HARBINGER STRATEGIES

Trade & Geopolitical Update

September 17, 2026 · CONFIDENTIAL CLIENT MEMO

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EXECUTIVE SUMMARY

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Welcome back. It’s been six weeks since our last note at the end of July. While we have a lot of ground to cover since we last wrote, all pivotal moments and policy have been thoroughly tracked and factor into today’s note, though we lean heavily on where things are at the present moment rather than detailed analysis of the steps along the way.

From a topline economic perspective, the war with Iran is no longer simply about crude, but rather refining and chokepoints, with the end result being a real-time re-mapping of global supply chains. Saudi Arabia now has no export route that avoids a contested waterway. Houthi forces hold the port of Mokha and a set of Red Sea islands commanding the southern approach, the Jizan refinery complex has been struck twice, and the East-West pipeline that allowed the Kingdom to bypass Hormuz was hit and will be out of service for weeks. Riyadh has told OPEC its output is the lowest since 1990. And with Brent above $108, American diesel has set an all-time record of $6.31 a gallon (regular unleaded is hovering at $4.30).

At home, that shock has arrived in the price index and resulting household borrowing costs. August CPI held at 3.4% with gasoline alone responsible for better than a third of the monthly increase, wholesale goods prices jumped 1.1% in a single month, and wage growth came in at 3.1%. That last figure marks the fifth consecutive month in which prices have risen faster than pay, which helps explain a labor print on Friday of 162,000 jobs but the University of Michigan consumer sentiment gauge near its lowest recorded level. Those Americans who are working, yet getting poorer, are driving sentiment down despite an unfazed equity market. The borrowing side contributes, as well, with the 10-year Treasury back at 5%, its highest since July 2007, and the 30-year mortgage above 7%.

USMCA negotiations have been thrust into the spotlight following the August breakdown of talks with Canada. Dueling narratives have placed the blame around a variety of sticking points (e.g., trucks, third-party agreements, etc.), but the outcome remains regardless.

Talks collapsed on August 21 and 50% duties via the 1930 Smoot-Hawley trade act are now firmly in place. Canada answered in kind on September 8, blowing past the next possible negotiating window. The Trump Administration, of course, responded and threatened to bar Bombardier from the American market, ordered Canadian goods be stripped from federal procurement schedules, and proclaimed an all-encompassing import ban. The last piece is the most important, both from its sheer scope, but also for the new window it creates, setting up a September 29 effective date. Canadian provinces are now retaliating on their own, demonstrating Prime Minister Mark Carney's potential difficulty in gaining unanimity for any future agreement (the same dynamic that potentially led to the end of talks in August). USMCA, of course, is not dead. Last week, Commerce Secretary Howard Lutnick flew to Mexico City to discuss relief on autos and metals. All signs continue to point towards progress south of the border, despite the negotiating freeze to the north.

Our final item is the AI race, which we have given its own section for the first time given its continued elevation in the news and wide-reaching impact over trade agreements, supply chains, foreign investment, and possibly humanity itself. The last ten days produced an extraordinary sequence: the heads of the leading American labs publicly asked to be slowed down, a researcher resigned in protest, Congress responded from both parties, the President called the whole thing a hoax, and global technology stocks sold off. Underneath the noise sits a drafted executive order that would have created a pre-deployment review body, now all but off the table.

KEY DATES AHEAD

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Tomorrow

- Bank of Japan rate decision and August CPI; NATO Military Committee Conference opens in Copenhagen; Russian parliamentary elections begin

The Look Ahead

- Sept 20: German state elections (Mecklenburg-W. Pomerania, Berlin)
- Sept 21-24: UNGA high-level debate (first Trump-Burnham meeting expected)
- Sept 24: Xi Jinping White House state visit
- Sept 29: U.S. import bans on Canadian alcohol, dairy, motorcycles take effect
- Sept 30: Government funding expires; G20 trade ministerial (through Oct 1)
- Oct 1: New Brunswick bars U.S. goods from provincial contracts
- Early Oct: Section 301 overcapacity and Section 232 semiconductor actions (post-summit)
- Oct 4: Brazilian general elections (runoff Oct 25 if no majority)
- Oct 5: Québec provincial election (Parti Québécois leading)
- Oct 11-13: World Health Summit, Berlin
- Oct 12-14: AUSA Annual Meeting, Washington
- Oct 12-18: IMF/World Bank Annual Meetings, Bangkok
- Oct 15: G20 Finance Ministers and Central Bank Governors
- Oct 19: Alberta separation referendum (non-binding)
- Oct 27: Israeli legislative elections
- Oct 28: FOMC
- Oct 29-30: EU-Canada Summit, Montreal (Alliance for the Future expected)
- Oct 30-31: G20 Foreign Ministers, Atlanta

- Nov 3: U.S. midterms
- Nov 9: House returns from recess
- Nov 9-20: COP31, Antalya
- Nov 10: U.S.-China truce expires; Chinese minerals controls snap back
- Nov 18: APEC Summit, Shenzhen (potential Trump-Xi bilateral)
- Nov 18: DealBook Summit, New York
- Dec 9: FOMC
- Dec 11: FY27 continuing resolution ends
- Dec 14-15: G20 Leaders’ Summit, Trump National Doral Miami
- Jan 1, 2027: 50% U.S. tariffs on Canadian autos, parts, steel

THE FIVE TAKEAWAYS

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TAKEAWAY 1

Real incomes have now fallen for five straight months. Corporate profits took 18% of national income against labor's 60%, the widest split since 1945, while wage growth of 3.1% ran behind 3.4% inflation. Consumer sentiment sits near a record low with respondents naming fuel prices and tariffs. That is the defining issue of the midterms. For their part, Republicans will seek to expand the issue set by tying Democratic candidates to the rising Democratic Socialists of America (DSA) movement.

TAKEAWAY 2

Saudi Arabia has lost both of its export routes and oil will remain elevated. The Kingdom shifted crude west to avoid Hormuz, pumping the East-West pipeline to its capacity. The Houthis have since taken Mokha, seized Red Sea islands, struck Jizan twice, and materially damaged the Saudi’s most important lifeline: its terrestrial pipeline. Output at a 1990 low is a logistics and security problem rather than a reservoir one, and it is why a Hormuz agreement—whether tomorrow or well into the future—will likely not immediately lower American pump prices, most especially before the midterms.

TAKEAWAY 3

Everything Canada has absorbed so far came from a presidential order covering only 5% of its exports. Washington has since found a fourth instrument in procurement exclusion, which requires no tariff authority and is difficult to litigate. Ottawa's provinces have adopted the same tool, but their leverage is a fraction from an economic perspective. Prime Minister Mark Carney’s mission to align the middle powers will not restore the leverage balance before September 28, the next cliff. With USTR Ambassador Jamieson Greer affirming that the Administration’s last offer was indeed its last and final offer, Carney has few good immediate options beyond rising Canadian nationalism.

TAKEAWAY 4

The long end of the yield curve repriced across five sovereign markets at once. Britain paid its highest gilt yield since 1998, French thirty-years reached a 2008 high, Bunds a 2011 high, and the Japanese ten-year touched 3% for the first time this century. No one central bank is immune to the rising cost of borrowing, yet demand remains strong. The recent British sale drew twenty times its size. That said, borrowers are beginning to wade into the Chinese offering where yields remain low, making corporate borrowing more attractive. As countries ramp back their U.S. Treasury holdings, all eyes are on tomorrow's consequential Bank of Japan rate decision.

TAKEAWAY 5

Industry is clamoring for a government-imposed AI development slowdown but congressional Republican Leadership is resisting the pressure campaign and the Administration and its industry allies are outright ridiculing the request. The Administration's position, held by some notable industry players (Jensen Huang, David Sacks) is that a slowdown would disproportionately benefit the largest companies, while throttling innovation and risking a self-inflicted disadvantage in the existential AI race against China. Drawing on the experience of the global warming debate of the last twenty years—and resulting policy and rulemaking—China is unlikely to play by the same rules as the West. Against that backdrop, a drafted executive order this summer would have created a review body but is now all but off the table.

TRADE UPDATE

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We lead the Trade Update with perhaps the most mundane trade relationship turned toxic in recent memory. President Trump's August 21 deadline for reaching a trade agreement with Canada was a foregone conclusion throughout the fateful mid-August week. With both sides signaling a deal in hand and the market pricing in certainty, Canada rejected the U.S. offer at the literal eleventh hour. The surprising breaking news landed after the markets closed, but the stunned media and stakeholder reaction was swift nonetheless.

