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# The Tectonic Shifts: The Geopolitics of Global Finance

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# History shaped the current infrastructure...

In the summer of 1914, the United States faced a dilemma: war was in the air in Europe

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European institutions and citizens were liquidating equity holdings, then converting currencies to gold

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Gold was leaving the United States in extremely large amounts, and was beginning to destabilize the USD and the banking system

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Treasury Secretary William Gibbs McAdoo took the extraordinary step of closing the New York Stock Exchange, thus stemming gold redemptions

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This allowed the USD to be in a robust position relative to GBP, and laid the foundations for its journey to reserve currency status

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History and geopolitical dynamics are intertwined with financial markets and financial markets infrastructure

Source: When Washington Shut Down Wall Street by Bill Silber

# Four drivers of multipolarity in geopolitics and markets

Reserve currency status

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The rise of industrial policy

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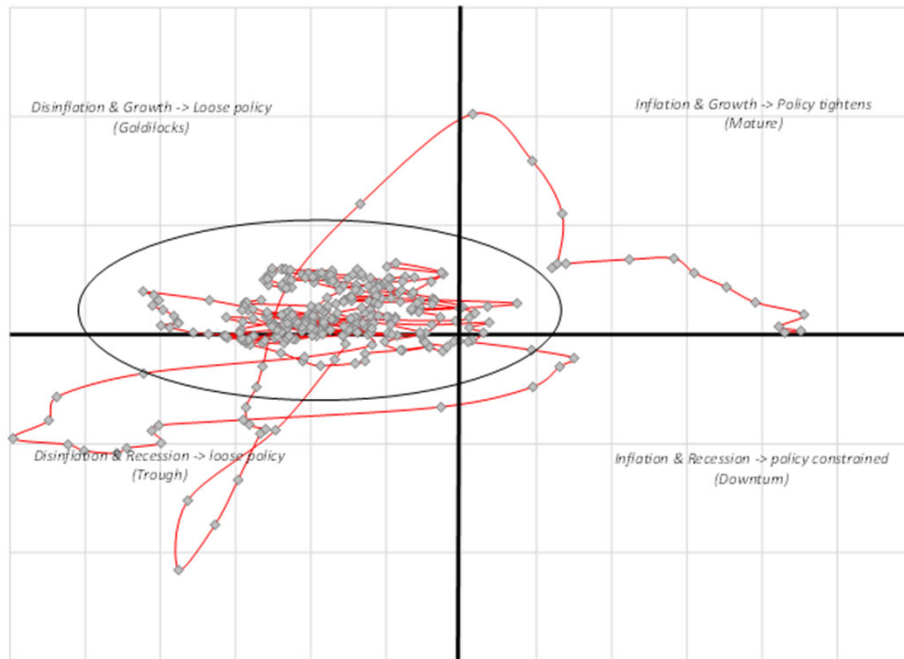
Fossil fuel dependence

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Domestic policymaking dysfunction in the United States

# Over the past 25 years, the cycle has spent most of the time in just one state...

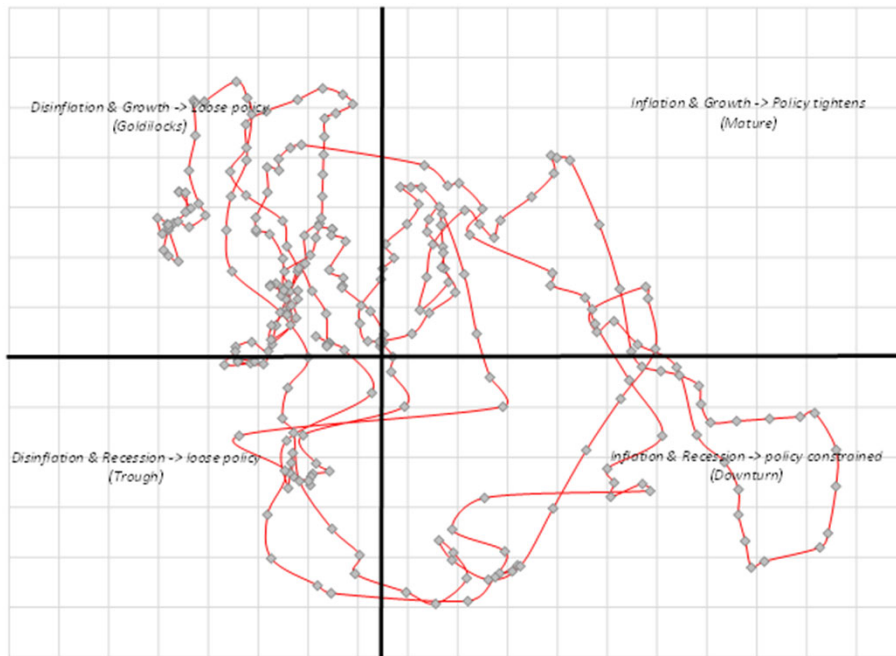
Evolution of the global cycle: 1995 – current



