domestic supply; (ii) products that could cause economy-wide disruptions; (iii) products that cannot be grown or produced in sufficient quantities in the U.S. The notice also exempts certain products from Argentina, Bangladesh, Cambodia, Ecuador, El Salvador, the EU, Guatemala, Indonesia, Jordan, Malaysia, Switzerland, Taiwan, and the UK to "encourage these economies to fulfill commitments regarding forced labor import prohibitions or… enact and effectively enforce a forced labor import prohibition."

USTR’s stated goal in imposing the tariffs was to “begin to correct what is both a human rights abuse and distortive trade practice to improve the welfare of workers everywhere.” By utilizing Section 301, the Administration defines these duties as a tool “to respond to unjustifiable, unreasonable, or discriminatory foreign government acts, policies, or practices that burden or restrict U.S. commerce.” The language is important given likely legal challenges to come, as well as existing litigation. In fact, USTR specifically included court safeguard language in the notice, stating that each tariff action “is intended to operate independently of each other, and the potential invalidity of one tariff action taken in this Notice should not affect any other tariff.”

Trading partners have largely resigned themselves to the outcome, as seen in reactions post-July 23. South Korea’s Ministry of Trade, Industry and Resources expressed relief, saying that the outcome had “partially alleviated” ongoing uncertainty. Korea secured a 12.5% rate, inclusive of most favored nation (MFN) duties, a level that USTR said reflects the ART reached last year between the two countries, capping U.S. duties on most Korean goods at 15%. Similarly, Canada’s minister responsible for U.S. trade, Dominic LeBlanc, said that the U.S. provided more favorable treatment to Ottawa than many other partners. Canada faces a 10% duty, with continued exclusions for goods traded under USMCA. Mexican trade officials, meanwhile, learned of USTR’s final decision from U.S. officials during a bilateral USMCA negotiating meeting in Mexico City the week of July 21, a benefit of its close working trade relationship. Mexico also faces 10% tariffs, with exemptions for USMCA compliant goods (about 85% of Mexican exports to the U.S.). “One replaces the other, so the tariff treatment remains unchanged,” Mexico’s Economy Ministry said.

The UK went even further, celebrating the announcement given the inclusion of Scotch to the exemption list. A UK government announcement proclaimed: “To toast the win, a high-value air freight of premium Scotch whisky distilled in Aberdeenshire will depart in the next 48 hours from Manchester to Philadelphia -- the first such freight to the U.S. to enjoy no import taxes.” The exemption makes good on President Trump’s April commitment to King Charles during his U.S. state visit. To be sure, not all countries expressed relief, nor celebrated, though their objections were largely symbolic. Japan called the duties “regrettable”; Australia said they were “unjustified”; and Singapore claimed they had “no technical or economic basis.”

The Committee for a Responsible Federal Budget finds that the latest round of U.S. tariffs will account for less than 60% of the revenue otherwise gained on the previous IEEPA regime (over 10 years). As the new 301 investigations are meant to solve a mathematical problem imposed by the Supreme Court’s ruling, we fully expect the ongoing Section 301 investigation into overcapacity to make up the majority of the rest. While recent tariff announcements against Brazil, Canada, and the EU should be viewed as negotiating leverage tied to specific domestic policymaking, the overcapacity investigation is what’s intended to fill the greater structural gap and serve as a long-term and durable trade position of the United States.

EU Digital Trade Barriers and U.S. Retaliation

A second front that has long been simmering has now reached a boil with Brussels. Following EU regulators fining Google $1 billion for allegedly undercutting competition through its dominance in search and self-preferencing its shopping and travel services, the President threatened tariff retaliation for what he regards as unfair targeting of

American technology companies. On July 25, the President announced that he anticipates a “substantial” tariff soon, posting to Truth Social:

“The European Union is… taking direct aim at GREAT American Companies! After having fined Apple, for no reason at all, 15 Billion Dollars, Meta, 3 Billion Dollars, Amazon 2.5 Billion Dollars, and many others, we have just been informed that Google, a truly advanced and amazing group, has been fined yet another 1 Billion Dollars, without explanation. The United States of America is not a ‘PIGGYBANK’ for Europe… we will immediately initiate a 301 Investigation into the practice of ‘ROBBING’ American Companies and, in turn, the American Taxpayer. The European Union will pay a very big price for this illegal and highly unethical conduct, which I have consistently warned them about. The penalties will be entirely reversed and, we anticipate, a substantial TARIFF to be placed on them at the earliest possible moment.”

Thus, just weeks after the EU’s ratification of the Turnberry agreement, the bloc is now facing an additional all-inclusive tariff. Turnberry created a ceiling of 15%, a mark that European Commission spokesperson Paula Pinho confirmed the forced-labor order was “in compliance” with given that the EU was placed at the 10% level (inclusive of MFN duties), a rate “well within the margins.” In fact, the July 23 announcement on Section 301 was met with a “cautious sigh of relief” by European Parliament International Trade Committee Chair Bernd Lange who noted that it provided Brussels with better terms than those agreed under the ART.

