

WEEKEND READING:
Letter from the Team

February 26th, 2025



Secretary of Defense Hegseth and Vice President Vance break glass and make history.

Dear Potential Customer,

Earlier this month, the trajectory of world history shifted with speeches by Secretary of Defense Hegseth and Vice President Vance that articulated a fundamentally new U.S. perspective that can be described as America First, but not only America First. As we have noted before, relationships among countries in the world, shaped since the Russian invasion of Ukraine and the PRC's expansionist moves, are now driven more by power projection and less by economic efficiency than at any time since the fall of the Berlin Wall. This will have an enormous impact on markets and business models for the foreseeable future.

In 2019, while serving on the U.S. Department of Defense Business Board, our CEO, John O'Connor, had the opportunity to defend the wisdom of imposing tariffs on our NATO allies during a one-on-one with then-Secretary of Defense Mattis. It was an energetic, if fruitless, attempt on John's part and ultimately boiled down to Mattis's view that imperfect allies are better than no allies and John's belief that there is a threshold of imperfection beyond which an ally ceases to be valuable—a threshold we had already surpassed with most of NATO. Here we are again, and this time in spades—doubled and redoubled.

Secretary Hegseth and Vice President Vance laid down brutal truths and forcefully expanded the Overton window – that is, the range of ideas that the public is willing to discuss and, potentially, accept. EU members must walk the walk as well as talk the talk if our alliances are to be meaningful. The balance between the leviathan of the state and individual freedom must be restored and protected. Countries must marshal "blood and iron" to be credible participants in matters of international security.

Secretary of Defense, Pete Hegseth: Address to NATO

Vice President, JD Vance: Remarks at the Munich Security Conference

Otto von Bismark: "Blood and Iron" speech

President John F. Kennedy: "Ich Bin Ein Berliner" speech

President Ronald Reagan: "Tear down this wall!" speech

This week, we highlight three publications from our friends at JP Morgan. Two of these articles provide clear and helpful detail on the scope and nature of the many Trump Administration actions on trade and economic policies, while the third article explores the state of the global security environment. To underscore the importance of the changes on these fronts, we have attached the White House memo distributed to all cabinet offices on America First trade policy. Things have changed.

For businesses and wealth managers, this is a critical time to reassess all key input assumptions. Inflation, tax policies, government industrial policies, and regulatory changes will flow from last week's events. Now is the time to reset your assumptions.

Our assessment of the emerging picture suggests a bipolar distribution of scenarios. The optimistic scenario is that NATO and EU members will react by increasing defense spending and revising domestic industrial policies to emphasize energy production, resulting in an economic boom across Europe. The pessimistic scenario, by contrast, involves an increase in defense rhetoric without a corresponding enhancement in capability, along with continued domestic repression of industry in the name of decarbonization. In that event, the EU will suffer continued economic decline as the PRC absorbs more of the industrial value chain, while Russia gradually expands its territory across the northern Black Sea region and elsewhere.

Meanwhile, in Asia, the PRC has shifted from conducting military drills around Taiwan to rehearsing invasion and gray-zone actions. In Taiwan, the KMT political party has even moved to decrease the defense budget. These developments heighten the probability of instability and further constrain U.S. response time and strategic options.

It is no longer debatable that the U.S. has embarked on a dramatically new course with massive economic and security implications. Accordingly, we must all rethink how we steer our portfolios and our companies.

As always, we welcome your thoughts and comments.

TOPIC OF THE WEEK



J.P. Morgan

Trump's Second Act: Regime change and what to watch

In this report, we highlight 10 key themes we are watching in Trump's second act, and we also review his actions during his first administration. Day 1 announcements have set the tone for the next four years, and we caution that policy uncertainty will remain high. As our US economists point out, if Trump's first term is any guide, the initial announcements are unlikely to reduce policy uncertainty materially as the main macro channels will be through trade, immigration, and fiscal policies, which will play out on a longer-term horizon

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J.P. Morgan

Washington Policy Perspectives

We hosted the first installment of our Strategic Research's Washington Policy webinars of 2025 on February 6. This webinar featured guest experts with deep knowledge in navigating Washington's federal, legislative and regulatory institutions to assess the implications of the first actions by the Trump administration and what lies ahead. Note that our meetings were conducted under Chatham House rules and that some of the views in this note represent the perspectives of the speakers and are not necessarily the opinions of J.P. Morgan Research analysts.

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J.P. Morgan

Thematic Investing: Securing the Future

As the world faces heightened geopolitical tensions, targeted cyberattacks and climate risks, we believe that investing in the future of security has become both a critical and promising outlook. Governments and corporates are ramping up spending on new, innovative security strategies, potentially creating opportunities for sophisticated investors. But this renewed focus on security investment also extends beyond traditional defense to encompass robust digital infrastructure, resilient supply chains and diversified energy sources. Discover how aligning your investment strategy with this transformative global trend can help enhance your long-term portfolio returns.

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Office of the White House

America First Trade Policy

Memo to all cabinet offices on the "America First" trade policy.

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