



FOUNTAINHEAD ASSET MANAGEMENT

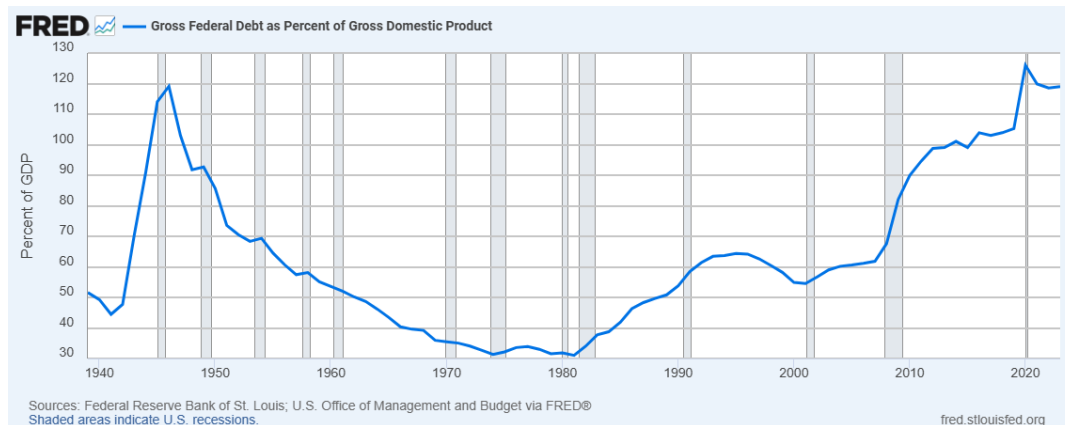
Market Commentary: Debt, Dollars, and Potential Delusions

May 2025

"In God We Trust" is emblazoned on the back of our currency. Dollars and debt are, at their core, a game of trust.¹ The US expects to issue roughly \$1.5 trillion in debt in the first three quarters of this year and will need to refinance roughly \$9.2 trillion of maturing debt.² Neither political party seems to have an interest in balancing our budget, no easy task to begin with, which will likely result in increased debt issuance for the foreseeable future. Recently, due to the current administration's aggressive stance on our trade imbalance ([noted in last month's commentary](#)), the dollar has declined relative to other currencies, and the interest rates demanded by creditors on longer-term maturities have risen. Will our lenders and users of the dollar continue to trust the US?

State of the Nation

US debt as a percentage of Gross Domestic Product³ (GDP) has doubled over the last two decades. While there were significant debt increases to support the economy during the Great Financial Crisis and COVID-19, the broader trend has been debt growth outpacing GDP.



Tune into our recent podcast "[Energy Infrastructure – Will It Double in the Next Decade?](#)" with Rob Thummel of Tortoise Capital.

As the U.S. power grid strains under the weight of rising demand, AI-fueled data centers, and shifting global energy dynamics, one sector stands at the center of it all: energy infrastructure. In this episode, we break down the critical—and often misunderstood—backbone of the modern energy system, and where we go from here.

[View](#) this clip for a teaser.

Our podcasts are now also available on [YouTube](#) in video format as well as [Spotify](#) and [Apple](#).

¹ This game of trust has some rules built in. For instance, if you want to issue insurance in the US you will need to hold US debt by regulation – hence the modifier “mostly”. It is also a game of business.