But Europe’s digital enforcement regime has long been a point of friction with the U.S. as the President noted in his Truth post and one that the ART did not resolve. Channeling the President, Ambassador Greer called the Google fine the latest in an “increasingly aggressive approach targeting U.S. technology firms.” Greer further noted that the EU’s fine on Google alone exceeds 2% of the bloc’s budget, “a larger contribution to the budget than many EU member states.” But the Administration’s position is far more serious than the money. Greer accused the EU’s “Digital Markets Act” of being “a de facto forced technology transfer and intellectual property theft.” What we’ve always known is that the ART bought literal tariff peace, not regulatory peace, and Washington has officially put the EU on notice that it regards the two as the same.

As such, USTR will now move forward with an additional investigation under Section 301 into fines the EU has imposed on U.S. technology companies. Though the EU took its medicine on July 23, a mere two days later it is back to preparing a retaliatory package if rates go higher. As Greer stated, the Turnberry Agreement, while ratified, is again facing much “uncertainty.”

USMCA: Canada Punished

The Gordie Howe International Bridge opens July 27. Canada paid the entire C$6.4 billion construction cost and was to keep all toll revenue until it recouped that outlay. Under a revised deal demanded by President Trump, Canada will keep half the toll profits for fifteen years, the rest flowing to a development fund only Americans can access, with Washington holding a veto over toll increases above 10%. Like most aspects of a Trump negotiation, the bridge agreement is singular. Each irritant must be negotiated on its own. Case in point, the President accused Canada of “willful negligence” over cross-border wildfire smoke on July 17, saying the cost “must of necessity be added to the TARIFFS Canada is currently paying.” On July 20, he went further, signing three proclamations imposing additional 50% tariffs on Canadian autos, alcohol, and dairy under Section 338 of the Tariff Act of 1930, the so-called "Smoot-Hawley" statute, reaching roughly $40 billion of goods, effective August 19 under the 30-day notice requirement of the law. Energy, potash, and Section 232 goods are exempt.

Three features make imposition of Section 338 a consequential trade action. The authority has no public record of use since 1949 and may never have imposed tariffs at all, yet it carries a 50% ceiling, no expiration, and the power to exclude a country's goods outright. It applies regardless of USMCA rules of origin, stripping the protection Canadian exporters have enjoyed to date. Yet the 30-day window prior to implementation is a quintessential Trumpian device, allowing the President to create a shot clock that forces Prime Minister Mark Carney to the negotiating table. The threat immediately produced its intended effect with Carney saying he had agreed to intensify trade talks with the U.S.

The move should come as no surprise as the Administration has long stated it frustration with Canada as opposed to Mexico in the USMCA talks. USTR Ambassador Jamieson Greer's framing is that Canada "unlike other partners and allies, continues to retaliate" against the U.S. Greer further stated that Canada has heretofore made only "promises to discuss these issues" and "not to actually change these things."

In addition to the 30-day shot clock, the U.S. seeks to press its advantage through Canada's internal divisions. Meeting in Charlottetown as the 50% tariffs were announced, the thirteen Canadian premiers insisted on unity while splitting openly over strategy, though all were united in demanding the PM produce a plan before the August 19 effective date. On one hand are the hardliners. Ontario's Doug Ford wants to leverage energy and resources, weighing cutting electricity to Michigan, New York, and Minnesota or imposing a surcharge. He is backed by New Brunswick's Susan Holt, whose province supplies fuel to the Northeast, and by British Columbia's David Eby, who would withhold critical minerals. Against them, Alberta's Danielle Smith and Saskatchewan's Scott Moe, who govern the oil and potash provinces exempt from the Section 338 duties, want a deal by August 19 with no retaliation at all. Ford, who has refused to lift Ontario's ban on American alcohol until the steel, aluminum, and auto tariffs go, is Canada's embodiment of retaliation but admitted he feels like he is fighting against the U.S. alone.

USMCA: Mexico Rewarded

USMCA negotiations with Mexico stand in stark contrast to the situation with Canada. On the same day Canada was informed of Smoot-Hawley, USTR credited Mexico City with being "pragmatic." The latest three-day bilateral round of formal USMCA negotiations between the U.S. and Mexico began on July 21, with Greer meeting Economy Secretary Ebrard and President Sheinbaum. USTR outlined the successes achieved with Mexico to date, including: alignment on dual-use export controls, advanced pharmaceutical IP enforcement, an upgraded customs single-window, and curbed avocado exports from deforested land. And whereas Canada has sought elimination of U.S. tariffs, Mexico seeks only to "lower" them, acknowledging the reality of the Trump Administration's trade agenda. For its part, the U.S. appears likely to resume cattle imports from Mexico, lifting a ban meant to stop the spread of the New World screwworm.

Of course, irritants remain with Mexico and talks are now focused on Mexico's imports of Chinese trucks, further alignment on export controls, and the closing of loopholes that have led to “free-riding by non-Parties.” At its core, the U.S. demand of both countries is to tighten regional rules of origin (ROO) to limit Chinese influence within North America and the hemisphere more broadly.

ROO talks between Greer and Mexican Economy Minister Marcelo Ebrard the week of July 21 centered on steel and aluminum, autos, economic security, labor, and agriculture. On the former, Washington wants Mexico City to mirror its tariff wall against Chinese steel and aluminum by imposing Section 232-style duties on imports from outside North America. The goal is to preserve preferential treatment for steel produced in the U.S., Mexico, and Canada, while applying a common external barrier to China. Mexico is said to be open to the ask and has already offered to sharply reduce its purchases. But the U.S. steel regime is broader and more punitive than Mexico’s, with Section 232 tariffs of 50% on core steel and aluminum from China and most other economies and charges of 25% on derivatives. Mexico, by contrast, taxes metals on a product-by-product basis. Steel imports from countries Mexico does not have trade deals with are subject to rates of as much as 25%, as well as certain anti-dumping duties. Earlier this year, Mexico implemented tariffs on roughly 1,500 products from countries that it does not have trade deals with, implicitly aimed at China. A broader U.S. industry wish list calls for raising the share of North American steel that automakers must purchase from 70% to 85%, as well as extending labor-value rules to more steel-intensive goods and restricting investment from non-market economies (i.e., China).