Sources: Datastream, Bloomberg, and Wellington Management

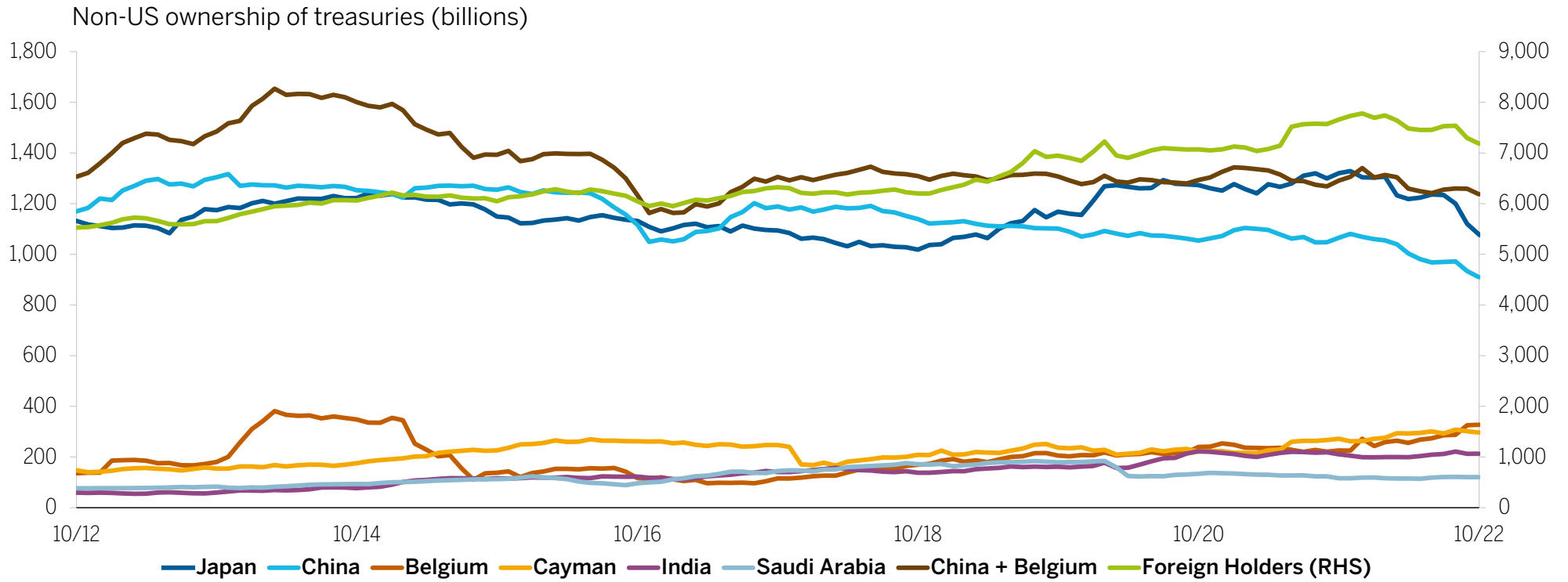
# ...but prior to 1995, economies oscillated frequently between different stages

Evolution of the global cycle: 1994 – 1985



Sources: Datastream, Bloomberg, and Wellington Management

# The struggle for reserve status



Source: Bloomberg | Chart data: 31 October 2012 – 31 October 2022

# Multipolarity in reserve status: global swap lines



Source: Central Banks Currency Swaps Tracker, Council on Foreign Relations

## A new era in industrial policy: CHIPS Act

<b>Provision</b>	<b>2022 – 2026 cost (USD, bil)</b>	<b>2022 – 2031 cost (USD, bil)</b>
Create CHIPS for America Fund	24.5	50.5
Funding for wireless supply chain innovation	0.7	1.4
Funding for research and innovation	0.2	3.1
Advanced manufacturing investment tax credit	22.1	24.3
<b>Total</b>	<b>&lt; 47.5</b>	<b>79.3</b>