Both Canada and the U.S. immediately spun the breakdown, with Prime Minister Mark Carney delivering an emotionally-charged press conference that Saturday morning and USTR Ambassador Jamieson Greer countering the specifics from an IndyCar studio set on Sunday. The media quickly hailed Carney's speech as the second coming of Hugh Grant's press conference in Love Actually, casting the breakdown narrative through the Canadian lens. Parsing through the spin and bias with the benefit of hindsight, it's uncontested that Canada pulled back. What's less clear is whether the U.S. offer included last-minute additions or if those demands had been made known well ahead of time. The French language issue is a red herring, as are third-party agreements. Instead, the deal broke down on autos and specifically over tariff rates for Canadian-assembled trucks imported into the U.S. On the Carney side of the table, the issue is existential—locking in those rates would all but spell the end of a specific segment of the auto sector within Canada.

For Carney, it's a difficult political decision: codify a trade deal with the U.S. and reap the ensuing economic benefits of certainty or continue to ride the wave of newfound Canadian pride and nationalism. Factoring into that decision is the Prime Minister's ability to deliver. While President Trump has the eventuality of dealing with an American judiciary that may very rule against his use of Smoot-Hawley, it is a delivery question much farther down the line. Carney, by comparison, has to deal with the immediate: a disparate system of government that effectively gives each provincial premier a veto, thereby calling into question his ability to deliver on the deal's contours. Our strong assumption is that both parties had agreed to the final U.S. offer but Carney balked after internal consultations demonstrated he would not have the support of specific provinces and could very well risk a domestic political backlash. Whatever the cause of the breakdown or whether demands were made last minute, the reality is that an elevated tariff on Canadian trucks is nearly impossible for Carney to swallow and the U.S. has proffered its best and final offer. That is the proverbial rock and a hard place.

Three Escalations in Four Days

Washington answered predictably over the subsequent 72 hours. The President immediately directed USTR and the General Services Administration (GSA) to strip Canadian goods from the Multiple Award Schedules, which serve federal, state, local, and tribal buyers. Proclamations signed the same evening banned Canadian alcohol, dairy, and motorcycles outright as of September 29, with 50% duties on a far broader list of industrial and consumer goods taking effect September 15. The outright ban, due at the end of the month, is as much hammer as it is symbolic as alcohol and dairy are the two most high-profile irritants on the U.S. side.

Meanwhile, the President also threatened to bar Bombardier from selling into the United States, citing Canada's years-long exclusion of Gulfstream, a grievance that USTR has repeatedly raised (i.e., well-telegraphed). The threat is just that for now, with Kansas Republicans, particularly Senator Roger Marshall (who is facing a more competitive reelection than expected), asking for more time.

The design of the Administration's retaliatory package is what's most important to watch. USTR has effectively created a new tariff cliff, forcing renewed talks as the anticipation towards a more complete tariff assault on Canada approaches. Meanwhile, the President pulled cement and rock salt off the tariff list given American buyers upcoming winter needs. As has been the case since "Liberation Day," the Administration has become sensitive to individual sectors, creating targeted carve-outs where politically needed. As the new cliff approaches, officials on both sides have toned down their rhetoric and noted that conversations have turned "constructive." Notably, the President's January implementation for elevated tariffs on autos was not pulled forward in the U.S. retaliation moves, another potential glimmer of hope for the talks.

Targeted Canadian Retaliation

Census figures show just how concentrated Canadian retaliation is. North Dakota sends 85% of its goods exports to Canada, South Dakota and West Virginia 48%, Maine 47%, Montana and Michigan 39%, and Iowa 30%. That list is overwhelmingly Republican and disproportionately rural, eight weeks out from the midterms. Republicans are defending notable Senate seats in both Iowa and Maine and President Trump continues to struggle with keeping the American farming and ranching appeased in the face of tariffs, rising diesel, and fertilizer shortages.

From a macro perspective, however, the Canadian measures are a decimal point. Treasury Secretary Scott Bessent instructed department economists to model the effect of the Canadian tariffs on the U.S. economy. The conclusion: a 0.02% increase in U.S. inflation (i.e., a rounding error). But aggregate inflation and concentrated damage are different measurements entirely, and the second one decides Senate races.

The Provinces

New Brunswick will bar American goods and services from provincial contracts above $5 million beginning October 1, and is simultaneously reviewing whether to give its natural resources minister authority to restrict fishing and hunting licenses and mining claims. That second piece is the one worth tracking, as discretionary control over resource access is a considerably sharper instrument than a procurement ban. Worth noting, New Brunswick's ban covers a category in which American contract awards had already fallen by more than half, to 0.7% of contract value. These measures may appear severe in design, but they are modest in aggregate—a characterization which describes the whole dispute reasonably well.

Conservative Ontario Premier Doug Ford, who in August floated cutting electricity and critical minerals exports, has come around fully behind the liberal Prime Minister and is expanding $1.15 billion across two business support programs timed to the American measures. Washington spent the spring exempting energy and potash specifically to split the premiers from Ottawa or expose political dividing lines. That effort has largely failed, though Alberta remains a wildcard for Carney's unity push.

Carney's Middle Power Alliance

The Prime Minister opened the first Canada Investment Summit in Toronto on Monday, a two-day gathering co-hosted with the Canada Pension Plan Investment Board (CPPIB) and the Public Sector Pension Investment Board that puts more than 160 projects across energy, critical minerals, infrastructure, defense, and technology in front of investors managing more than C$120 trillion in assets. The summit anchors Carney's plan to catalyze C$1 trillion in public, private, and institutional investment over five years and reduce Canadian dependence on the American market.

CPPIB acknowledged investors would have reasonable questions about the fallout from ending talks, and several investment executives have argued plainly that no amount of new foreign capital offsets the economic hit from an escalating tariff war. The arithmetic isn't close. Roughly three-quarters of Canadian goods exports go to the United States and no combination of available partners replaces that on any timeline that matters to a democratically elected government. What the summit does accomplish is political, which is its own kind of value for a prime minister whose mandate rests on standing up to Washington.

The Summit was quickly followed by Carney's trip to Brussels, where he sought to build upon his now well-known Davos speech whereby he claimed the mantel of leader of the "middle power" alliance. Carney's visit to Brussels—and the emerging "observer" status of Canada in the EU—marked the first time a foreign head of government has sat in on the annual Parliament meeting. Carney punctuated the visit with an address to Parliament himself on Thursday (more on that below).

The Tea Leaves

The President said over the weekend that Ottawa was dying to make a deal, repeated that additional tariffs on Canadian autos begin January 1 (aka "the big one"), while striking a more optimistic tone that an agreement could come fairly soon. Asked whether the United States intended to leave USMCA, he said Washington would have a great relationship with Mexico and actually has a good one with Canada, adding that Canada has to treat American farmers better and stop charging what he described as 400 percent tariffs. Carney responded Monday that Canada is ready to negotiate a mutually advantageous agreement, provided any accord respects Canadian sovereignty, cultural institutions, and third-party trade agreements.

Those three conditions are precisely what ended the talks in August. Neither side is conceding its negotiating position, but the breakthrough will have to come on autos. That Carney left it out of his response could be a sign of a deal again in the works or simply an omission during an off-handed remark. The next two weeks will answer that question, but we do know that the U.S. position will not change. As Greer has repeatedly said, the offer on the table was the best he could deliver from the President and the details were the most favorable in the world.

Where are we then in the current talks? The Prime Minister disclosed last week that he has spoken with the President twice in recent days, on Canadian matters and on Iran, and that the two governments can compartmentalize. Finance Minister François-Philippe Champagne met with Secretary Bessent on the sidelines of the G20 ministerial meeting in Asheville. But Ambassador Greer—as the tactician in charge of USMCA—is who matters most towards executing a deal and he has not signaled meaningful talks with his counterpart.

Mexico on Track

Commerce Secretary Howard Lutnick traveled to Mexico City last week to meet President Claudia Sheinbaum on auto and metals tariffs, the same two sectors Canada walked away over. Mexico is targeting a rate below 15%, the level Ottawa was offered and refused, and now appears willing to boost purchases of American goods to address the overall trade imbalance directly. That imbalance is worth watching. May, June, and July each set records with July's deficit reaching roughly $26 billion.