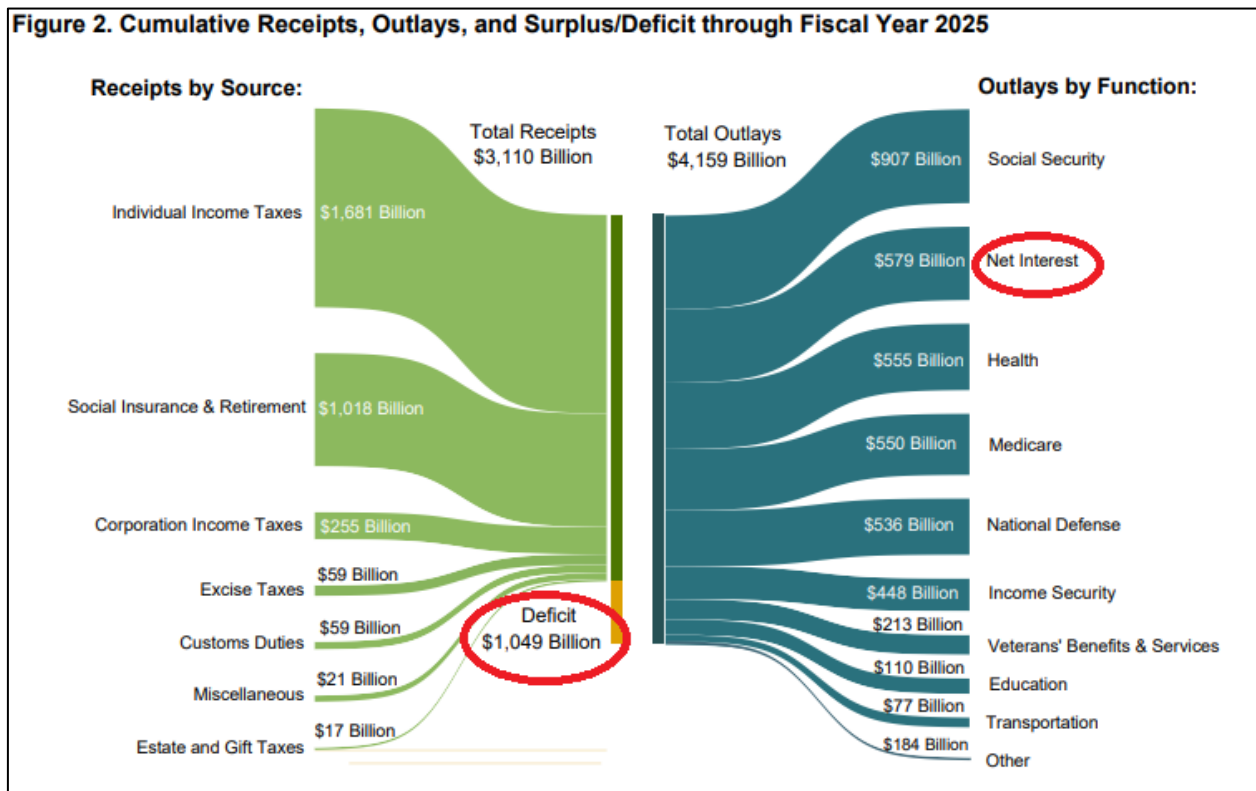
² [Treasury Announces Marketable Borrowing Estimates | U.S. Department of the Treasury, \\$9 trillion of US debt will mature in 2025: Should investors be worried?](#)

³ [Gross Domestic Product: An Economy's All](#) – reflects the size of the economy and is traditionally used in reflecting our debt levels.



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The expected deficit for fiscal year 2025 is over \$1 trillion, and is increasing faster than GDP, which would result in our debt ratio slowly increasing in *good times*. This ratio may increase much faster at points of economic stress or if interest rates rise further. We highlighted the following table when we last addressed our [debt levels in 2023](#). For 2025, **net interest payments are now the second largest budget outlay at \$579 billion**, up from \$354 billion in 2023 when our debt level was slightly lower and yields were at historical lows. That reflects **a 63% increase in interest costs in just two years**.



The US currently runs a trade imbalance of roughly \$1 trillion. We discussed this in our most recent [market commentary](#) and in a compelling conversation with [Eli Horton of TCW](#) on our [forthcoming podcast episode](#). Typically, a perpetual trade imbalance would result in a weakening of domestic currency. However, the U.S. enjoys certain privileges as the world's dominant power—namely, the dollar's role as the global reserve currency and the relative safety of U.S. debt. This has historically enabled foreign governments to hold our currency and fund our borrowing.

⁴ Most recent Monthly Treasury Report page 4, bottom chart: [mts0425.pdf](#)



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International Decisions

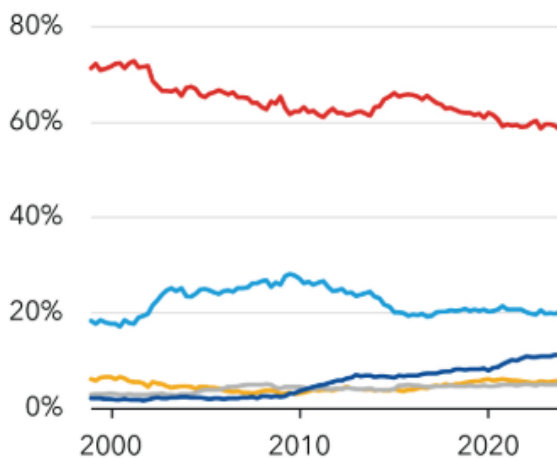
Will the global community continue to hold our debt and use our dollars? There has been a steady decline in the share of U.S. dollars held in global reserves over the past two decades (left chart below). Yet, this seems to reflect diversification rather than replacement by a dominant alternative like China (right chart).

Nontraditional currencies rise

Falling share of “big four” currencies mirrored by increasing holdings of nontraditional reserve currencies.

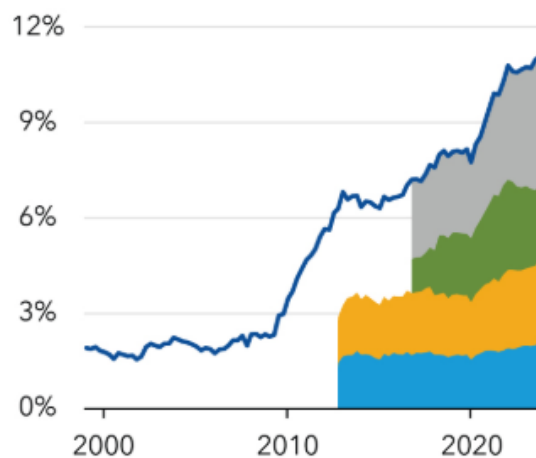
Currency share of FX reserves

— USD — EUR — JPY — GBP — Nontraditional



Nontraditional share breakdown

■ AUD ■ CAD ■ RMB ■ Other



Sources: IMF COFER; Arslanalp, Eichengreen, and Simpson-Bell (2022, updated).