The next round of rolling U.S./Mexico trade talks is planned for September in Washington and Greer is “hopeful” the U.S. can reach interim agreements (“frameworks”) with both countries by the end of the year. Testifying before the Senate Finance Committee on July 23, Greer told lawmakers that the frameworks would be separate, reinforcing the Administration’s preference for bilateral agreements over one trilateral. Greer did acknowledge that structural issues like ROO, labor, and environmental laws will “take a little more time” and likely slip into next year. Core for the President are the “exploding trade deficit” and preserving and strengthening the U.S. auto sector.

India at the Finish Line

India says its trade framework with the United States is finished but unsigned. “The framework deal is ready and it will be signed when the time is right,” Commerce Secretary Rajesh Agrawal said on July 13. What New Delhi wants is an assurance of comparative advantage—a tariff edge over competitors rather than a tolerable absolute rate. Agrawal has specifically been referring to USTR’s Section 301 investigations and its complaint that a 10% rate on competitors like Indonesia and Pakistan leaves it at a disadvantage with a previously suggested 12.5% rate.

Ironically, reaching an agreement and not holding out would provide India with more relief. Jordan is proof positive of the concept, signing a July trade agreement with the U.S. that leaves tariff levels unchanged but positions Amman for preferential treatment under the forced-labor duties. To be sure, New Delhi has taken steps forward, amending its Foreign Trade Policy on July 13 to prohibit imports made with forced labor, the first time India has legislated on the question. But USTR is looking for more than just legislation and regulation—it wants to see effective enforcement, as well.

Also at issue is India’s purchases of Russian crude, a prime target of Russian sanctions now moving through the Senate with new momentum following the death of Senator

Graham. As the second largest purchaser of Russian oil and gas behind China, India has more recently been increasing energy purchases from the U.S. Talks between Indian External Affairs Minister Jaishankar and Secretary Rubio on the sidelines of the ASEAN summit also showed signs of progress as the U.S. seeks to shore up its Indo-Pacific alliance. The July 23 announcement on Section 301 proved the impact of the progress as USTR set India's rate at 10% rather than the previously proposed 12.5%. A signed U.S./India ART could very well be imminent.

> **BOTTOM LINE:** The July 24 sunset closed one authority but not the administration's trade agenda. Section 301 replaced Section 122 with no gap, Section 338 was tapped for the first time in history to bring Canada to the table, and the DOJ is finding success in the courtroom. The EU fine on Google shows that even once agreements are reached, specific irritants will keep prompting a response. Losing IEEPA did not weaken the playbook—it hardened the tariff regime and multiplied the paperwork.

DONROE DOCTRINE

Brazil

On July 15, USTR moved forward with a 25% tariff on Brazilian goods, effective July 22, closing its year-long Section 301 investigation. At the center of the dispute is Pix, Brazil's central bank instant-payment system, a free service that processes more than seven billion transactions a month (second only to India's UPI system). USTR calls its rules unfair and discriminatory. The 25% duty includes wide exemptions with an eye on consumer costs, including goods the U.S. cannot produce and Brazilian beef.

Defending Pix at the July 8 USTR hearing, presidential candidate Flávio Bolsonaro argued that Pix "is a solution" and that legislation could remedy the grievance by barring Pix from linking to non-Western cross-border settlement systems. The U.S. concern is not necessarily that Pix underprices Visa inside Brazil, but rather that it represents a state-run payment method that connects across borders and enables trade without use of the dollar. The concern is all the more real as President Lula has pushed for adoption of Brazil's alternative payment system throughout the BRICS nations.

Brasília has since answered. In a July 15 statement, Lula rejected the investigation's legitimacy, calling it a "plot built with the active collaboration of the Bolsonaro family" and vowed not to abdicate protecting Brazilians from "the greed of a handful of techno-oligarchs." Brazil plans to return to WTO consultations and activate its 2025 Reciprocity Law, which lets the executive suspend intellectual-property and investment obligations for American technology firms. More retaliation landed over the weekend with Brazil's foreign ministry confirming it had rejected visas for State Department representatives Riley Barnes and Samuel Samson. A U.S. delegation had been expected to visit Brasília in the coming days, but Lula accused the visit of seeking to spread "misinformation" and cast doubt on the integrity of Brazil's electronic voting system. The government further alleged that the visit was planned in coordination with two sons of former president Jair Bolsonaro. The State Department disputes the accusation, instead saying the trip was "a routine visit consistent with [The Bureau of Democracy, Human Rights and Labor]'s statutory mandate."

Colombia

On July 15, Secretary Rubio met with Colombian Vice President-Elect José Manuel Restrepo and congratulated the incoming government of Abelardo De La Espriella. De La Espriella, who campaigned on scrapping talks with armed groups in favor of a U.S.-backed air campaign, is set to take office on August 7. Rubio's language deserves attention, saying the United States wants to be Colombia's "partner of choice, offering transparent, high-standard options in sectors critical to U.S. and regional economic security." In other words, a campaign to displace Chinese financing of Latin American resources.

