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Renouncing the “exorbitant privilege”

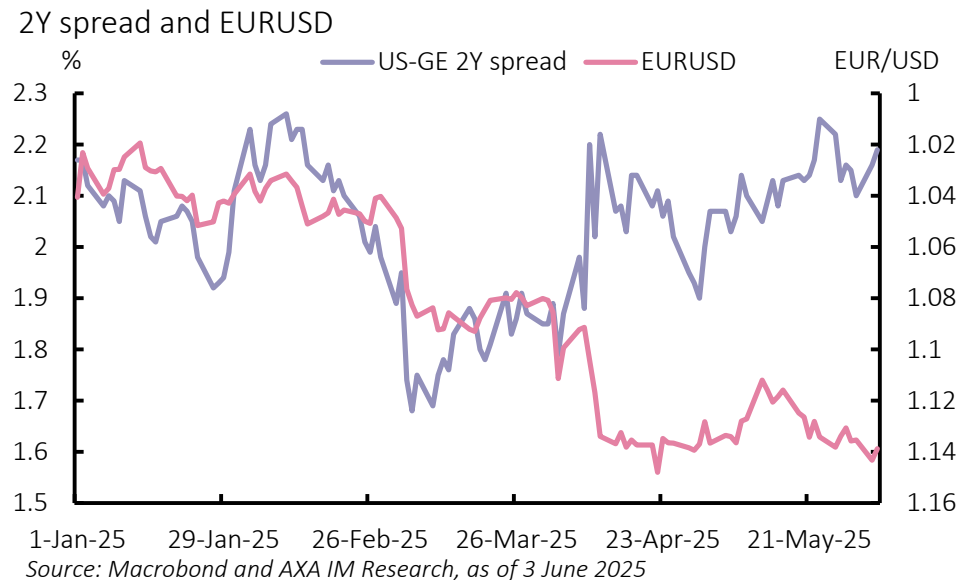
Gilles Moec, AXA Group Chief Economist & AXA IM Head of Research

16 June 2025

Excess remuneration on US assets no longer lifts the dollar

The correlation between the 2-year spread and the euro dollar is broken

It's no longer working



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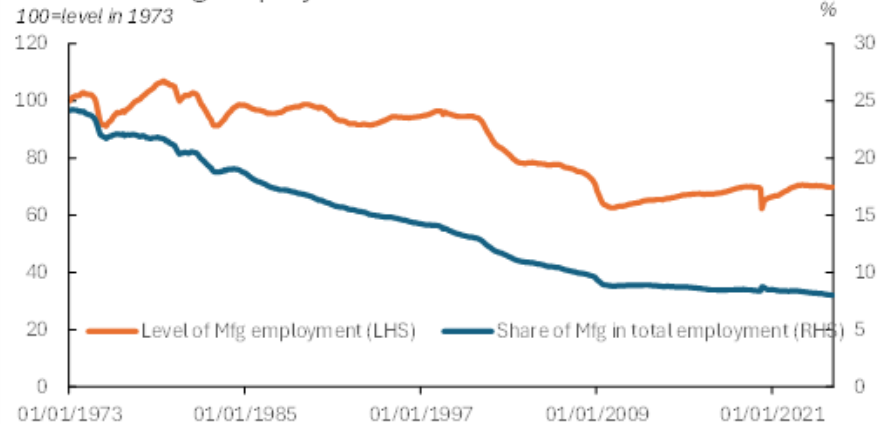
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The strange obsession over getting the dollar down

There is no strong evidence the dollar has played a role in de-industrialisation, but the White House wants a lower dollar

The US economy has stopped destroying manufacturing jobs 15 years ago

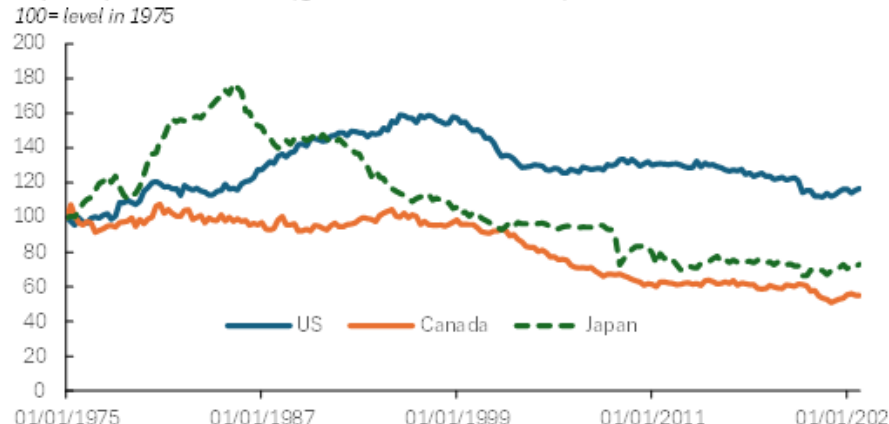
Manufacturing employment in the US



Source: Bureau of Labor Statistics, AXA IM Research, March 2025

No evidence that the US has been losing much market share

Export performance (goods and services)



