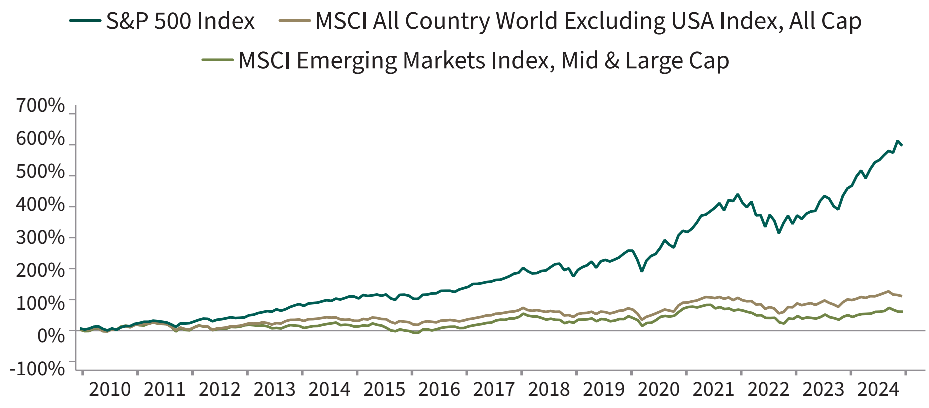
Cougar Global Viewpoints

When will U.S. exceptionalism end?

JANUARY | 2025

Since the Global Financial Crisis there has been an impressive and sustained period of U.S. stock market outperformance. Non-U.S. stocks have widely diverged from U.S. stocks both over the last few years and during the months since the November U.S. election (see Chart 1). While the United States' continued exceptionalism appears to be partly discounted in the stock markets, the narrative is built on stronger foundations. The U.S. economy has weathered the shocks of the past few years considerably better than its peers. U.S. economic growth has been far better than that of other developed markets. But it's not only consumer spending that has held up better in the United States since the pandemic. Productivity growth has also been solid in the United States since the middle of 2023, compared to the euro area, U.K., and Canada, where productivity has been negative or sluggish. The United States has proven to be the world's technological leader. This contributed to the increase in productivity. The U.S. stock market has also benefitted from the "big tech" firms, as they performed especially well.

Chart 1: Equity indices, total return, USD



Source: Macrobond and Cougar Global Investments as of January 13, 2025

Going forward, there's a lot of uncertainty around the implementation of tariffs by the new U.S. presidential administration. Nevertheless, we don't expect the U.S. economy to sink. In fact, we believe the U.S. economy will continue to outperform other developed economies in 2025. A trade war would be particularly harmful for emerging markets. China likely would be the main target of a possible coming trade war. Chinese growth already has been under pressure as the country is dealing with structural problems and weak domestic demand. Mexico's strong economic ties with the United States could make its economy vulnerable to growing trade tensions.

Tariffs also would be negative for Europe. Companies in Germany could be particularly vulnerable to a trade war, given the country's strong trade ties with China and its big trade surplus with the United States. With France and Germany accounting for about 60% of the MSCI EMU Index (European Economic and Monetary Union), we expect poor economic performance from the region overall. The Eurozone's manufacturing sector continues to remain under intense pressure. Political fragility in Europe has been front and center, with very tough budget negotiations bringing down governments. France got its fourth prime minister in 2024. Germany, which is the engine of European growth, saw its government lose its confidence vote in parliament last year, and new elections are happening in February. As a result, we are looking for sluggish growth from the euro area in 2025. Therefore, it is hard to justify favoring European equities at this point.

In fact, most stock markets would probably take a hit in the event of a trade war, prompting investors to favor lower-volatility investments compared with equities. However, we still believe U.S. equities could outperform those in the rest of the world in the case of a trade war.

When will U.S. exceptionalism end? Not soon: We believe the United States will remain the world's technological and financial leader for the foreseeable future. But we see three potential sources of risk for the U.S. economy and capital markets.

First, President Donald Trump might push the United States toward isolationism, which could reduce the gains to its economy from trade and immigration.

Second, by failing to get a grip on the U.S. fiscal deficit, Trump could raise medium-term fiscal risks. Much wider government budget deficits and political uncertainty could lead investors to demand a higher term premium for U.S. Treasuries. Rising U.S. bond yields could make it more difficult to sustain the U.S. equity gains of the previous years.