Cuba

On the fifth anniversary of the July 11, 2021, protests, Secretary Rubio issued a statement that functions as a public list of terms: the release of political prisoners, economic reform, political reform, and an end to hostile foreign military and intelligence operations hosted less than a hundred miles from American shores. In exchange, he restated the offer of aid, reconstruction assistance, and a new relationship.

On July 13, the State Department continued its pressure campaign, designating ten entities for sanctions under Executive Order 14404, including the Ministry of Tourism, the trade group GECOMEX, the maritime group GEMAR, fuel companies, and the GAESA-linked exporter ANTEX. The announcement also included the regime's militias: the Committees for the Defense of the Revolution and the Rapid Response Brigades that played a heavy role in putting down the 2021 protests. Sanctioning tourism closes Cuba's last economic lifeline, with arrivals already down over 55%. As GAESA controls roughly 110 of the island's hotels, the government's revenue is down to a trickle.

What makes the revenue crisis all the more real for Cuba is the success of U.S. sanctions on its benefactors. As Rubio told reporters in the Philippines on July 22, "That regime has survived on subsidies from the Soviet Union and then from Chavez. This is the first time they don't have a sponsor that's giving them subsidies for free, and they don't know what to do with themselves, because all they've done is freeload off these countries for all these years." Reflecting on the overall challenge with Cuba, Rubio said "they want to somewhat improve their economy, but they're afraid that if they improve it too much they'll lose political control over people… as long as the people that are in charge… it's going to be difficult for them to make the changes that need to be made in order for Cuba to have a better future… they'd rather destroy the country than ever walk away from a failed ideology."

The pressure campaign has a visible softer side, however. On July 21, State officials joined Catholic Relief Services (CRS) in Miami to send the first flight under Secretary Rubio's $100 million humanitarian commitment to the Cuban people. The relief includes pre-packaged food and hygiene kits for up to 700 families, delivered through the Catholic Church and Caritas Cuba. Direct parish-level delivery "ensures U.S. assistance reaches everyday Cubans without any opportunity for regime diversion or theft."

Guyana

Guyana shows more of the same. Deputy Secretary of State Christopher Landau attended the U.S.-Guyana Investment Enabling Forum on July 17 and met Finance Minister Ashni Singh to press for American investment across agriculture, critical minerals, energy, and infrastructure, with State framing commercial diplomacy as "a core element of American foreign policy." Guyana is the fastest-growing economy in the hemisphere on offshore oil, borders Venezuela, and its critical-minerals potential is a direct answer to the Chinese-dependent supply chain. The speed of hemispherical alignment over commercial, political, and security issues is remarkable as American capital and security guarantees are spreading throughout the continent while Chinese financing has been given the cold shoulder.

Mexico

On July 16, the State Department designated the Juárez Cartel and Los Viagras as Foreign Terrorist Organizations and Specially Designated Global Terrorists. They become the seventh and eighth Mexican groups so designated since the February 2025 order, joining Sinaloa, Jalisco New Generation, and others, alongside Venezuela's Tren de Aragua. The designations block the groups from the U.S. financial system, criminalize material support, and create the legal predicate for more aggressive unilateral action along the border.

The cartel-terror designations are an uneasy parallel to the otherwise positive USMCA review between the two countries. Washington has made inroads throughout Latin America, forming alliances that allow it to take unilateral action within sovereign territory. More and more, security and commerce are being linked together by the Trump Administration and the question remains whether Sheinbaum will continue to resist U.S. military mobilization within her country.

Venezuela

A New York Times profile on July 11 contends that Secretary Rubio effectively controls Venezuela, from its finances to the allocation of its natural resources, and the eventual transition of its government. Under Executive Order 14373, Venezuelan oil proceeds are held in Treasury custody and the Secretary of State instructs Treasury on disbursements. Rubio is, functionally, the disbursing authority for a sovereign state's revenue.

Since Operation Absolute Resolve physically removed Nicolás Maduro from power on January 3, interim President Delcy Rodríguez and the Caracas government submit monthly budget requests to the State Department for approval to receive its share of oil revenue. Rubio testified that Rodríguez is well aware of what happened to Maduro and that the U.S. is prepared to use force to ensure cooperation. Though Rubio is yet to visit Rodriguez in Caracas, the two frequently converse over WhatsApp. Roughly 100 million barrels worth an estimated $8 billion moved in the first four months, exports climbing from about 380,000 barrels a day to some 1.1 million, with buyers the United States (43%), India (26%), and Spain (8%).

But there are a number of economic and political risks that remain for both sides. On the U.S. front, the Administration has not disclosed how much oil has been sold nor how the funds have been spent, despite written agreements Rubio and Treasury Secretary Scott Bessent promised Congress. A separate order blocks U.S. courts from seizing the revenue, which complicates the legal cases of Venezuela's creditors as it seeks to negotiate a debt restructuring package.