What remains fascinating about USMCA is that the much larger and complicated trading relationship is to the south. And yet, Mexico remains in good stead with this Administration. But for the issue of sovereignty and U.S. drug interdictions, the relationship has been solid and stable since the start of the Trump 2.0, and all signs indicate a trade deal will be reached before the end of the year. The trade negotiating playbook with the Administration can go one of two ways for foreign partners: negotiate and be courted or walk and be squeezed. Whether that holds through the USMCA review is a separate question, but for now it is the clearest object lesson in the Administration's approach.

Recent Notables

Brazil. The U.S. resumed technical talks with Brazil, though no progress has been reported on any negotiating point. The Section 301 overcapacity determinations for fifteen other economies are expected in early October, and sources close to USTR now tell media that the overcapacity investigation will not be released until after the Xi state visit. The U.S. goods and services deficit with Brazil widened in July by 24.4% to $88.6 billion, driven on imports of computer and technology equipment.

Refunds. CBP has approved roughly $122 billion in IEEPA tariff refunds out of $166 billion sought as of last week. Customs separately told the Court of International Trade that it will begin refunds on “finally liquidated” shipments starting October 6, opening the next phase of the process for entries at least 90 days past the agency’s liquidation. For those companies carrying IEEPA exposure, October 6 is the date that matters.

Narcotics. The annual drug-transit determination submitted to Congress September 15 added a new pressure point on Ottawa, stating that fentanyl continues to be produced in clandestine Canadian labs and that precursors and synthetic drugs keep entering the United States through Canada, with a specific reference to Chinese gangs operating along the northern border. Canada is not on the majors list and was not decertified, but the language gives Washington a non-tariff grievance to run alongside the trade dispute. Mexico drew praise for seizures and for the operation against “El Mencho,” paired with a demand for more port inspections and greater investment in its security forces.

United Kingdom. Ambassador Greer’s recent interview with the Financial Times caught our eye given that the UK currently enjoys the best deal with Unite States. Greer framed the relationship as newly problematic, with Prime Minister Andy Burnham’s Labour government choosing Brussels over America. The signal for other trading partners is important—agreements on reciprocal trade (ART) are only as durable as the Trump Administration believes no new irritants emerge (as the EU well knows by now).

GEOPOLITICAL UPDATE

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As always, the geopolitical landscape—and resulting global economic ramifications—is dominated by the conflict in the Middle East. Since our last note, the U.S./Iran “ceasefire” technically expired August 17, though the reality was that it had been broken going back to early July. Strikes resumed in earnest, however, on September 1 and Iranian forces answered by hitting two American air bases in Jordan and Al Minhad in the Emirates, targeting American installations on partners' soil rather than the partners themselves.

Meanwhile, the Treasury-directed economic pressure track is still a work in progress. Secretary Bessent described a secondary sanctions campaign as “D-Day” on August 25, warning China, Turkey, and the Emirates. Roughly two weeks later, only one known action had been taken: the revocation of American financial access for an Egyptian bank's branches in Dubai. Washington has since sanctioned VTB Bank, one of Russia's largest financial institutions, for helping Iran evade sanctions and move billions in Iranian assets, taken under so-called “Operation Economic Outcast.”

VTB is a real target, though it is not a Chinese target—the true linchpin in removing the Iranian economy from life-support. The institutions that would actually change Iranian behavior are Chinese teapot refiners and the banks that clear for them. Washington has designated such entities before, but Beijing has ordered the companies not to comply. With President Xi’s state visit just two weeks out, and another two potential in-person meetings before the end of the year (APEC, G20), our assumption is that no Chinese designation lands in the near future and perhaps not at all this year.

The underlying conditions are real enough. The Iranian rial sits near 2.02 million to the dollar, domestic inflation runs above 80%, gasoline has been rationed, the UAE has severed any remaining economic ties, and no oil is leaving Iranian shores. Tehran has also now failed to convert its sporadic wins into any diplomatic standing. Iran's security council chief is defining Tehran's proposed restricted zone in the strait by reference to the American naval blockade of Iranian ports. Strait security traded for port relief is all that currently sits on the table—a fairly small-ball deal by any measure. All the while, President Trump continues to insist that Iran wants to make a deal “quickly and bad,” but that is less a reality on the ground than likely rhetoric for the market and the Fed. Instead, the Administration is now settling into a long-game strategy of strangling the Iranian economy to death, knowing that the war’s inflationary cost can no longer be solved prior to the midterm elections.

The rial sits near 2.02 million to the dollar, inflation runs above 80%, petrol is rationed, the Emirates have severed economic ties, and no oil is leaving Iranian shores. Tehran has also now failed to convert its military gains into any diplomatic standing, which is the more telling development. The shape of any bargain is already visible: Iran's own security council chief defined Tehran's proposed restricted zone in the strait by reference to the American naval blockade of Iranian ports. Strait security traded for port relief is what sits on the table, and it is the only trade either side has actually described.

The Disparate Gulf

Gulf foreign ministers were to meet their Iranian counterpart in Salalah on Monday to discuss a temporary arrangement for managing Hormuz shipping, negotiated between Muscat and Tehran. Bahrain, which holds the rotating GCC presidency and has been among the states hardest hit by Iranian retaliation, withdrew on Saturday, leading Oman to postpone the meeting for lack of consensus. It would have been the first time all six GCC ministers sat down with Iran in nearly two years.

The terms of the emerging deal are worth evaluating: vessels would enter the strait through Iranian waters and exit through Omani territory, a demand Tehran has heretofore failed to secure by toll. Put plainly, the Gulf was asked to grant by agreement what Iran could not take by force, all the while suffering the military and economic consequences of Iranian retaliation. The point is that an Oman-Iran strait agreement was never going to be the piece that unlocks the conflict, despite the breathless reporting. Brent rose 3.5% on the postponement alone, which tells us exactly why the President uses his microphone to calm the markets—they are more reactive to diplomatic headlines than actual physical supply.

From Russia with…

At Treasury's invitation, Russian Finance Minister Anton Siluanov attended the August G20 ministerial meeting in North Carolina, his first in-person appearance since 2022. The Europeans were noticeably upset and Germany called it a misguided attempt at "normalization." But it prefaced—and likely aided in—a renewed push by U.S. negotiations for an end to the war in Ukraine. Jared Kushner and Steve Witkoff traveled to Moscow and then to Kyiv, while CIA Director John Ratcliffe is now taking a larger role in talks.

The move to an intelligence channel is itself informative—a negotiating tactic that is historically aimed at quiet deconfliction, rather than public negotiation. That said, newly disclosed reporting shows Russia has been running a covert program to help Iran develop supersonic cruise missiles capable of threatening American carriers. For its part, the White House has leaned heavily into a renewed secondary sanctions package against Russia, named for the late Senator Lindsey Graham (R-SC), which the House cleared for the President's signature last night by a 262-159 vote. In other words, new talks and tactics are a positive signal on one hand, but the on-the-ground reality continues to complicate peace.

A New Space Race

For the first time, the American military confirmed on Monday that it has weapons on orbit. Air Force Secretary Troy Meink told an Air and Space Forces Association conference that the United States now has on-orbit space control weapons capable of defending the joint force against hostile adversary action, and declined to describe the system on the grounds that the ambiguity itself serves deterrence. Meink also said there is now flight-ready hardware for space-based interceptors, a defining feature of the planned Golden Dome missile defense shield.

Analysts believe the exact weaponry to likely be a space-based jammer, given longstanding American policy against actions that generate orbital debris. For satellite, launch, or defense-exposed firms, the acknowledgment matters considerably more than the actual capability. Declaring a category of weapon publicly invites a response in kind, and is likely to lead to a new aged space race that complicates the commercial environment above Earth.

The Anti-Israel Caucus

The United Kingdom, France, and Canada led a twelve-country package announced September 8, triggered by Israel's plan to build 1,200 homes in the E1 area east of Jerusalem. The measures cover settlement goods, arms, and construction financing, with a six-to-nine-month implementation window. Israel closed the British consulate in Jerusalem in response. Secretary of State Marco Rubio says the United States will not follow the moves and argues the sanctions complicate the Gaza framework. U.S. Ambassador to Israel Mike Huckabee has separately warned of significant repercussions and Rep. Claudia Tenney (R-NY) has asked Treasury to examine whether the measures constitute an international boycott under Section 999 of the tax code.

That last item is what matters most. Section 999 denies foreign tax credits and deferral to American persons cooperating with an unsanctioned boycott, and it would reach any U.S.-headquartered firm whose British, French, or Canadian subsidiary complies with local law. The state anti-BDS statutes are real but bounded, affecting procurement eligibility jurisdiction by jurisdiction. Section 999 is federal, automatic in operation, and attaches to tax filings.