Note: The “big four” currencies are the US dollar, euro, Japanese yen, and British pound.

Nontraditional are all other currencies. AUD = Australian dollar. CAD = Canadian dollar.

RMB = Chinese renminbi. China became a COFER reporter between 2015 and 2018.

IMF

The shift from globalization to onshoring, nearshoring, and regionalization may further reduce the dollar's role in global reserves and transactions. For instance, the EU would most likely prefer to have more transactions within their region in the euro while China will continue to “encourage” (i.e., strongly recommend) their regional trade partners use the Renminbi. While fixing our trade imbalance and further localizing trade is viewed as beneficial long term due to a variety of factors, it may further erode the use of



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the dollar and the funding of our debt – especially if our government turns isolationist and limits its global influence.

Digital currencies may continue to replace \$100 bills in illicit trade – estimated to account for nearly 20% of the global economy. Alternative currency systems and further eroding of the world order will continue to contribute to the waning of the dollar's dominance. In *Our Dollar, Your Problem*, a book I highly recommend, Kenneth Rogoff explores these themes, including how our fiscal policies contribute to ballooning national debt – as factors in the challenges the dollar will face in the next few decades.

Pathways to Success and Failure

If the US is successful in reshoring strategic industry and lowering or even eliminating our trade imbalance, it is likely that our GDP will grow at a quicker pace than expected. And inflation will grow along with it. Inflation would likely increase as we adjust our focus from attaining goods in the cheapest, most efficient manner, to a more strategic, America first, approach. While debt would remain constant, GDP growth plus inflation would reduce the debt-to-GDP ratio.⁵

Conversely - or simultaneously - we may elect to attempt a "soft default." In 1933, FDR devalued the dollar and temporarily abandoned the gold standard. In 1971, President Nixon ended the convertibility of US Dollars into gold. In both instances, the U.S. altered the monetary framework rather than outright defaulting on its obligations—such as missing an interest payment—hence the term "soft default." Soft defaults typically cause less immediate damage and allow for quicker recoveries, though it would still deliver a material blow to the credibility of U.S. currency and debt. While the world may be more adept at managing global finance today, many sovereign defaults and near-misses have occurred over the past 50 years (e.g., several EU countries post-GFC). A soft default would accelerate the erosion of dollar dominance and significantly raise U.S. borrowing costs.

Deep Thought: The Inequality Myth

Spend five minutes on social media and you'd think we're teetering on the edge of a new Gilded Age. However, according to *The Inequality Myth* by Daniel Waldenstrom in Foreign Affairs magazine, the data tell a different story—one far less apocalyptic. When you account for taxes, transfers, pensions, and homeownership, the West hasn't grown more unequal; it's grown more capitalized. More people own something.

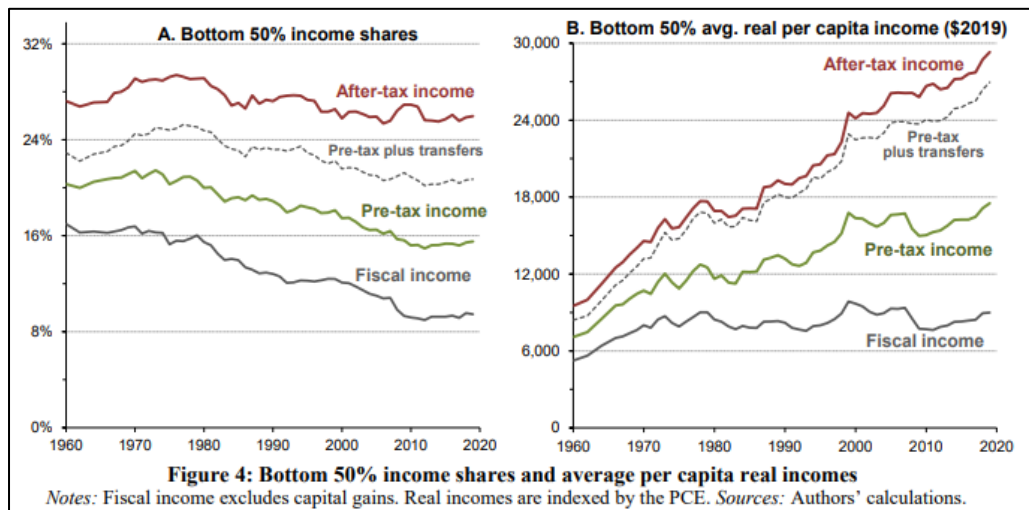
⁵ Nominal GDP growth = Real GDP growth + Inflation. If growth = 2% and inflation = 4% then our GDP grows by 6%. If we can get our deficit closer to 0% (it is currently ~6%) then we are able to grow ourselves out of our deficit -> in three years we would be at a 100% ratio (as compared to ~120% now).