Third, the combined market capitalization of the top five artificial intelligence (AI) giants (Apple, NVIDIA, Microsoft, Amazon, and Alphabet) in the S&P 500 Index has risen dramatically, especially over the past two years, and represented close to 30% of the index as of January 13, 2025, according to Macrobond and S&P Global. It's possible that an AI bubble has been forming in the stock markets that could deflate at some point. Of course, it's a function of how long the enthusiasm around AI is going to last, unless we see more use of AI technologies across different sectors and industries that contribute to a sustained rise of productivity. If the AI bubble starts letting out some air, equities outside the United States would probably be caught in the storm, but they might hold up better overall or deliver similar returns to U.S. equities because they would not be as overvalued as their U.S. peers.

Nevertheless, we still expect the United States to remain the biggest and most dominant economy for the foreseeable future. Not only do we anticipate that it will lead in terms of growth in its gross domestic product (GDP) compared with other developed markets, but we also believe it will remain the world's technological and financial leader. Therefore, we still favor U.S. stocks vis-à-vis those elsewhere over the next 12 months.

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are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price. Mortgage-Backed Securities are subject to credit, default risk, prepayment risk that acts much like call risk when you get your principal back sooner than the stated maturity, extensions risk, the opposite of prepayment risk, and interest rate risk. Investing in IAU involves additional risks. The market price of the Shares will be as unpredictable as the price of gold has historically been and the price received upon the sale of Shares may be less than the value of the gold represented by them. Government bonds and Treasury bills are guaranteed by the U.S. Government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. The fund's concentrated holding will subject it to greater volatility than a fund that invests more broadly. The fast price swings of commodities will result in significant volatility in an investor's holdings. Precious metal investing is subject to substantial fluctuation and potential for loss. All indexes mentioned are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. The indexes don't reflect charges, expenses, fees and is not indicative of any particular investment. Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, disease, and regulatory developments.

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DEFINITIONS

American exceptionalism is an idea centered on the notion that the United States is a unique and even superior nation as a result of historical, ideological, religious, and/or, in the context of finance, economic reasons. Proponents of American exceptionalism often expect or advocate for the United States to occupy or play a leading role in global affairs.

Fiscal policy refers to the tax collection and spending a government uses to influence its country's economy. Fiscal risk can arise from, among other things, excessive deficit spending, which consists of government spending over a specific period of time that exceeds the revenues that the government takes in for the same period. High levels of debt and large deficits can push interest rates higher and limit a government's ability to respond to economic downturns.

Gross domestic product (GDP) is the total value of goods and services provided in an economy during a specified period, often one year.

Market capitalization, or market cap, refers to the total dollar market value of a company's outstanding shares of stock.

INDICES

The MSCI ACWI (All World Country Index) ex USA Index captures large-and mid-cap representation across 22 of 23 developed markets (DM) countries, excluding the United States and 24 emerging Markets (EM) countries. With 2,058 constituents, the index covers approximately 85% of the global equity opportunity set outside of the United States. Developed market countries include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the U.K. Emerging markets countries include Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

The MSCI Emerging Markets® Index measures the performance of large and mid-cap stocks across 24 emerging markets (EM) countries: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The MSCI EMU Index (European Economic and Monetary Union) captures large- and mid-cap representation across the 10 developed markets countries in the EMU: Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal and Spain. With 221 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of the EMU.

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividends reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

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Cougar Global Investments is a global macroeconomic asset allocation manager that believes the goal of investing is to achieve compound annualized returns for clients. We use a disciplined portfolio construction methodology combining post-modern portfolio theory and risk management to pursue our clients' objectives.

ABOUT RAYMOND JAMES INVESTMENT MANAGEMENT

Raymond James Investment Management is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our boutique investment managers – Chartwell Investment Partners, ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments – we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. We believe providing a lineup of seasoned, committed portfolio managers – spanning a wide range of disciplines and investing vehicles – is the best way to help investors seek their long-term financial goals.

To learn more about Cougar Global's strategies, philosophy and capabilities visit cougarglobal.com or call 1.800.521.1195.

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