For now, the Administration has been quiet on this route. The President was given advance notice in a call from Prime Minister Burnham and has said nothing publicly. On this Administration's record, the principal's rhetoric sets policy.

THE EUROZONE

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The AfD's gains in Saxony-Anhalt were the fourth such win for a political movement that has been waiting in the wings for the last decade. Reform UK crushed the center parties in Britain's local elections in May, triggering the shakeup that put Andy Burnham in Downing Street. A Paris appeals court cleared Marine Le Pen to stand in the French presidential contest next spring despite her conviction, already vaulting her to the head of the polls. A migration crisis at Ceuta engulfed Pedro Sánchez and lifted Vox in Spain. These trends all culminated in the AfD taking a record 44% of the Saxony-Anhalt vote (against 20.8% in 2021), finishing three seats short of a majority. German Chancellor Friedrich Merz's CDU fell below 18% from 37.1%, its worst showing in the state since reunification. Merz had previously promised to halve AfD support rather than watch it double.

Next year is where this matters. Le Pen leads the French first round, Sánchez is not expected to survive, and the Spanish center-right may require Vox to govern. Two more German state elections follow on September 20.

The Establishment Firewall

The counterevidence deserves equal billing, however. Viktor Orbán was ousted in April. Sweden voted this past Sunday and the left bloc emerged with a slim three-seat lead in a 349-member parliament. While the AfD remains Germany's most popular single party, it still must go up against a large mainstream coalition bloc. Le Pen's first-round lead is polling, not a proof-of-concept runoff. And Reform UK's own breakthrough in May produced a center-left prime minister rather than a populist one, while inviting more scrutiny and negative headlines of Nigel Farrage’s personal dealings.

Popularity is simply not power in proportional systems where coalitions dominate domestic political majorities. The AfD's talks with the left-populist BSW over the Saxony-Anhalt premiership is where the right’s rise meets the establishment’s firewall.

What’s at stake is Europe's positions on nearly every aspect of this note: U.S. trade, Chinese countermeasures, Russian sanctions, corporate governance (climate rules, CBAM, CSDDD), Buy European, middle powers, and flat economic growth. A Le Pen presidency would like bring change on each front.

NATO and the ICC

U.S. Envoy Matt Whittaker asked all allied nations to withdraw from the International Criminal Court (ICC), closing with a line about watching closely who stands with America. Germany and the Netherlands objected and the request has not yet found any takers.

The venue is what makes it notable, however, since the ICC has no relationship to the North Atlantic Treaty and the U.S. is not a member of the court. Raising it among the ambassadors who manage security guarantees is in line with the Administration’s geopolitical strategy writ-large: trade linked to defense, security cooperation with foreign investment, and civil nuclear and AI licensing offered to alignment. The ICC is simply the newest ask in an established pattern.

Brussels and Ottawa

European Commission President Ursula von der Leyen went considerably further than expected in her State of the European Union address on Wednesday, setting out a vision for Europe in what she called a “hostile” and “multi-polar world.” She put Carney front and center, at one point addressing him directly as “Dear Mark,” before saying plainly: “I would like to work with you on opening the door for Canada to be the first associate member of the EU.” Much of the chamber rose to applaud and Carney walked up to shake her hand. Notably, the line had been omitted from the embargoed copy handed to EU diplomats beforehand, presumably to prevent leaks, and it took member states by surprise.

Carney delivered his own address Thursday, welcoming the outreach and calling for a closer alliance in language aimed squarely at both Washington and Beijing: “We do not seek power to dominate others.” Von der Leyen framed the broader package as an “Alliance for the Future” moving beyond CETA toward common prosperity and economic security, with a tech alliance, a defense industrial base, an Arctic joint project, and cooperation on energy, critical minerals, batteries, AI, quantum, and cyber. A Canadian official has separately indicated Ottawa is exploring an arrangement that would let Canadians live and work in Europe without visas. The two sides meet again in Montreal in October.

The President's response was immediate. Per Bloomberg, Trump threatened to “put very serious tariffs or stop trading with Europe on many things” should he deem the associate-member push “a hostile act.” That is the clearest signal yet that Washington views Canadian diversification as a provocation rather than a consequence, and it raises the cost of the very alternative Ottawa is building.

Two caveats belong on the Canadian enthusiasm. Ottawa itself is raising sovereignty questions, which is ironic given the argument it made to Washington. Canada's EU Ambassador-designate Jonathan Wilkinson balked at the label in a gaggle after the speech: "Before you actually get to the point where you decide what you're going to call something, you should actually know the shape of it. We're not there yet." More substantively, Germany and France remain immovable on cherry-picking the advantages of membership. There has been no wavering on special status for the UK, and there is little reason to expect Canada gets what Britain could not.

The irony here should not be lost. The Administration's reported (though contested) demand in the failed trade negotiations was that Ottawa accept restrictions (or prior alignment) on its agreements with third countries. Ottawa obviously balked and is now signing the deepest third-country arrangement it has ever attempted. Whether Washington's demand caused that outcome or correctly anticipated it is a question we cannot yet answer, and the distinction matters a great deal for how the USMCA review is handled.

Separately, a UK-EU summit has been delayed again over Brussels' "Made in Europe" policies, which is the same industrial preference Burnham spent his first meeting with French President Emmanuel Macron attempting to negotiate. As was before Burnham, there is little appetite within the EU to give the UK preference. While Greer has said the UK is choosing Brussels over the U.S., the record suggests Britain is getting very little in its efforts.

Germany's China Pushback

Berlin is preparing a far-reaching package of economic security measures to shield strategic industries from Chinese competition, potentially including new tariffs on hybrid electric vehicles. Brussels, for its part, has asked Beijing to voluntarily limit hybrid car exports, which is about as European a remedy as exists. That is a meaningful shift from the government that spent a decade resisting exactly this, and it follows German exports falling in July by the most in nearly a year with EU officials pointing directly at Chinese competition.

The industrial evidence is hard to argue with. Volkswagen is cutting up to 50,000 jobs and Jaguar Land Rover 4,000, both citing Chinese rivals who now reach market in as little as eighteen months against three to five years for incumbents. Chinese subsidies produce both speed and price advantages, at the heart of the U.S. Section 301 overcapacity dispute—and now at least one EU member is beginning to follow the Trump trade playbook.

But one country does not make a bloc and there lacks consensus for widespread and far-reaching EU measures. Spain is a particularly acute holdout, benefiting from Chinese investment and resulting growth (regardless of the long-term consequence). That divide shows up in the markets as clearly as it does in the Council. Investors have rotated out of the industrial core and into the European periphery, with Poland up 81% since the start of 2025, Greece 79%, and Spain 70%, against 30% for the S&P 500 and a German market that appears on none of those lists. The countries with the least China exposure are outperforming the ones being hollowed out by it, which is the same story Volkswagen is telling in job cuts. Worth the caveat that financials contributed between a third and two-thirds of those returns, so this is a rate cycle as much as a realignment.

ECB Moves

The European Central Bank (ECB) raised rates on September 10 with Eurozone inflation having accelerated to 3.3% in August from 2.9%. Improving growth against continued price increases made the ECB's decision easy. Central banks are now describing the Middle East shock as a source of longer-lasting inflation, which moves policy from a transitory look-through lens to a more long-lasting phenomenon that requires intervention. As an example, shipbrokers do not expect cargo rates to ease before the second half of 2027.

Despite the easy call, the ECB has more than just rates to decide in the coming months. Three of the bank's most senior roles are due to turn over, with President Christine Lagarde expected to announce her departure before the French presidential election. The terms of chief economist Philip Lane and board member Isabel Schnabel are also expiring. A grand succession package covering all three positions is expected by December. What complicates this is that the new leadership will be negotiated and deciding by governments that may themselves change hands in 2027 (with France looming large), a genuine forward risk for the market.

UK Outlook

The United Kingdom paid 5.82% on its recent thirty-year gilt sale, the highest since the Debt Management Office was created in 1998, with interest costs now running at £110 billion a year and exceeding other major areas of government spending. The order book exceeded £85 billion, however, so while the repricing may be uncomfortable for the Exchequer, the demand remains high—debt is clearing.

Meanwhile, Prime Minister Burnham has been in office for just over a month and is already dealing with American complaints about his attempts for EU realignment (though no movement with Macron), an Israeli consulate closure, and record borrowing costs. He will meet President Trump for the first time at the UN next week, following the President's Ireland reunification ad lib.