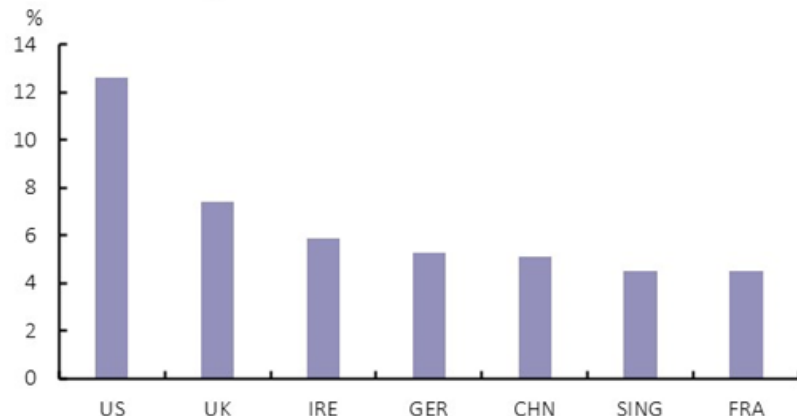
Source: OECD, AXA IM Research, March 2025

The US still dominant on services – but still a small share of the US GDP

The US dominates global trade in services – but others have more to lose if they try to retaliate on services

Still mostly a developed economies' club

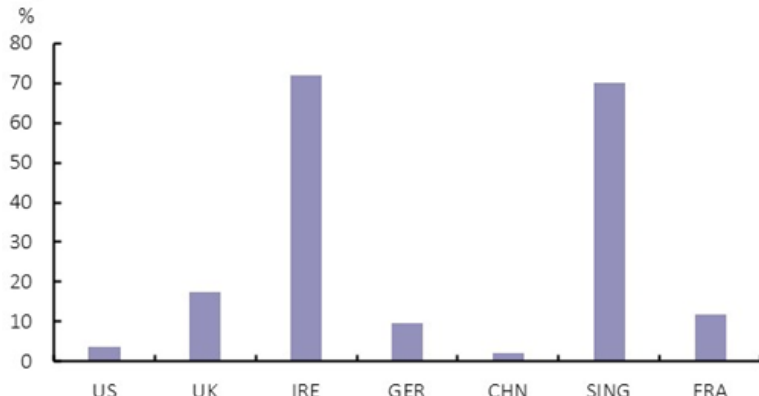
Share in world exports of services in 2024



Source: UNCTAD and AXA IM Research, May 2025

De-globalisation in services would disproportionately hit European countries

Exports of services as a share of GDP



Source: UNCTAD and AXA IM Research, May 2025

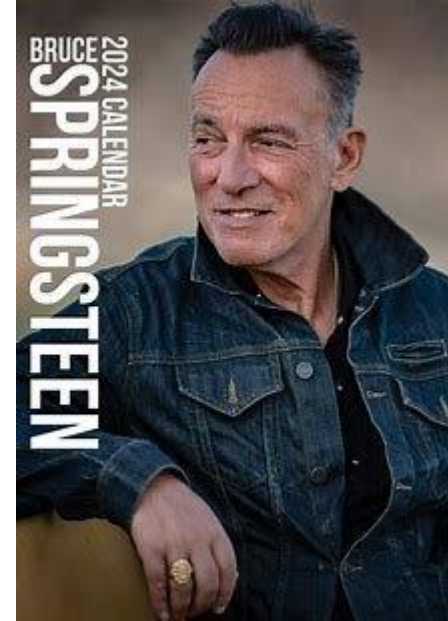
Why now?

Is globalisation fear an effect of ageing?