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The article highlights how data can be malleable and that the press is simply looking at the wrong data and using an incorrect timeframe. Start the chart in 1980 (a historical low for inequality) and everything looks like a catastrophe. Zoom out to 1910 and you get a story of broad-based wealth accumulation. Different starting points, different conclusions.

The article partially relies on [recent work conducted by tax economists Gerald Auten and David Splinter](#)⁶ that correct for distortions of data due to changes in policy over time. For instance, simply looking at fiscal income for the bottom 50%, one would believe that it roughly halved over the last 60 years. However, when incorporating progressive policies and other government programs created over the last few decades, resulting in income redistribution, after-tax income for the bottom 50% has remained relatively stable as a percentage of income share.



The narrative around inequality drives political theory and policy.

In fact, there is a growing fight within the Democratic party introduced by an increasingly popular (at least among moderate Democrats) "abundance agenda" which advocates for policy reforms aimed at reducing bureaucratic obstacles (generally viewed as a Republican stance) in facilitating infrastructure development and housing projects (sounding a bit "new deal"). This is counter to the general approach of the progressive left focused on strong community protection, environmental justice and accountability for inequalities. "[The Coming Democratic Civil War](#)," by Jonathan Chait in *The Atlantic*,⁸ is a long but great and important read in understanding the potential battle-lines within the Democratic party going forward.

⁶ [Income Inequality in the United States: Using Tax Data to Measure Long-Term Trends](#)

⁷ [Income Inequality in the United States: Using Tax Data to Measure Long-Term Trends](#)

⁸ [The Coming Democratic Civil War - The Atlantic](#) – I would also recommend reading *Abundance* by Derek Thompson and Ezra Klein or at least listening to any of the tons of podcasts they have been guests on in introducing the Abundance agenda.



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Let's hope we don't get too distracted diagnosing calamity to recognize progress.

Conclusion

Prior to COVID, Modern Monetary Theory gained popularity, suggesting governments could borrow limitlessly and that rates would remain near-zero in a slow-growth, aging world. These views are no longer mainstream. Our debt levels are recognized as problematic and while some in the legislative branch are making noise about it, there are still too many games being played by our politicians that essentially kick the can down the road.

Yet, we have successfully cut our deficit before - most recently in the late 1990s under the Clinton administration. This was done through a combination of bilateral spending cuts, an increase in tax rates, and economic growth. We also had a "peace dividend" as Cold War defense spending fell after the Soviet collapse in 1991.⁹ While cutting defense spending may be difficult today, tax increases and robust growth remain viable tools to reverse our current debt trajectory.

Back then we had a technology boom. Today we have both a technology boom, AI, and a capital expenditure boom as we bring strategic manufacturing back to America - which can guide our country forward on reasonable, if not good, economic footing.

⁹ A great book that covers a bit of this time period (more mid 1990s and on) and gives a flavor of President Clinton's early days, is *Red Notice* by Bill Browder.

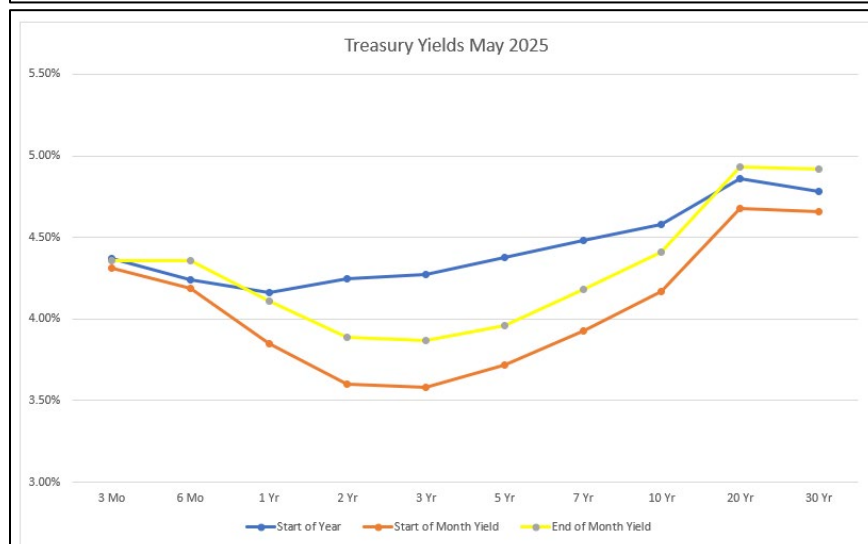
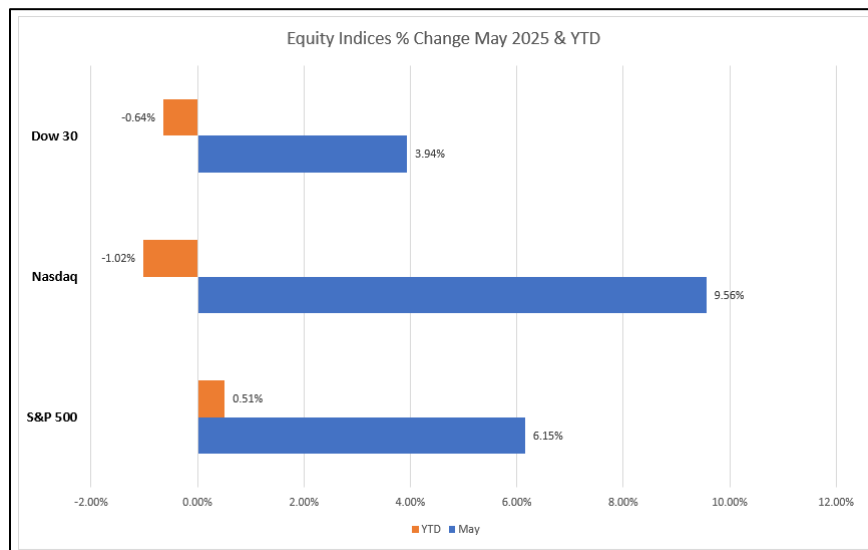