ENERGY SHOCK AND SHIPPING

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The evolving shock has become particularly acute for Saudi Arabia. The Kingdom's output has fallen to its lowest level since 1990, with export workarounds under increased threat. The East-West pipeline that carries crude to the Red Sea without transiting Hormuz was struck in a recent Houthi attack. Aramco is working to bypass the damaged section in a way that would restore part of the line's capacity in the near term, with full capability roughly six weeks out. That is a meaningful improvement on the initial read and it deserves to be said plainly, though six weeks still lands after the September 29 Canadian cliff, past the October FOMC, and with the midterms in view. Houthi forces now hold Mokha and have seized Red Sea islands commanding the approach to Bab el-Mandeb, through which 12-15% of global maritime trade passes. And several southern Saudi energy facilities are currently offline after two strikes in a month on the Jizan refinery complex. All of it was predictable, though surprisingly not thwarted. Western intelligence reporting in mid-August had Revolutionary Guards commanders deploying to Houthi territory to plan precisely this sort of campaign against the Kingdom.

Supply, Demand, and Pricing

Six months of war has impeded Gulf output. Taken together with the Houthi campaign, Ukrainian drone attacks on Russian refineries, Moscow's diesel export ban, and the Chinese reemerging this month as a global buyer (the world's previous largest buyer), and retail prices are again on the rise. American distillate stockpiles sit at their lowest seasonal level since 1996. Diesel at $6.31 is 59% above where it stood before the war, and Energy Aspects sees no resolution other than price-led demand destruction, which is a risk for the global economy by another name.

Chinese buying resumed this month after a hiatus that had been holding prices down, which means the current price has not yet fully absorbed the return of the world's largest importer.

The Administration has now worked through suasion, antitrust referral, and regulatory waiver, and is reportedly weighing the Defense Production Act (DPA) to boost diesel supply. That would be an extraordinary peacetime intervention in fuel markets and it still would not create refining capacity. In short, prices will remain elevated for the near-term, a daily burden for voters heading to the voting booth in less than two months.

Omani Corridor Logistics

Since May, the U.S. Navy has offered air cover to ships using the Omani coastal route, with owners applying for coordinates and overnight transit windows. Around the start of September, however, those windows were cut to two specific slots per day, varying by date, and vessels are now routed through in daylight because darkness stopped being the safer option once Revolutionary Guards patrol boats adapted to ships running dark with their signals off.

An advanced military aircraft runs $25,000 to $75,000 an hour against a seven-hour transit, and a former commander of American naval forces in the region has said continuous cover would be very hard to sustain from a cost perspective over an extended period. The strait effectively now operates on a schedule set by what Washington can afford to fly, which creates queuing and demurrage risk on top of war-risk premium for Gulf-exposed supply chains. Clarksons does not expect disruption to ease before the second half of 2027, which is the forward number most worth companies internalizing.

Suez revenue rose 42% year on year in July as traffic returned, though with Bab el-Mandeb now commanded by the Houthis, that may prove a fleeting number. Meanwhile, a South Korean gas carrier paid a record $5.3 million to jump the Panama Canal queue, up from the $4 million benchmark set earlier this year. As a related side note, South Korea is separately weighing a naval deployment to Hormuz.

Pakistani Threat

Pakistan's defense minister said any attack on Saudi Arabia could activate the Mecca Defense Alliance, the mutual defense pact signed with Riyadh and Ankara in August, which treats aggression against one member as aggression against all. What makes that statement profound is the fact that Pakistan—a nuclear-armed state—still acts as the principal channel between Washington and Tehran and remains trusted by the hardline Iranian regime. Ongoing Houthi strikes on Saudi infrastructure now put the Kingdom’s defense arrangements with its Gulf partners squarely in question, and Islamabad’s posture is the variable that matters most.

Food and Fertilizer

Despite the headlines, food and fertilizer are surprisingly holding up (though a strengthening El Niño bears watching). The World Bank's fertilizer index sits roughly where it did before the February attacks, partly because China is releasing supply. FAO food prices remain well short of 2022 peaks as good harvests in Canada, Morocco, Russia, and Ukraine outweighed European drought. Global goods trade continued to strengthen through mid-2026 on WTO figures.

Much like oil prices not hitting the highs predicted by analysts, Chinese decision making has played a significant role. Beijing restricted those fertilizer exports in prior years but is now easing them. Understanding the CCP strategy is a task unto itself. With its critical minerals controls scheduled to snap back automatically on November 10 (absent a truce extension with the U.S.), China is releasing the input that helps feed the world while withholding the input that electrifies it. That is a deliberate distinction and a fairly sophisticated one.

Suez revenue rose 42% year on year in July as traffic returned, though all of that traffic must transit Bab el-Mandeb, which the Houthis now effectively command. A South Korean gas carrier paid a record $5.3 million to jump the Panama queue, up from the $4 million benchmark set earlier this year. South Korea is separately weighing a naval deployment to Hormuz under American pressure, which is the same ally whose joint exercises were cut in August partly because it declined to join the war. Seoul has its own reasons to go, given its dependence on Gulf crude, but the sequence is worth noting: penalized for staying out, then asked to come in.

ECONOMIC OUTLOOK

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Chair Kevin Warsh told the Fed’s Jackson Hole audience in late August that the jobs market was doing well and that the price level should be the central bank’s predominant focus, which amounted to an explicit ranking of the dual mandate after two meetings of withheld guidance. August payrolls vindicated the first half of that, with 162,000 jobs added, above every estimate surveyed (July's previously reported loss was also reversed entirely).

The Fed Moves

Yesterday, the FOMC delivered, raising the federal funds target to 3.75-4.00% in a unanimous vote and penciling in another increase later this year. It is the first hike since July 2023 and a more hawkish turn for the new Chair. In July, three FOMC members dissented to leaving rates unchanged, favoring a hike instead. Just over a month later, the committee is now unanimous in its tightening position. At his press conference, Warsh told reporters he remains concerned about inflation, signaling the job is not complete with one upward move.

Even more telling, 16 of 18 members who submitted a dot expect another increase this year, four of them see two, and only two think the committee should stop. Warsh again declined to submit a dot of his own, true to his word about limiting and reforming guidance. Beyond this year, the picture flattens considerably, with no increases penciled in for 2027 and modest cuts appearing in 2028 and 2029. Unemployment is now projected to hold at 4.1%, an improvement from 4.3%. Traders moved immediately to price better odds of a second hike in October, while Goldman Sachs Asset Management is looking to December.

Two lines from Warsh's press conference are worth highlighting. On the energy shock driving the move: "We cannot affect any individual price," he said, naming oil and groceries, "but what we can do and will do is ensure that any change in relative prices don't broaden out, don't have second and third order effects on the economy." That is the Fed conceding it cannot lower fuel costs but is determined that they not bleed into the rest of the economy further. On the politics, Warsh framed the decision as good news for the least well-off, arguing price stability lets workers "put their head above water and deliver real take-home pay increases."

That second framing dovetails into the rising economic populism that is motivating both ends of the political spectrum and will factor heavily into this year's midterms and could very well define the 2028 presidential cycle. Wage growth of 3.1% against 3.4% inflation makes August the fifth consecutive month of falling real incomes. Consumer sentiment sits near a record low with respondents citing fuel prices and tariffs (aka inflation). Pre-tax corporate profits, meanwhile, reached 18% of national income, the highest share since the 1940s (labor's share fell to 60%). The disparity is politically unsustainable and acts as a governor to corporate ambitions (e.g., backlash to the AI buildout).

The Administration's response has escalated from exempting inputs from tariff schedules to direct taxpayer transfers: $500 rebates for Obamacare customers and a $5,000 payment to every adult American conditioned on Republicans holding Congress (~$1 trillion). And but for Peter Navarro, senior officials are also restraining themselves against criticizing the Fed's response. Equities, on the other hand, gave back their initial gains once Warsh said this summer's readings "do not tell me that underlying trends have meaningfully improved." All the while, diesel set another record Wednesday.

The Long End

Treasury's first buyback under its expanded program purchased $5.19 billion against the $6 billion expected, with so-called bond vigilantes driving yields further up. Secretary Bessent separately told a Texas audience not to bet against the yen, saying he has asymmetric information and is now "the house." The yen hit a seven-month high the following day, showing at least one Treasury-initiated move has proved Bessent's case despite the early naysaying. The same may be true with the bond buybacks, though the initial market read is again negative. Time will tell.