Bruce Springsteen in 1975



Bruce Springsteen now



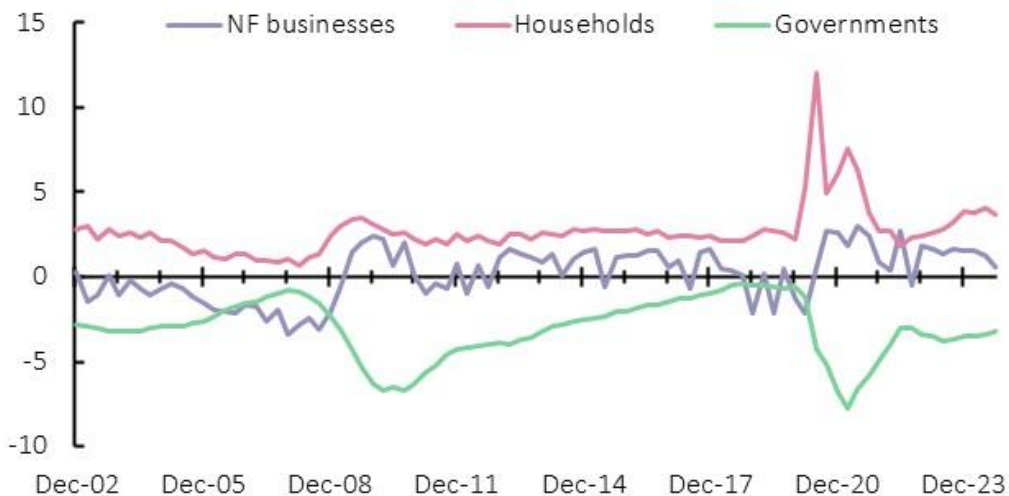
A window of opportunity to strengthen the Euro as a reserve currency

If Europe ceases to be a « structural exporter of saving », less drawback from a reserve currency status

Towards the end of current account surpluses in Europe?

Net lending/net borrowing by sector in the EA

% of GDP



Source: European Central Bank and AXA IM Research, March 2025

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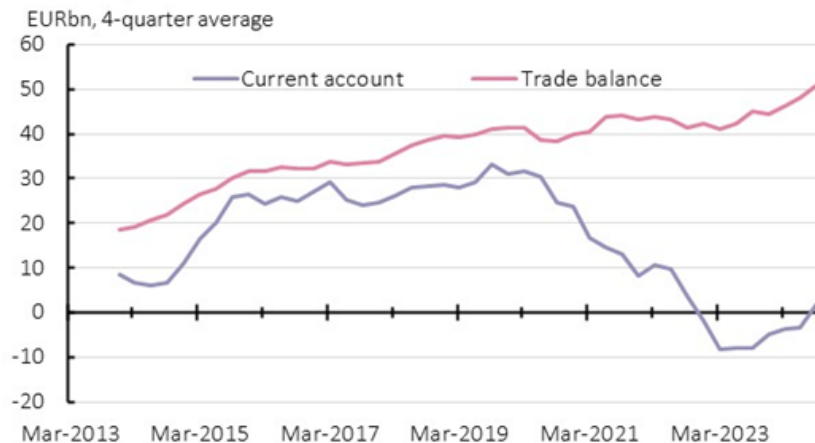
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A balanced transatlantic relationship (1)

The “bilateral current account” between the Euro area and the US is balanced

Growing European trade surplus on goods vis-à-vis the US, but a balance current account

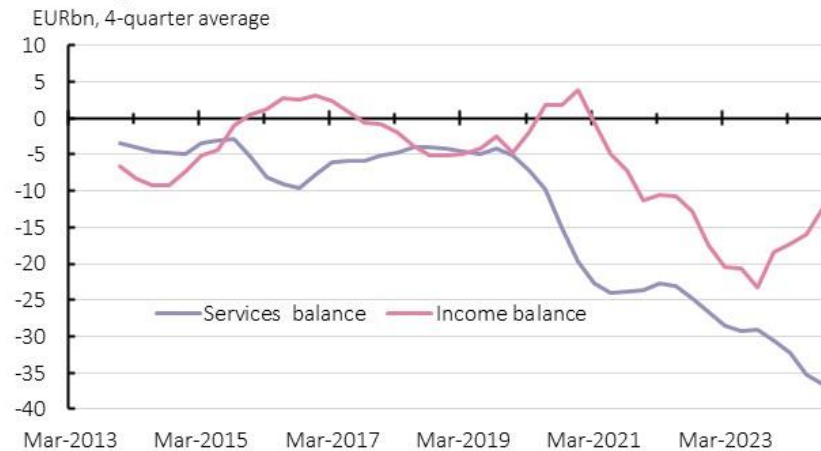
Euro area/US bilateral CA and trade balance