On the political front, the State Department welcomed Venezuela's recent announcement that a joint agenda would be held between Rodríguez's interim government and the 2015 National Assembly, beginning August 1. The 2015 National Assembly, led by Dinorah Figuera, is the government that the U.S. officially recognizes. Not included thus far is María Corina Machado, the Nobel laureate, who remains sidelined. Recent events and reporting highlight the urgency of elections with Rodríguez's disapproval now sitting above 63%. Venezuelans are frustrated with the government’s response to the devastating June 24 earthquakes that have killed nearly 5,000, as well as sanctioned government officials who continue to hold power like alleged narco-trafficker Interior Minister Diosdado Cabello.

Speaking with reporters at the ASEAN summit on July 22, Rubio articulated the dueling goals of strengthening democratic institutions while ensuring domestic stability, cautioning that patience of “more than a few weeks” is required for the democratic transition to move from “street protest movements to electoral forces.” Rubio further characterized the U.S. role as one of facilitator, there to “provide guidance and support” and to ensure that “every element of Venezuelan society” is “represented.”

Amidst that backdrop, Rodríguez continues to curry favor with the Administration. On July 23, the State Department welcomed the decision by the interim president to withdraw Venezuela from the ICC. Via press release, State praised the government’s “partnership” on American-led efforts to dismantle the organization. The Administration has long criticized the ICC as an “illegitimate body” and accused it of wasting resources to investigate countries that already have well-run independent judicial systems.

BOTTOM LINE: The Donroe Doctrine is inherently defined by national security but underneath, it reaches into the region’s financial plumbing. The new 25% tariff on Brazil is aimed squarely at its Pix payment system, while Treasury controls Venezuelan oil revenue and secondary sanctions rock Cuba’s financial model. Colombia and Peru formally enter U.S. alignment in the coming days and weeks, joining recent entrant Venezuela, though the latter remains a delicately managed transition. Brazil is the regional resistance test case: Lula appears stronger and his government is retaliating, but the October presidential election will ultimately decide its long-term approach to the Doctrine.

CHINA

The AI Race: White Lists and Export Controls

Nvidia has more than halved the number of Asian customers cleared to buy its AI chips, after building a new white list of buyers who pass tougher compliance screening. More than half of Nvidia’s previous customer base failed the initial review, with neo-cloud providers (small operators who rent out compute rather than use it) hit hardest as they present the highest diversion risk. The strategic cost of cutting half the regional buyer base hands that demand to whoever can supply compute without the compliance overhead (i.e., China).

Beijing has finally begun allowing firms to buy Nvidia’s H200 after a year of delay in the hopes of promoting its own domestic champions. That the CCP is now relenting suggests domestic substitution is not yet good enough for frontier work. Meanwhile, OMB’s Unified Agenda confirms the Administration will “formally rescind” the Biden-era diffusion rule, rather than just refusing to enforce it. The Biden-era rule capped allied model access, a clear hindrance to the Commerce Department’s American AI Exports Program. BIS has kept in place its semiconductor license requirement for China, however, and is still preparing new controls for critical technologies, drawing on the connected-vehicle ban as a template for other sectors.

The same logic helps explain a U.S. contract to build Japan’s “air-gapped” cloud, a top-secret system physically disconnected from the internet, which Washington considers essential for intelligence-sharing and a precondition for Japan eventually joining Five Eyes. Oracle has emerged as the front-runner as it was most willing to build the isolated, offline version rivals find commercially unattractive. Further illustrating the U.S. export position is the case of ASML, the sole maker of the extreme-ultraviolet lithography machines without which no advanced chip can be made. ASML is Europe's most valuable listed company and has recently raised full-year sales guidance for the second time this year, now estimated at €43–45 billion. ASML is barred from selling its most advanced systems to China.

Counter-Alliances, and Their Limits

Brussels has built the architecture to retaliate against Chinese overcapacity and strengthen its tech firewall but lacks the votes to meaningfully implement it. A draft Commission policy requires companies in sensitive sectors to source critical inputs from at least three suppliers, plus a "solidarity instrument" to help firms diversify away from China and absorb Beijing's retaliation. As a first step, the EU added 14 Chinese businesses to its Russia sanctions list. China quickly responded, announcing export restrictions against 14 EU defense and technology companies, and calling the EU sanctions "egregious." Underneath the policy fight is a growing goods deficit with China that now exceeds €360 billion, roughly a billion euros a day.

EY-Parthenon estimates that the additional investment required for the U.S., EU, and UK to end reliance on China in critical industries will cost $23.6 trillion over the next 25 years, about $940 billion a year. The American share alone would be close to the entire $600 billion U.S. tech companies spent on data centers in 2025. Decoupling is also inflationary. Chinese goods carry a 20–100% factory-price edge. And money is not the only challenge as Beijing demonstrated last year, cutting off critical minerals and magnets to the West. China is projected to supply more than 60% of the world's refined lithium and cobalt and 80% of battery-grade graphite and rare earths by 2035.

Yttrium, the rare earth used in jet-engine and turbine coatings and in chip equipment, has become "the killer chokepoint," with no diversified supply outside China. After Beijing tightened controls, U.S. imports collapsed from 333 tons to 17 in eight months and the price ran to roughly 70x its year-earlier level. The Pentagon has conditionally committed $500 million to Phoenix Tailings for non-Chinese refining, a serious investment but one that will take years to address the chokepoint.

Government hedges, including recent efforts by India, are not necessarily meant to align with the U.S. Rather, foreign states are attempting to diversify against both Beijing and Washington. Yet India still depends on Chinese machinery and rare earths and Europe is unable to fund nor find consensus to materially decouple.