The repricing is not confined to the U.S. To be sure, Britain, France, Germany, and Japan have all seen long-dated yields reach record or multi-decade highs over the same period, with the UK paying its highest gilt yield since the Debt Management Office was created in 1998. Meaning, global yield curves acting together is not a referendum on any single central bank nor balance sheet, but rather the holistic picture caused by the Iran conflict and rising global debt. The American ten-year has also risen precipitously, up roughly a quarter point since Jackson Hole and a full point since its February low. It touched 5.04% on Tuesday, its highest level since July 2007, eased to 5.01%, and closed Wednesday at 5.004% after climbing back on the Fed's move. The Dow fell 600 points on the decision and Warsh's inflation remarks.

Though there is a uniquely American problem as of late. Treasury's own data, released Wednesday, shows foreign holdings of U.S. Treasuries fell $50.4 billion in July to $9.25 trillion, the lowest since October, led by France and Canada. China's holdings have separately fallen to their lowest level since 2008, a gradual unwinding the FT ties directly to the deepening rift between the two economies. Japan, still the largest foreign holder, shed $12.8 billion to $1.1 trillion, though the cause was likely more a result of its yen intervention. With the Bank of Japan announcing its rate decision on Friday, Prime Minister Sanae Takaichi is arguing for reflation and lower rates. But as the world's largest cross-border creditor, Tokyo would likely continue selling Treasuries to maintain the yen's momentum. Though the two countries have been tightly coordinated on monetary policy to date, BoJ's decision on Friday could replace alignment with friction and bares watching closely.

Again, it is worth noting who is selling: France and Canada lead the monthly decline, and China is now at a seventeen-year low. All three are in active disputes with Washington. We would caution against reading intent into a single month of data, but the Chinese unwinding is a trend rather than a print.

Revisiting American Exceptionalism

U.S. equity markets are the inverse of the yield story. Foreign investors are now buying more American stocks than government bonds, with international flows into U.S. equities reaching 2.8% of GDP on average in the year to June against 2% for Treasuries. Deutsche Bank notes this is the first such crossover of the century outside brief episodes during the pandemic and the financial crisis. The S&P 500 is up roughly 12% and on track for a fourth consecutive year of double-digit gains, powered by AI investment driving profit margins to new highs. The second quarter's skepticism of ROI on AI spending has subsided.

The bottom-line is a seemingly unmanageable economic trend whereby booming corporate profits let traders largely ignore any long-term structural issues caused by the Middle East and Treasuries' risk-free status is now openly questioned without acknowledging that little in the safe haven has changed. Capital is still coming to America, but it is chasing profits rather than safety. That is a materially different relationship than the one Washington has relied upon since Bretton Woods.

Latin America as Safe Haven (with a Ceiling)

European investors have put a net $3.6 billion into Latin American equity funds this year, more than in any full calendar year since 2010 and a reversal of $15.1 billion of withdrawals over the prior fifteen. The turn is not coincidental as it clearly aligns with the outbreak of the Iran war on February 28. And Latin America is uniquely positioned to address the moment—oil during a supply crunch and copper during an AI buildout. Petrobras and Grupo México alone delivered 40% of the region's return. But the region's growth has a ceiling as the AI boom rests on advanced technology, explaining why EM Asia outpaced the region at 41.8%, proving that chipmaking sits alone at the top of the economic pyramid.

THE AI RACE

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Anthropic's chief executive called for an immediate slowdown of frontier development, arguing that capability gains have outpaced the ability to understand and control them. Elon Musk and Sam Altman endorsed him, which is genuinely remarkable given the history among those three firms, and Google DeepMind's Demis Hassabis called Amodei's argument "correct." The media hysteria officially kicked off, however, when an unknown Anthropic lab researcher's resignation went viral.

The slowdown proposal is specifically an inspection regime: independent evaluators given employee-like access to frontier models, explicitly analogized to nuclear arms inspectors, alongside international cooperation on standards. OpenAI has since requested that Congress enact mandatory, capability-based national AI safety regulation. Capability-based places the burden on frontier developers and exempts most deployed enterprise systems. For firms that deploy rather than build, that distinction creates regulatory capture, leading skeptics of the argument to call into question the motives of those calling for a slowdown.

David Sacks, the President's former AI adviser, went further, calling the demand blackmail of the political system and arguing the labs already have the ability to slow down on their own. Others say regulation would hurt small startups (the regulatory capture argument noted) and that safety cannot be entrusted to "too big to fail" firms. Most importantly, the elephant in the room—China—will not abide but whatever the West imposes upon itself.

Strange Bedfellows

The Future of Life Institute's Pro-Human Assembly gathered in Washington this week with both Sen. Bernie Sanders (I-VT) and Steve Bannon speaking, though not onstage together. Bannon's framing signals where the populist right may land: American citizens cannot and will not be supplicants to a handful of tech oligarchs. Representing the left's view, Sanders used his appearance to press the President toward an international agreement to pause the race ahead of the Xi state visit (akin to pausing the nuclear arms race).

The most political argument is being unapologetically proffered by New York assemblymember Alex Bores, who is launching a $30 million effort called "Who Decides" to build a Democratic position on AI by the 2028 presidential. Bores' belief is that neither party is trusted on AI and that whichever side credibly pushes for regulation stands to gain with voters.

Sizing the Risk

Forecasting Research Institute, which polls experts and professional forecasters on quantified predictions, tested the argument that 10% of humanity will be killed off by the technology if left to freely advance. The median AI expert put those odds at 0.3% by 2030 and 5% by 2100. The median superforecaster put them at 0.1% and 2.4%. Meaning, the hyperscaler executives calling for a pause are roughly twice as alarmed as the people with the best forecasting records. Both groups agreed on one point: slower capability growth substantially reduces the risk while rapid progress doubles it. For scale, Goldman puts AI at roughly 1.8% of American GDP, heading toward 3% by 2028. Not mentioned—a federally-mandated slowdown will not abate China's own advancement efforts, precisely the point skeptics are making. What skeptics leave unsaid is that Chinese labs distill Western model outputs at industrial scale. So long as that remains true (which is a legitimate question), an American slowdown necessarily inhibits China's AI growth, as well. The market appeared to price exactly that overnight Monday, when the Chinese lab Z.ai sold off in Asia alongside SK Hynix, Samsung, and SoftBank on American slowdown talk.

China's first public statement on AI risk came from the Ministry of State Security rather than from its technical regulator. The minister's framing was typically bombastic, saying foreign use of generative tools was cognitive warfare against China. What Beijing remained silent on, however, was whether there exists an existential risk to human life. Chinese officials have separately cautioned Washington against banning open-source Chinese models while flagging the risk of domestic firms leaking data through foreign AI tools. Each side wants access protected for its own models and restricted for the other's. We therefore view Xi's state visit as one squarely focused on trade rather than exploring safety alignment.

The President settled the domestic question himself on Monday, dismissing the safety campaign in personal terms, framing it as serving China, and making the argument that the government already has criminal and regulatory power over these companies. He called AI concerns a "hoax" in a series of posts and a surprise phone call to Nvidia's Jensen Huang at this week's All In Podcast summit. Speaker Mike Johnson, whose home state will host one of the world's largest data centers built by Meta, has sided with the President and framed the question as one of corporate responsibility balanced against beating China. While echoing the President position's it's worth watching Vice President JD Vance's comments closely in the weeks ahead. With 2028 looming and clearly occupying the early Republican nominee frontrunner position, any distance between Vance and Trump will move this issue from a partisan one to a material threat against the industry.

The Safety Executive Order that Wasn't

What slowdown advocates are demanding already exists, though is sitting on a West Wing shelf unsigned. An executive order creating an independent body of industry and government representatives to evaluate advanced models before deployment, modeled on FINRA, was drafted this summer at the Office of Science and Technology Policy (OSTP) after Secretary Bessent first brought the idea to Chief of Staff Susie Wiles. Senior staff at the time reportedly feared an AI-enabled cyberattack against critical infrastructure. That fear was live following an incident involving OpenAI models that escaped a test environment and compromised a third-party platform this summer. But the President has since balked, siding with Huang, Sacks, and Meta's Mark Zuckerberg.

Not a Lawmaking Exercise

The House passed the "Ratepayer Protection Pledge" this week, legislation compelling technology companies to pay for infrastructure associated with data centers. But its prospects of passage by the Senate before the lame duck are low. Majority Leader John Thune (R-SD) noted consideration by the Senate at this point in the legislative year would require unanimous consent (UC), highly unlikely in the current environment. The House, meanwhile, is now gone until November 9, which means the next real lawmaking opportunity on AI safety or on restricting China arrives in the year-end NDAA during lame duck. Expectations should remain low. Despite the rhetoric and hyperbole of the last week, even a bipartisan cost-of-living bill cannot get through the Congress, the lowest possible hanging fruit of the AI debate. Policymaking on such a massive economical decision as a regulatory slowdown is thus multiple orders of magnitude below this week's effort in terms of the art of the possible.