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Talking Points: May 2025

Monthly Market Recap

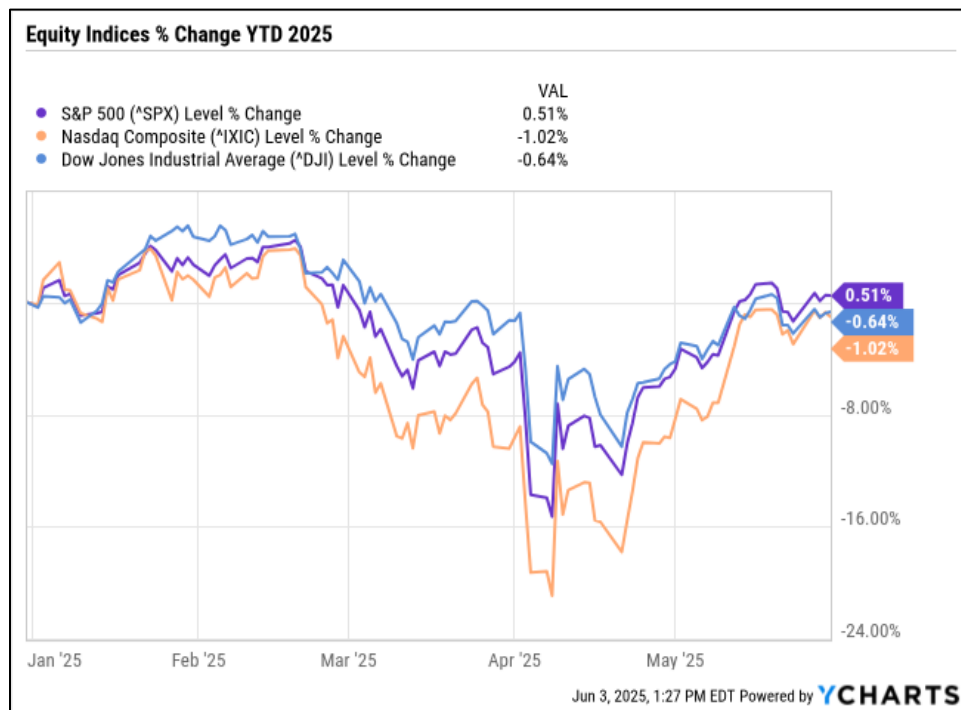
Equity markets continued to bounce back off Liberation Day (April 2, 2025) lows throughout May. All three major US indices posted solid gains, while yields ended up finishing the month materially higher with the yield on 30-year treasuries briefly eclipsing 5%. As of the month end, the S&P 500 finally turned positive for the year, while the Dow/Nasdaq came close to doing the same. Much of the positive performance in equity markets this month can be attributed to an “improving” tariff situation while the surge in long-term treasury yields was a result of concerns surrounding a widening budget deficit and rising national debt levels.





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Last month markets were shocked when the Trump administration finally unveiled its Liberation Day tariffs. Its “reciprocal” tariffs, which targeted countries that run persistent trade surpluses with the US, were alarmingly high and baseline tariffs were much broader than anticipated. Equity markets immediately sold off and cracks started to form in the bond market, which ultimately prompted President Trump to implement a 90-day pause to allow countries to negotiate deals with the US. The pause prompted a bounce back in equities and lessened volatility in bond markets even as tensions between the US and China reached a boiling point (China was notably left out of the original 90 day pause).