Indo-Pacific Alliance

Secretary Rubio's trip to the ASEAN post-ministerial conference reaffirmed the U.S. commitment "to a free and open Indo-Pacific." The trip produced a number of deliverables, including a $100 million U.S. commitment to upgrade infrastructure along the Luzon Economic Corridor; the launch of a new Pax Silica Economic Security Zone; and a Unified commitment to maintain freedom of navigation in the South China Sea. The Pax Silica includes a 24-member coalition focused on securing AI supply chains, semiconductors, and critical minerals.

Rubio also participated in a trilateral meeting with Republic of Korea Foreign Minister Cho Hyun and Japanese Foreign Minister Motegi Toshimitsu, whereby the leaders agreed to the deployment of small modular reactors, along with a plan to derisk supply chains and strengthen regional security cooperation. During a separate Quad meeting, Australia, India, Japan, and the U.S. issued a joint statement of cooperation, reaffirmation of support for ASEAN unity, and a commitment to the implementation of the ASEAN Outlook on the Indo-Pacific across maritime and transnational security. The meetings were followed on July 24 by the largest demonstration yet of RIMPAC, the biennial Pacific exercise, with 31 nations participating and deploying roughly 40 surface ships and more than 25,000 personnel.

As always, China had its own counter. Hosting the "World Artificial Intelligence Conference" in Shanghai, President Xi Jinping opened the gathering on July 17, pitching a Shanghai-based intergovernmental body to shape global AI standards. 29 countries drawing from the Global South and the non-West signed on to establish the "World Artificial Intelligence Cooperation Organization (WAICO)." No Western country joined and no major U.S. technology firm attended. WAICO offers its member countries a global alternative to the U.S.-led Western stack via its open-weight models, cheaper inference, capacity building, and a seat at the standards table. Xi also used his remarks to warn against "overstretching the national security concept" in AI, a pointed reference to U.S. export controls.

As opposed to the U.S. efforts through Pax Silica, China's focus is on building AI infrastructure and hoarding talent. Not only will Chinese companies make AI widely available through open-source models, but they will help train thousands of people from developing countries to use them through the establishment of international "application co-operation centers." WAICO countries include Brazil, Indonesia, Russia, and South Africa. Xi promised to open similar centers with African, Middle Eastern, and Latin American organizations. Despite China's open-source posture, some of its companies, including Alibaba and ByteDance, are moving towards closed systems to commercialize their products. China's Ministry of Commerce is also beginning to limit the transfer of data for training overseas models—a harbinger that Xi's promises may not live up to reality for WAICO countries.

The Administration's Open-Source Dilemma

On July 16, Moonshot released Kimi K3, the largest open-weight model yet built and the first to reach the frontier. It took the top spot on Arena's blind Frontend Code leaderboard ahead of Anthropic's Fable 5 and OpenAI's GPT-5.6 Sol, beating Anthropic's Opus 4.8 in broader rankings while costing about 40% less. Moonshot will publish Kimi K3's full weights on July 27. An open, free-to-run Chinese model at the frontier is precisely what makes WAICO's offering formidable. WAICO will not out-compute the American stack but it may not need to. If it becomes the venue where the majority of the world's governments decide that good-enough, cheap, and open beats state-of-the-art, expensive, and conditional, then AI may very well go the same way as global trade since China's ascension to the WTO.

The concern is not simply limited to the rest of the globe, it has already begun here at home. Western companies, including DoorDash, Airbnb, and Siemens, are actively switching to Chinese open-weight models to cut costs and the scale is no longer marginal. U.S. corporate consumption of Chinese models has held above 30% of weekly tokens since February, recently reaching 46%. In early 2025 the percentage was 4.5%.

The economics are not close. Chinese open-weight models run 60% to 90% cheaper than proprietary American ones while landing within roughly a point of frontier performance. DeepSeek's flagship costs about $0.87 per million output tokens against roughly $30 for OpenAI and $25 for Anthropic. Coinbase halved its AI bill routing 1,200 agents to Chinese models. The UK's AI Security Institute put the distance between Chinese and U.S. developers at as little as four months and warned the same cheap systems could soon let attackers overwhelm cyber defenses. Moonshot was forced to pause new subscriptions within days of launching Kimi as usage pushed close to capacity. And the true scale is not known given open weights can be downloaded and run privately, making a growing share of that consumption invisible to the marketplace.

The commercial risk is not that the American labs lose the benchmark crown; it is that the most expensive systems become niche products, reserved for the hardest problems while the volume runs on something cheaper. Stanford's HAI puts 2025 U.S. private AI investment at $285.9 billion against China's $12.4 billion, a twenty-three-fold gap that state-backed Chinese funding only partly closes. Whatever the American capital advantage is buying, it is not protection from being undersold on price.

The loophole runs both ways, and it splits the American labs. OpenAI and Google confirmed they supply advanced models to the Singapore- and Hong Kong-based subsidiaries of Alibaba, Baidu, and Tencent. Those firms' parent companies are all included on the Pentagon's 1260H list. OpenAI and Google are technically in legal compliance since controls name entities and places and a blacklisted parent can contract through a subsidiary that is, on paper, Singaporean. OpenAI says it monitors for distillation and that "nationality alone" should not decide access. Anthropic, however, bars China-headquartered companies, as well as their foreign subsidiaries, outright and has continued to press for tighter controls.