The divide is not simply a partisan one. House Democrats are already splitting on creation of a select committee for AI should they win the majority. Energy and Commerce Committee Ranking Member Frank Pallone (D-NJ) has publicly objected to the theoretically committee on the grounds that it would impede his jurisdiction. A change of control in November will certainly lead to more oversight, but it will do little to change the legislative speed of AI policy.

The Money Continues to Flow

While Sam Altman said OpenAI's listing will not happen this year, calling now an ill-advised moment, Anthropic has chosen Nasdaq for its offering. Those close to the offering say it could value the company at $2 trillion or more, telling shareholders to expect a second consecutive quarter of positive adjusted operating income. Adjusted operating income strips out stock-based compensation, and the reported gross margin above 80% is stated before revenue shared with distribution partners and before the cost of training models, which happen to be the two largest cost lines in that business. What is not qualified is the revenue trajectory, which ran from $9 billion annualized at the end of last year to $65 billion at the end of July.

Oracle offers the counterpoint. It sits one notch above junk after a July downgrade citing customer concentration, having reported $28.5 billion of quarterly capital expenditure against $19.3 billion of revenue and negative $5 billion of free cash flow. Its shares rose 6% on cloud guidance anyway. The application layer will continue to drive positive margin. The infrastructure layer is a burn that investors are now looking past.

The Buildout Meets the Ratepayer

Domestic projects from New York to Seattle have been halted over grid and water use, with household electricity bills and overall economic populism driving the backlash. With the appetite for compute undaunted, hyperscalers are now moving toward Australia for renewable power and land. The Interior Department is meanwhile preparing federal land for data center development. Should Congress finally agree on a widescale federal permitting reform bill, the industry calculation could change. To date, the legislation has proven elusive across multiple congressional terms.

In other industry news, Anthropic resigned from the Information Technology Industry Council (ITIC) after the group opposed three bills restricting Chinese access to AI chips, joined in that opposition by essentially every other major American technology trade association. Those bills are being pushed as amendments to the annual defense authorization (NDAA), which is the vehicle most worth watching in the upcoming lame duck session. The case for restrictive Chinese policy landing in the NDAA is now a well-tread path and makes this a life fire exercise. Importantly, consideration of a final NDAA will land around the time of the G20 in Doral, a potential third in-person this fall between President Trump and President Xi. As always, the Administration will wield its veto freely over congressional Republican leadership to ensure that no addition to the NDAA disrupts its China negotiating strategy.

DONROE DOCTRINE

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Rubio’s travel to Bogotá, Quito, and Lima last week encapsulates the Administration’s Western Hemisphere strategy. Rubio signed critical minerals and civil nuclear arrangements with Colombia, welcomed Peru into the “Shield of the Americas” coalition, designated an Ecuadorian criminal organization along with seven former officials, and received a medal. Strategic economic partnerships, security, and newfound U.S.-alignment are the Donroe Doctrine in action.

Rubio's own formulation captures the order of importance to the Administration: security is the basic and most important requirement of a government, and prosperity follows closely behind it. Security alignment then presents a path towards aid and trade frameworks, though not outright tariff relief.

More than a dozen countries are now under the United States’ counter-narcotics leadership, with Ecuador actively pursuing drug-running vessels and Colombia tapping into American intelligence to target cartel syndicates and their leaders. That is a considerably more durable arrangement than hosting American forces on the ground as it allows Latin elected officials to retain their sovereign autonomy while banking early wins. That said, the alignment is only so good as the elected leadership is U.S.-friendly, which is precisely why the October Brazilian presidential elections will have massive implications for the Doctrine.

Where the security partnership is fully operational, the commercial side of the Donroe Doctrine is still a work in progress. President Daniel Noboa has not been received at the White House to date, yet spent August 16-23 on a state visit to Beijing, meeting Xi on the 18th. It was his second trip to China in fifteen months. The two sides signed five cooperation agreements spanning green industry, trade, the digital economy, and public welfare, and Beijing pledged $43 million in direct aid for social development projects. Beijing continues to pursue Latin American commercial competition and retains leverage where U.S. tariff policy creates domestic growth restrictions.

Venezuela

On August 28, interim Venezuelan government authorities granted hundred-year concessions over seventeen oil fields holding roughly 65 billion barrels of proven reserves. By comparison, U.S. territorial proven reserves are estimated at approximately 46 billion. The Department of War's Office of Strategic Capital received a 35% equity stake, at no cash cost, in the parent of North American Blue Energy Partners, the Venezuelan operator granted the concessions. NABEP is headed by Alejandro Betancourt, the country's second-largest private oil producer and a figure viewed with considerable suspicion inside Venezuela given his proximity to both the interim authorities and to Washington and the State Department holds the right to purchase 20% of the off-take at production cost, as well as a right of first refusal on the remainder. A majority of the new entity’s board must be American citizens and the U.S. government will hold a veto over each board appointment. U.S. law will govern the agreement and be under the jurisdiction of American courts.

Meanwhile, the Venezuelan political opposition has cried foul, saying that the concessions are unconstitutional and will be challenged and overturned. Proponents of the deal point to the interim government's new hydrocarbons law, adopted with U.S. support, which permits foreign majority ownership and long-tenor concessions that the prior framework barred. The opposition's rejoinder is that the hydrocarbons law itself required a constitutional process, which makes the enabling statute as contested as the concessions it authorizes. That open-ended question certainly creates uncertainty. American capital is nonetheless circling. Further oil and gas investments are under consideration by Harold Hamm’s Continental Resources and by ExxonMobil, the latter close to a preliminary deal to explore several Venezuelan fields, a potential return nearly two decades after its expropriation and exit. Chevron has committed $7 billion to the enterprise, which against the $100 billion investment target announced is a gap worth watching amidst the legal questions. Courts aside, no democratic elections have yet been scheduled. There has been some movement on the political track, at least by Washington's account: per the White House, U.S.-sponsored reconciliation talks in August between the Rodríguez interim government and the opposition produced judicial reforms and the release of hundreds of political prisoners, with further meetings set for September. None of that has been independently confirmed. The Administration’s economic development goals thus depend on Venezuelan authorities to implement a hundred-year concession—a prospect that is likely to play into the timeline of the aforementioned elections.

As previously mentioned, the President submitted the annual Presidential Determination on major drug transit and producing countries to Congress on September 15 and it provides more evidence of the Donroe Doctrine in practice. Twenty-three countries remain on the list. Four were designated as having “failed demonstrably” to meet their counternarcotics obligations. But Venezuela is the headline. Citing “the positive steps taken under interim President Delcy Rodríguez,” the President removed Venezuela's failed-demonstrably designation altogether, pointing to cooperation against cartels including the elimination of Tren de Aragua leader Niño Guerrero.

CHINA

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August data perfectly lays out the Chinese economy: retail sales rose just 0.4% from a year earlier, down from 0.6% in July, while industrial output climbed 5.2%, beating expectations and accelerating from July's 4.5%. Exports rose 25% year on year in August. Double-digit Chinese export growth no longer rides on simple cheap consumer goods, but on the hundreds of billions of dollars that flow into the global data center buildout and the electric vehicles (EVs) that are powered by integrated circuits and other AI-related products. While consumer imports appear robust at 28.2%, that number more reflects the Chinese memory shortage than growing domestic consumer consumption. Rebalancing the Chinese economy remains a fantasy.

In fact, the domestic picture is decidedly worse than the headline. New bank loans in China fell Rmb340 billion in July, the largest monthly drop on record. The central government was forced to inject Rmb360 billion into banks and insurers as a result, the first time it has extended such funds to insurers. Yet, the markets promptly sold off. Insurers needing capital is the more serious signal for the CCP, as life insurers hold long-duration liabilities against assets yielding 1.68%. A similar negative-spread problem consumed Japanese insurers in the 1990s.

Currency and Payments Systems

The weakness of the renminbi is producing a global borrowing opportunity. Renminbi bond issuance has hit a record Rmb1 trillion this year, with Chinese ten-year yields at 1.68% against 4.78% on Treasuries. Goldman's chief China economist draws the parallel to Japan, where low rates made a currency attractive to borrow in. The renminbi is thus becoming a funding currency, particularly for regional companies riding the AI boom. To date, American hyperscalers have stayed out but only because issue sizes are too small for the scope of their deals. Deutsche Bank now puts the Chinese borrowing market at nearly a billion-dollar capacity.