Optimism on a concrete positive shift in the administration’s tariff approach started to build in early May with a number of bullish headlines:

- The US and China softened their stances with each other, showing a willingness to negotiate.
- The US and the UK announced that they had come to terms on the first official trade deal.
- Markets were then elated when the US and China agreed to an unexpected 90-day truce which included both countries materially lowering tariff levels (US lowering tariffs from 145% to 30%, China lowering tariffs from 125% to 10%).
- The one negative headline was quickly walked back:
 - The Trump administration proceeded to shift its focus to the UK and Apple – threatening the UK with 50% tariffs due to its dissatisfaction with how slow negotiations were progressing and Apple with 25% tariffs in an effort to push the company to bring more of its manufacturing back to the US. Though, President
 - Trump quickly walked these threats back.



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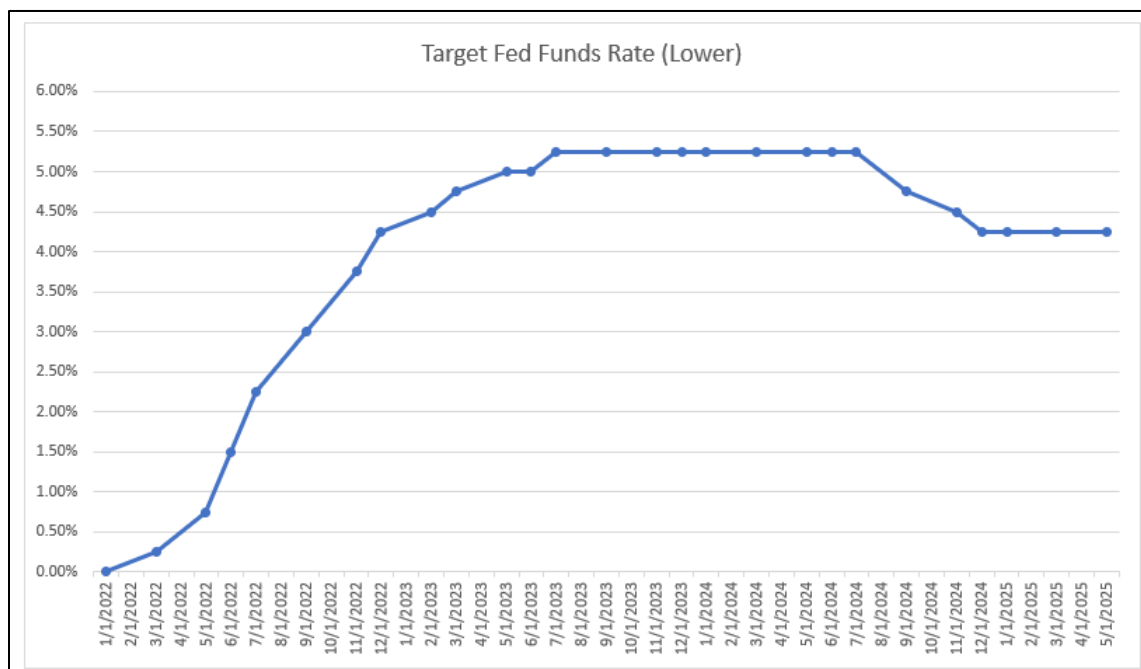
- The US and EU agreed to “fast-track” negotiations with President Trump agreeing to extend the deadline to reach an agreement to July 9th.

Later in the month, the Court of International Trade ruled that President Trump did not have the authority to implement the majority of tariffs from Liberation Day (and those related to the global fentanyl trade). The administration is planning on appealing the ruling and has already started to map out other ways to implement the tariffs affected, but markets generally appreciated the courts stepping in.

In our Liberation Day note to investors, we had highlighted the transactional nature of President Trump as well as the multiple layers of government that can soften the blow of the initial announced tariffs. Both were on display this month.

Progress related to tariffs proved to be enough for equity markets to push higher. Fixed income investors were more focused on debt and budget concerns. Long-term treasury yields surged in the latter half of the month as concerns over a widening deficit and rising national debt levels started to pick up steam. We expect markets to remain focused on tariffs and our nation’s plan to lower future debt levels.

Graphs/Visuals





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April CPI and Core CPI (yoy)	April	vs. Expected	vs. March
CPI	2.3%	2.4%	2.4%
Core CPI	2.8%	2.8%	2.8%
April PCE and Core PCE (yoy)	April	vs. Expected	vs. March
PCE	2.1%	2.2%	2.3%
Core PCE	2.5%	2.5%	2.7%

Highlights/Notes

Highlight: Equity markets rallied on optimism that tariffs will not be close to the levels unveiled on Liberation Day. However, concerns about weakening economic growth, a widening deficit, and rising national debt levels started to pick up steam in the back half of the month – negatively affecting longer term interest rates.