Washington's focus has turned to the Administration's potential response and recent hawkish comments by officials. On July 21, Treasury Secretary Scott Bessent said the administration supports open-source models but not "IP theft," claiming watermarks of American models had been found in many Chinese models. Bessent floated the idea of a disclosure mandate, asking the rhetorical question, "should companies using Chinese models have to disclose that to their customers?" The counterfeit angle and corresponding sanctions are what have spooked industry. USTR Ambassador Greer echoed Bessent's theft framing, as did OSTP Director Michael Kratsios. On Thursday, Kratsios revealed that the government had information that Moonshot distilled Anthropic's Fable model while developing Kimi K3. Kratsios alleged that Moonshot was able to build "a sophisticated internal platform" for large-scale distillation against American models by evading detection and illicitly acquiring banned Nvidia GB300 servers.

Whether the Administration moves on enforcement is the question. Open weights, once published, run on private infrastructure indefinitely—no server to block, no license to revoke—and Chinese open-source models already account for roughly 41% of Hugging Face downloads. A procurement rule can keep them out of federal systems, but it cannot reach a startup self-hosting Kimi on its own GPUs. Moreover, despite the fears of industry, Commerce has yet to draft plans to add Chinese AI companies to the Entity List.

This industry divide is now spilling into the public lobbying domain in real time. On July 23, the newly formed "Little Tech Association," composed of roughly 200 companies including Proton and Y Combinator, wrote to the Administration arguing that American leadership requires both world-leading U.S. open-weight models and continued access for U.S. builders to open models already available worldwide. Should the Administration move to cut off access to the Chinese models, Particle's founder Suhail Doshi contends that "hundreds" of small startups will "instantly die" and that the ecosystem will be forced to "spend money on Anthropic." Among the more influential firms, Andreessen Horowitz, Nvidia, Microsoft, Meta, and Palantir have aligned with "Little Tech," warning against "premature restrictions on open models that stifle competition or drive innovation overseas." On the other side are OpenAI and Anthropic.

The Memory Squeeze

Congress is taking notice, though in a tangential space. House Select Committee chair John Moolenaar (R-MI) and Democrat George Whitesides wrote Commerce Secretary Lutnick on July 15 urging a ban on U.S. firms buying memory from China's CXMT and YMTC, calling Apple's reported effort to source from CXMT an unacceptable national-security risk. They are further demanding that CXMT be added to the Entity List. The Administration was prepared to do so last year, but pulled back in order to protect the China trade talks.

What drives Apple's decision is the physics of the AI buildout. Samsung, SK Hynix, and Micron control more than 90% of global DRAM and have redirected capacity to the high-bandwidth memory AI accelerators consume, a single bit of which needs three to four times the wafer area of standard DRAM. The resulting shortage turned a loss-making CXMT (Rmb37 billion over the last decade) into the world's fourth-largest DRAM maker and drove today's listing from an IPO price of Rmb8.66 to an opening of Rmb49.50. CXMT's market value jumped at opening to Rmb3.1 trillion, making it the most valuable listed company in mainland China. An overallotment option to issue an additional 1 billion shares would, if exercised, bring the funds raised to nearly $10 billion. All of which will expand production and R&D.

CXMT brought in Rmb33 billion ($4.9 billion) in the first quarter alone, with lower-end chips in demand for consumer electronics like Apple's. But the profits will also allow the company to develop HBM chips, the most high-value form of memory used in data centers, threatening the top end of the market and U.S. leaders like Micron.

All of this has led Apple to raise Mac and iPad prices by as much as $200. The dilemma for the Administration is that current controls do not reach the procurement level. A memory shortage brought on by the advanced nature of the American AI boom has pushed Apple toward Chinese silicon in order to contain prices. Listing CXMT will not conjure the missing supply, it only raises Apple's costs and consumer prices.

Those arguments have been countered by Micron whose CEO, Sanjay Mehrotra, has warned Commerce Secretary Howard Lutnick that allowing CXMT to sell to U.S. tech companies could destroy the domestic industry, much like China undercut U.S. steel. The fight, similar to that of open-weight models, forces President Trump to choose between multiple competing priorities: consumers prices, protecting domestic production, and ultimately, national security. To date, the President has resisted calls to restrict Chinese companies while trade negotiations continue, instead praising both Apple and Micron for investing in the U.S.

Ultimately, the company-on-company violence comes down to a power dynamic. Data centers buy memory at higher prices, stripping Apple of its leverage. The resulting supply shortage enables memory makers to increase prices, which have quadrupled over the past year. Apple argues that Micron's gross profit margins, now surpassing 80%, are evidence of price gouging. The company also accuses Micron of not reinvesting fast enough to increase supply. Micron countered by committing $250 billion to boost capacity. In the meantime, China is benefiting from the corporate American infighting—a problem that is non-existent under its autocratic communist regime.

September State Visit

Meeting Wang Yi on the sidelines on July 22, Secretary Rubio said the U.S.-China Board of Trade could launch before the expected September 24 Trump/Xi summit and create a "concrete" deliverable for the meeting. The Board is meant to cut tariffs on roughly $30 billion of non-sensitive goods on each side. USTR's comment period for the Board closed on July 10 with rebuttals due the week of July 27.