Source: Committee for a Responsible Federal Budget



# A new era in industrial policy: Infrastructure

## Proposed spending in the Bipartisan Infrastructure Investment and Jobs Act

Spending area	Cost (USD, bil)	Spending area	Cost (USD, bil)
Roads, bridges and major projects	110	Power infrastructure	73
Passenger and freight rail	66	Broadband	65
Public transit	39	Water infrastructure (including lead pipes)	55
Airports	25	Resiliency and western water storage	50
Ports and waterways	17	Environmental remediation	21
Electric vehicles	15	<b>Other core infrastructure</b>	<b>264</b>
Road safety	11		
Reconnecting communities	1		
<b>Transportation infrastructure</b>	<b>284</b>		

Source: Committee for a Responsible Federal Budget

# A new era in industrial policy: The Inflation Reduction Act

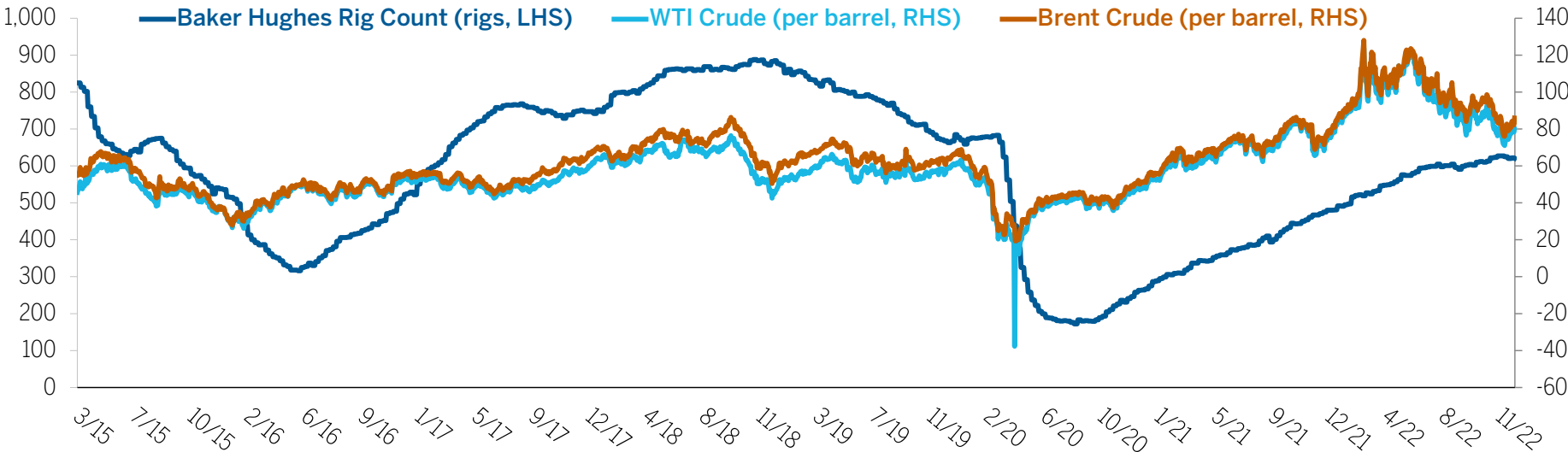
## Inflation Reduction Act summary

Policy	Cost (-)/savings (2022 – 2031) (USD bil)
<b>Energy and climate</b>	<b>386</b>
Clean electricity tax credits	161
Air pollution, hazardous materials, transportation and infrastructure	40
Individual clean energy incentives	37
Clean manufacturing tax credits	37
Clean fuel and vehicle tax credits	36
Conservation, rural development, forestry	35
Building efficiency, electrification, transmission, industrial, DOE grants and loans	27
Other energy and climate spending	14
<b>Health care</b>	<b>98</b>
Extension of expanded ACA subsidies (three years)	64
Part D re-design, LIS subsidies, vaccine coverage	34
<b>Total, spending and tax breaks</b>	<b>485</b>
<b>Health savings</b>	<b>322</b>
Repeal trump-era drug rebate rule	122
Drug price inflation cap	101
Negotiation of certain drug prices	99
<b>Revenue</b>	<b>468</b>
15 percent corporate minimum tax	313
IRS tax enforcement funding	124
Closure of carried interest loophole	13
Methane fee, superfund fee, other revenue	18
<b>Total, savings and revenue</b>	<b>790</b>
<b>Net deficit reduction</b>	<b>305</b>
Memo: deficit reduction with permanent ACA subsidy extension	155