FAM Sentiment Summary 2025

2025	January	February	March	April	May
Fed	Mildly Bearish	Mildly Bearish	Mildly Bullish	Mildly Bearish	Mildly Bullish
Interest Rate Decisions	Neutral	Neutral	Mildly Bullish	Neutral	Mildly Bullish
Commentary	Mildly Bearish	Mildly Bearish	Mildly Bullish	Bearish	Mildly Bullish
Economic Data	Mildly Bearish	Mildly Bearish	Mildly Bearish	Mildly Bearish	Neutral
Inflation	Mildly Bearish	Mildly Bearish	Mildly Bearish	Bullish	Mildly Bullish
Employment/Labor Market	Bearish	Mildly Bearish	Mildly Bullish	Mildly Bullish	Mildly Bullish
GDP	Mildly Bullish	Neutral	Mildly Bearish	Mildly Bearish	Mildly Bearish
Consumer Spending	Neutral	Mildly Bearish	Bearish	Neutral	Mildly Bearish
Consumer Sentiment	Neutral	Bearish	Bearish	Bearish	Neutral
Housing/Real Estate	Mildly Bearish	Mildly Bearish	Mildly Bullish	Neutral	Neutral
Global Events/News	Mildly Bearish	Neutral	Mildly Bearish	Neutral	Neutral
China	Bearish	Neutral	Neutral	Mildly Bearish	Mildly Bullish
Europe	Mildly Bearish	Neutral	Mildly Bearish	Neutral	Mildly Bearish
Japan	Neutral	Mildly Bearish	Neutral	Neutral	Neutral
Middle East	Neutral	Neutral	Mildly Bearish	Neutral	Mildly Bullish
Russia/Ukraine	Neutral	Neutral	Neutral	Neutral	Neutral
US Politics/Government	Neutral	Bearish	Bearish	Bearish	Mildly Bullish
Tariffs	Bearish	Bearish	Bearish	Bearish	Neutral
US/China Trade War	n/a	n/a	n/a	Bearish	Bullish
Economic Policy	Bullish	Neutral	Neutral	Neutral	Mildly Bearish
Market Trends	Mildly Bullish	Neutral	Mildly Bearish	Neutral	Neutral
Earnings	Bullish	Mildly Bullish	Bearish	Mildly Bullish	Neutral
AI/Chips	Mildly Bullish	Mildly Bullish	Neutral	Mildly Bearish	Neutral
Crypto	Mildly Bullish	Bearish	Mildly Bearish	Neutral	Mildly Bullish



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Noteworthy Details

- Fed – Mildly Bearish to Mildly Bullish
 - Even though the decision to hold rates at current levels was expected, markets appreciated the lack of surprises and consistent messaging about the path for rates moving forward (continuing in “wait-and-see” mode).
- Consumer Sentiment – Bearish to Neutral
 - There was a slight positive shift in sentiment this month as consumers welcomed the truce between the US and China. Sentiment had been rapidly declining.
- US Politics/Government – Bearish to Mildly Bullish
 - The de-escalation of tensions between the US and China and agreement with the UK were steps in the right direction.

Key Topics/Items from Below

- **BEARISH**
 - President Trump threatening 50% tariffs on the EU and 25% tariffs on Apple.
 - Credit ratings agency Moody’s downgrading the last remaining AAA rated US government debt, citing large fiscal deficits and rising interest costs as their reasoning (also stating that it does not believe any current budget proposals/economic policies will do anything to reduce the “persistent” gap between government spending and revenue).
 - Long term treasury yields rising materially due to concerns over the Trump administration’s proposed tax and spending bill (which passed in the house) – the large bill is expected to add trillions to national debt levels (the bill still needs to pass through Senate before officially going into effect).
 - Long term treasuries continuing their recent rise after an auction for 20-year bonds was met with weaker than expected demand which was likely due to concerns related to the Trump administration’s tax/spending bill, increasing national debt levels, and Moody’s downgrading the remaining AAA rated US government debt.
 - The Trump administration’s plan to appeal the ruling made by the Court of International Trade.
 - President Trump claiming that China violated the terms of their truce by being very slow to approve exports for rare earth minerals.
- **MILDLY BEARISH**
 - Commentary from China regarding tariffs where the Chinese Foreign Ministry posted a video vowing to “never kneel down” to the US on trade.
 - Data showing that across 300 senior executives, 84%, are still highly concerned about the uncertainty and ultimate impact of tariffs.
 - Q1 2025 GDP coming in at 0.3% (vs. 2.4% last quarter), indicating that the US economy is slowing.
 - Q1 2025 GDP showing that “tariff front running” helped widen the gap between imports and exports knocking 4.8% off GDP (most since 1947).



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- Private sector employment data showing that new jobs added in April came in well below expectations, signaling that some companies are hesitant to hire in this uncertain environment.
- Continuing jobless claims from the beginning of the month reaching their highest level since November of 2021.
- Chinese tech company Huawei unveiling plans to create its own high-end chip for AI.
- The release of data showing that the US trade deficit had widened due to companies rushing to import goods ahead of tariffs going into effect.
- Retail sales from Europe coming in below expectations for the month of March, raising concerns that consumer demand could “turn over.”
- Walmart announcing that it would be raising prices as a result of tariffs – raising concerns that other major retailers will now be able to do the same.
- Jamie Dimon, the CEO of JP Morgan, stating that he does not believe that the effect of tariffs have “fully passed through the broader US economy.”
- Disappointing earnings results from major US retailers with companies like Target warning markets that discretionary spending was softening.
- The EU lowering its outlook for economic growth in 2025 and 2026 – citing concerns that US tariffs will materially impact EU exports.