Beijing's description of the purpose of the Board is the more revealing one. MOFCOM confirmed both sides are working through the framework, functions, and operating model. Further, the Board would shift bilateral consultations from "crisis-based response" to "mechanized management." After a year in which Washington's instrument of choice has been the unilateral tariff and various sanctions mechanisms, China is arguing for process and procedure.

Another major deliverable arrived on July 17 when President Trump allowed a national emergency with respect to Hong Kong to expire, though the move received little reporting. Apparently agreed to at the bilateral ministerial talks in Madrid in September 2025, the U.S. has now made good on a commitment to unwind a 2020 executive order (EO) that revoked Hong Kong's "special status." Prior to the EO, the special status designation had allowed the U.S. to treat the territory differently than mainland China with respect to trade, export control, and visa policy. While the State Department confirms that the EO remains in effect, a spokesperson did acknowledge that "The President has allowed the national emergency to end." China praised the decision, while insisting the EO be rescinded. Whether the EO is terminated or not is semantics. Removing the national emergency designation is significant on its own as is evident in Treasury's own words: "OFAC has removed from the List of Specially Designated Nationals and Blocked Persons (SDN List), persons designated pursuant to E.O. 13936 whose property had been blocked solely pursuant to the International Emergency Economic Powers Act." A MOFCOM spokesperson called the action "an important step" that China "appreciates."

While the Board of Trade and Hong Kong's status may offer a concrete deliverable and a show of good faith, respectively, the previous summit's centerpiece is showing signs of wear. Beijing has attached new conditions to the preliminary agreement Trump reached with Xi to buy 200 Boeing aircraft, surprising the White House with demands for long-term guarantees on the supply of Boeing engine parts and bogging down the talks. The Administration reportedly plans to raise the stalemate with visiting Vice Foreign Minister Ma Zhaoxu.

This leaves the elephant in the room—AI—as anyone's guess. Speaking to reporters during the ASEAN conference, Rubio said the Administration has "some ideas about what that [AI standards] should look like and what those standards should be, and maybe they're different from theirs [China]." Rubio acknowledged that the subject came up during the President's visit to Beijing in May but has not been discussed recently.

> **BOTTOM LINE:** The export control regime works on atoms but it fails on bits. Chips, lithography, and air-gapped clouds can be effectively rationed; open weights cannot. Chinese models now take up to 46% of U.S. corporate token usage and Beijing is

> shoring up its alternative global AI regime. Whether Washington responds by competing on price or by restricting access is the decision that the American stack is nervously watching. As Trump and Xi prepare for their September visit, the Board of Trade and renewed purchases are the publicly touted successes. The more consequential disputes have gone largely unacknowledged but both sides have accelerated their clandestine countermoves.

OUTLOOK / ANALYSIS

The near-term question is whether the Federal Reserve moves in September, and the answer now depends less on the labor market than on the Strait of Hormuz. The two forces that might have offset each other in the summer prints are beginning to align: crude breached $100 and the tariff burden has hardened. Warsh has told Congress plainly that he does not regard the job as done, and he has a dot plot already tilted toward tightening. Markets are priced for December. If diesel margins and gasoline hold at current levels through the July and August prints, the offsetting gap closes further and validates the Chair's warning. The most rate-sensitive corner of the equity market, small caps that have been a recent favored trade, is exposed to more floating-rate debt than any other segment.

The war's trajectory is the largest single variable and it remains too difficult to predict. From escalating strikes to de-escalating talks, there is no way to know when Hormuz will stabilize, if ever. Kharg Island, the Pickaxe Mountain complex, and Iran's power grid will continue to factor into Pentagon war-planning. But the Senate's progress towards adopting a Republican-only war funding supplemental will determine whether the President continues to have his full range of options. While the energy sector quickly adapts and represents the long-term solution for normalized supply, the interim 12-18 months can only be solved by one of two outcomes: a fulsome military campaign or a durable ceasefire.

There is no longer a question of whether the President's global tariff regime will remain. Nor is it in question whether the President will use the threat of additional ad hoc tariffs to force favorable outcomes—he will. All that remains is who, and what issues, will be his next target. Litigation over IEEPA refunds, Section 301, and now Smoot-Hawley will be ongoing, but the Administration's lawyers have gained ground. Next up is the math behind the Section 301 overcapacity investigation, an August 19 effective date for the Canadian tariffs, and a newly opened Section 301 investigation on EU digital trade barriers. Also settled is the structural fate of the USMCA review. The trilateral is a dying concept and is likely to be replaced by eventual bilateral agreements with a goal of reaching interim frameworks by year end. Rules of origin will remain the largest issue to solve with Chinese transshipment as the organizing concern.

We end the note with an AI story that has seemingly emerged overnight. Beijing now has an institution, a free frontier model, and 46% of U.S. corporate token usage. Washington has the lithography, the leading-edge chips, and a decision to make about whether to compete on price or restrict access. Innovation and safety are dividing American tech and highlighting the urgency of remaining on top of the fast-paced race. The capital cycle's evolution from exuberance to skepticism is constraining U.S. giants for the first—and possibly worst—time. Recent earnings and record profits have been dwarfed by capex concerns. Amazon, Meta, and Microsoft all report this week and will prove whether the trend continues. Meanwhile, China's advance suffers from no such constraints, which is on full display today as Moonshot publishes the full weights of Kimi K3 and CXMT shares soar almost 500% in their trading debut.

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