Source: Committee for a Responsible Federal Budget

# Energy - a precarious situation

Baker Hughes rig count vs Crude oil



Biden Administration has powers that can expedite domestic energy production

- 1) Utilizing Strategic Petroleum Reserve

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- 2) More expansive use of the Treasury Exchange Stabilization Fund

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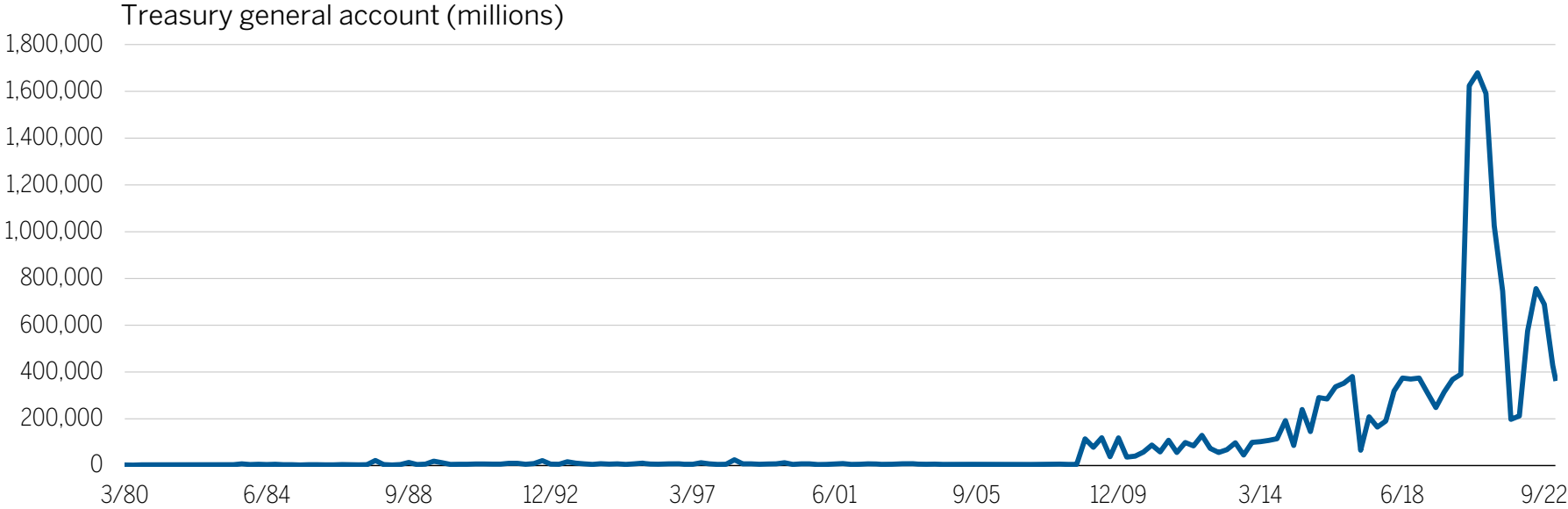
- 3) Defense Production Act

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- 4) Possibly waiving the Jones Act

Source: Bloomberg | Items 1 – 3 laid in more detail by Employ America: <https://www.employamerica.org/researchreports/sp-r-esfdpa/> | Chart data: March 2015 – December 2022

# Developments in domestic finance



The debt ceiling is likely to dominate policymaking throughout 2023

Probability of default is low but given current dynamic of a thin majority in the House, it will likely go down to the wire

The Treasury General Account will be drawn down further, and as the year progresses, issuance will be reduced

“X” date is likely this coming summer

Source: Bloomberg | Chart data: 31 March 1980 – 11 January 2023

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