- **NEUTRAL**

- Reports that suggested the Trump administration is planning on softening its stance on auto related tariffs.
- Leaders from the EU threatening to hit \$100 billion worth of US goods with tariffs.
- President Trump floating the idea of lowering tariffs on China to 80% (down from 145%) prior to the two countries meeting in Switzerland.
- Energy prices declining after OPEC and its allies announced a boost in production.
- Tensions building between India and Pakistan after India launched military strikes on targeted locations in Pakistan due to a terrorist attack (with both sides seemingly trying to keep things from escalating any further).
- Legendary investor Warren Buffet announcing that he would be stepping down as CEO of Berkshire Hathaway.
- President Trump posting that, “no inflation the Fed must lower rates” after the release of March CPI data.
- The University of Michigan’s Consumer Sentiment Survey declining further, though inflation expectations remain elevated (consumers expecting inflation to ramp up to over 7%).
- Economic data from China showing that the country continues to deal with deflationary pressures and that exports to the US were down over 20% on a year-over-year basis in April.
- President Trump and Saudi Arabia agreeing to a “broad economic partnership strategy” and a series of commercial agreements.
- Saudi Arabian oil giant Aramco announcing 34 deals with US companies worth a potential combined value of around \$90 billion.



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- Disappointing housing data showing that sales of existing homes in April came in lower than expected and at the lowest levels for the month of April since 2009.
- New home sales for the month of April coming in higher than expected and at the highest levels since 2022.
- The Reserve Bank of Australia lowering its benchmark rates citing concerns over tariffs and geopolitics.
- The release of the Fed latest meeting minutes showing no major shifts in their “wait-and-see” stance on rate cuts.

- **MILDLY BULLISH**

- China stating that they reached out to the US on trade and saying that they see “little downside in exploring” the potential to come to an agreement.
- Economic data from China which showed that year-over-year exports from the country were down 10% in Q1 2025 – signaling that China is feeling more pain from the impact of less US buying than they are letting on.
- Reports that indicated China is considering ways to address the Trump administrations concerns over the global fentanyl trade.
- March PCE and Core PCE data both showing a promising decline versus the month prior.
- Microsoft/Meta posting better than expected earnings results, giving markets hope that the “mag seven” is handling tariff drama in stride.
- New Canadian Prime Minister Mark Carney meeting with President Trump in Washington where both sides showed a willingness to find some level of common ground on trade.
- The Fed opting to hold rates steady this month (widely expected).
- Powell’s commentary post interest rate decision where he stated that, “risks to growth have not materialized, even with all of the uncertainty over trade policy” and that they “can afford to be patient” when it comes to rate cuts.
- Economic data released which showed that US service activity increased in April by more than expected.
- An auction for 10-year treasury notes being met with solid demand (beginning of month).
- CPI for the month of April coming in below expectations and lower than the month prior.
- US Commerce Department announcing that it would be doing away with the Biden-era rule on AI chips - the “AI Diffusion Rule” limited the number of chips US companies could provide to other nations.
- Home Depot announcing that it would not be raising prices to offset the impact of tariffs despite the fact that Walmart had raised its prices the week prior.
- The price of bitcoin rebounding off recent lows to reach a new all-time high.
- The Trump administration walking back their threats to implement 50% tariffs on imports from the EU – both sides agreed to “fast-track” negotiations and the US decided to extend the deadline for a deal to July 9th.



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- The Conference Board Consumer Sentiment Survey showing an increase in sentiment later in the month after rapidly declining for weeks – a direct result of the surprising truce between the US and China.
- April PCE and Core PCE data coming in lower than the month prior.
- Nvidia posting better-than-expected earnings results despite the current restrictions on sales in China remaining in effect.
- **BULLISH**
 - The US announcing that it had reached a trade deal with an undisclosed country (and claiming that others were close to being finalized).
 - March's jobs report showing that more jobs were added to the economy than expected and that overall unemployment levels were flat versus last month after some disappointing data earlier in the month hinted at cracks starting to form in the labor market.
 - The US and UK agreeing to terms on a trade deal.
 - The US and China agreeing to meet in Switzerland to discuss trade.
 - US and China agreeing to a 90 day "tariff cease-fire"/truce while they continue to negotiate an official trade deal (with US lowering tariffs from 145% to 30%, China lowering tariffs from 125% to 10%).
 - The Court of International Trade ruling that President Trump did not have the proper authority to implement several of the tariffs that are currently in effect – effectively putting an end to the reciprocal tariffs announced on Liberation Day and those related to the global fentanyl trade (i.e. Mexico, Canada, and China).

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