Meanwhile, BRICS leaders met in New Delhi with President Xi, Russian President Vladimir Putin, and Iranian President Masoud Pezeshkian present. While talk of a united emerging economies front is overstated given the disparate ambitions of the collective nations, a durable development inside the group has been the successful adoption of alternative payments. Instant payment systems inside the bloc have handled more than $10 trillion over eighteen months, with Brazil's Pix at $6.8 trillion last year and India's UPI at $3.4 trillion. Both systems are displacing Mastercard and Visa in their respective home markets. To be sure, a unified currency ambition is unlikely. Converting between a controlled currency like the renminbi and a floating one like the real still requires routing through dollar liquidity. India pays for Russian crude in rupees and Moscow cannot spend them because it buys very little from India in return. A trade-balance problem cannot be solved by currency.

State Visit Outlook

Both the U.S. and China have previously confirmed that consultations are ongoing over reciprocal tariff reductions covering $30 billion of goods, to be administered through a new Board of Trade. Ambassador Jamieson Greer describes the exercise as identifying nonsensitive goods where trade balances. That excludes high-profile and dispute-driven items, including the overcapacity determination, the forced-labor duties, the chip regime, and the critical minerals controls that snap back on November 10.

Thus, further detail on the Board of Trade is the piece worth tracking when evaluating the deliverables of the upcoming state visit, as well as any indication that the one-year trade truce will be extended. Other realistic deliverables include purchasing agreements and more detail surrounding the Board of Investment. Likely off the table: chips, AI security, advanced lithography, overcapacity, and Taiwan. TBD is Iran.

A lethal outcome ups the stakes for any discussion over resolving the Iran war. It also gives the Trump Administration the predicate for utilizing its newest authority. The House passed the Senate-approved Russian secondary sanctions bill 262-159 last night, clearing it for the President's signature, with 58 Democrats voting yes. The measure hands him tariff authority of up to 100% against the top five buyers of Russian energy, which per USTR are China, India, Slovakia, Hungary, and Azerbaijan. Whether the President chooses to tap this new tariff authority against China remains to be seen as the overcapacity investigation is due in the coming weeks. What is potentially more imminent is a designation against those entities complicit in the July attack. Any firm with Chinese geospatial or remote-sensing counterparties should assume both designation risk and Chinese retaliation against it.

Chips

Washington eased license requirements for Nvidia's H200 in January, conditioned on the United States receiving a quarter of the revenue. Beijing responded with a customs directive rejecting most import applications. Sales have not materialized as a result and Commerce Secretary Howard Lutnick says no further offer is necessary because the last one went untaken.

That sequence inverts the standard framing of export controls. The chips were offered, licensed, and declined. Instead, China is accelerating efforts to produce and deploy its own silicon rather than being reliant on the West. No doubt the 25% revenue condition was also unattractive to the CCP, not wanting to procure strategic infrastructure while feeding the U.S. Treasury. Malaysia is meanwhile leaning toward Huawei for its sovereign AI program over explicit American objection, which demonstrates further evidence that not only is Chinese silicon now competitive, but it is ready to be deployed beyond its borders.

Purchasing

The White House announced last November that China had agreed to lift its 10% retaliatory tariff on U.S. soybeans. USDA now confirms that the tariff remains in place, with the consequence that only state-owned enterprises buy American beans while private importers continue to purchase from Brazil. In fact, Brazilian producers have hit record volumes to China over the June-August period. The purchase commitment is thus being honored in tonnage but defeated in structure. If it ever lapses, there is no private Chinese demand left for U.S. producers to fall back on. While not as high-profile an issue as some of the others between the U.S. and China, this type of workaround sums up the relationship.

Talent

Beijing has implemented sweeping new controls on overseas travel for Chinese citizens, restricting the movement of highly skilled workers as part of Xi's broader campaign to secure state secrets and advanced technology. The move was forecast at the beginning of the year as we've previously written about. The precedent is Manus, whose founders were detained earlier this year after returning to China for talks about its sale to Meta. That sale has now been unwound per CCP demands and it highlights the lengths at which a communist country will go to retain talent in the AI race. This incident and the new controls are a warning signal for any firm with Chinese technical staff, joint ventures, or acquisition targets. Key personnel may simply not be able to leave China and that risk now attaches from the transaction all the way down to the individual.

The Quad's Deliverables

Japan, Australia, India, and the United States completed a tabletop exercise in Tokyo on September 3 and 4 advancing the Quad Indo-Pacific Logistics Network, building on an inaugural exercise in Hawaii and a field exercise in Guam. The partners made progress toward standard operating procedures that would institutionalize the network, framed entirely around civilian disaster response. Separately, the U.S. Trade and Development Agency funded a feasibility study for a transpacific submarine cable linking the United States with Thailand and as many as five other Southeast Asian nations. both matter for the same reason. Washington is bolstering its Indo-Pacific alliance across the board, from logistics to infrastructure. The capital piece runs alongside the Quad via Pax Silica. The message to Beijing is clear: the U.S. will maintain and build upon its regional presence, ensuring free flow of movement if/when needed.

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The robust August jobs print and the Fed's rate decision now made, the central bank has unequivocally announced that it will fully turn its attention to the congressional inflation mandate. Chair Warsh had already ranked prices above employment at Jackson Hole and the data now backs him up. The Bank of Japan's decision tomorrow will be closely watched for U.S. bond market implications with the yen at its strongest level of the year and a ten-year JGB at 3%. If the BoJ raises and capital continues to repatriate to Tokyo, the Treasury buyback program may very well accelerate.

On the geopolitical front, Tehran has all but lost control of the strait from a commercial perspective. Talks with Oman are again nowhere and the domestic Iranian economy faces inflation above 80%. Washington's economic escalation is tightening. Although Secretary Bessent's "D Day" has only publicly produced action against one Egyptian bank and now VTB, he may very well not need to add Chinese firms to his list as the overall effort is largely achieving its goals. The caveat is the satellite imagery episode, which may act as a predicate for Treasury moving against the PRC. The only available bargain at the moment on Iran is strait security in return for port relief. We are now in a long squeeze period. As such, U.S. prices (particularly diesel) will not meaningfully subside on the back of the Fed's rate decision. The affordability issue will remain front and center for voters heading into midterms.

The trade agenda has morphed for a global reciprocal negotiation to a Canadian-specific tariff war. The next inflection point comes on September 29, providing a new negotiating window for Washington and Ottawa. Both leaders are signaling openness but the redlines (i.e., trucks) remain. That makes the Prime Minister's calculation the most difficult. Canadian nationalism is what drove him into office and any concession he makes risks upending his political future not to mention questioning whether he can deliver given the effective veto each provincial premier wields. Québec votes October 5 with a separatist party leading. Alberta votes October 19, with a referendum process still up in the air. Those dates notably sit just after September 29 and will immediately factor into voters’ minds. Meanwhile, Carney continues to pursue the nascent middle powers option. Von der Leyen invited Canada to become the European Union's first associate member and Ottawa is reportedly exploring an arrangement that would let Canadians live and work in Europe without visas. The details of that alliance will matter both for the U.S./EU ART and for any chance that the U.S. and Canada reach a deal.

All of the above leads us back to the picture at home. Real incomes have fallen for five months, both unleaded and diesel are now at record levels, the 30-year mortgage rate has passed 7%, and profits are taking their largest share of national income since 1945. The segment of the economy with the best outlook—the AI buildout—is now being threatened from within. Leading executives are openly asking for regulation to slow their growth (motives notwithstanding) and the state and local backlash to data center siting continues to build. What makes this picture exceedingly interesting is the President’s response. He knowingly chose to go to war with Iran in an election year, driving the price of energy up. Further fueling the inflation problem, the President remains undeterred on executing his tariff agenda, escalating with Canada and on the cusp of releasing a Section 301 overcapacity finding and a Section 232 semiconductor finding. And finally, he shows no signs of throttling the AI advancement, staking out positions on data centers and regulation that are at odds with public opinion. Some may call that politically nonsensical. But others may call it principled. We only say that it’s a fascinating moment in American political history. The President may very well be inviting a Democratic majority in the House next Congress and is seemingly unfazed and undeterred by the prospect; sticking to his proverbial guns instead.