Source: European Central Bank and AXA IM Research, February 2025

European deficit on services and income

Euro area/US bilateral services and income balance

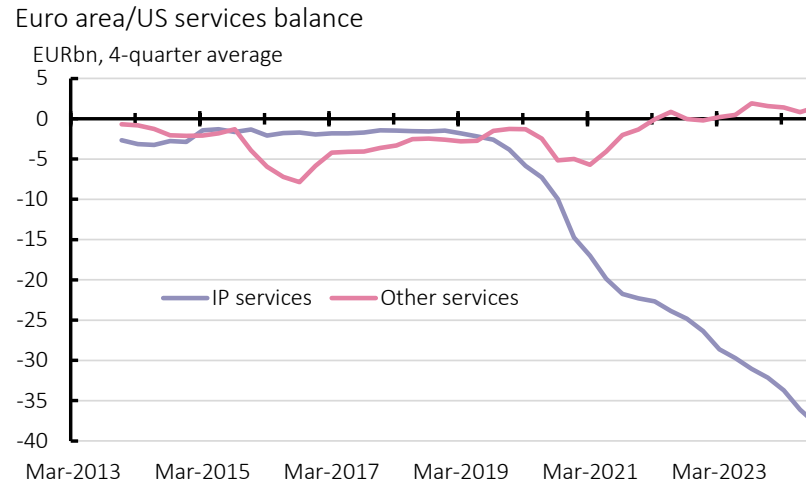


Source: European Central Bank and AXA IM Research, February 2025

A balanced transatlantic relationship (2)

The services balance deficit come from “intellectual property” services

Heavily concentrated deficit



Source: European Central Bank and AXA IM Research, February 2025

Europe recycles a lot of its savings into the US

Europe has become the “marginal lender” to the US

European investment in the US have significantly gone up

EA/US bilateral net investment position
EURbn



Source: European Central Bank and AXA IM Research, February 2025

Europeans are today the first foreign holders of US government debt

Share in non-resident holdings of US Treasuries



Source: US Treasury Department and AXA IM Research, February 2025

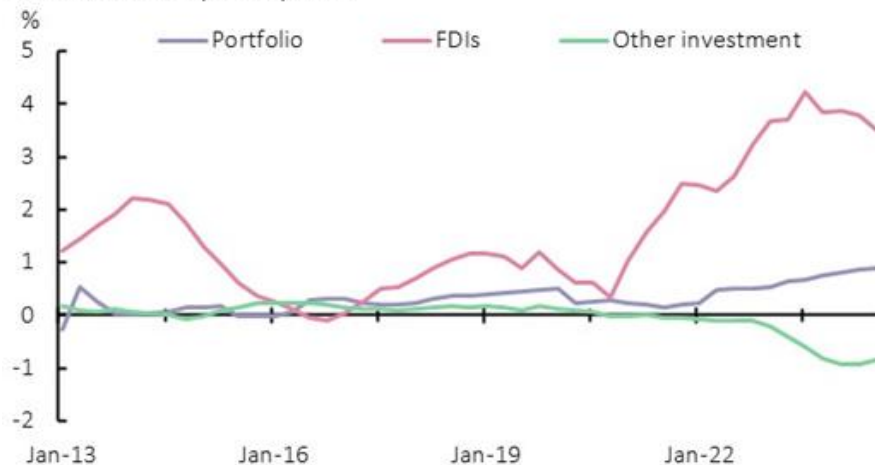
- See note: [Bretton Woods 3.0 | AXA IM UK](#)

Low relative income yield ... but strong capital gains!

Europeans invest in the US for good reasons

Income yields on European-owned assets in the US
are often lower than those on American-owned
assets in Europe

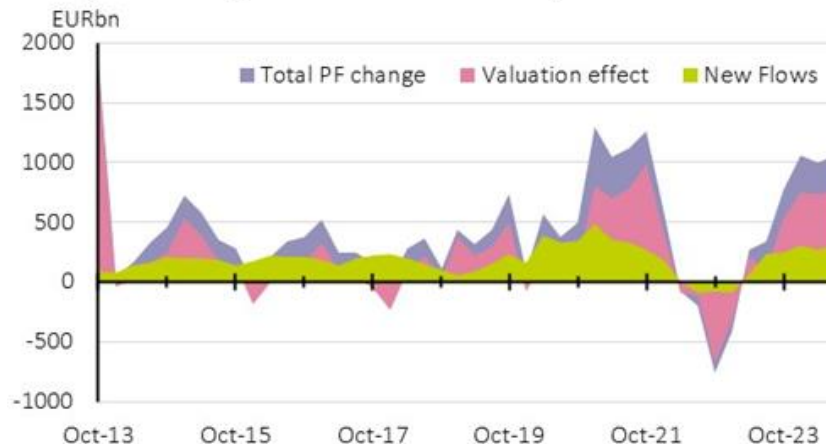
US-EA Income yield spread



Source: European Central Bank and AXA IM Research, February 2025

But massive capital gains

Change in holding of US financial assets by Euro area investors



Source: European Central Bank and AXA IM Research, February 2025

- See note: [Bretton Woods 3.0 | AXA IM UK](#)

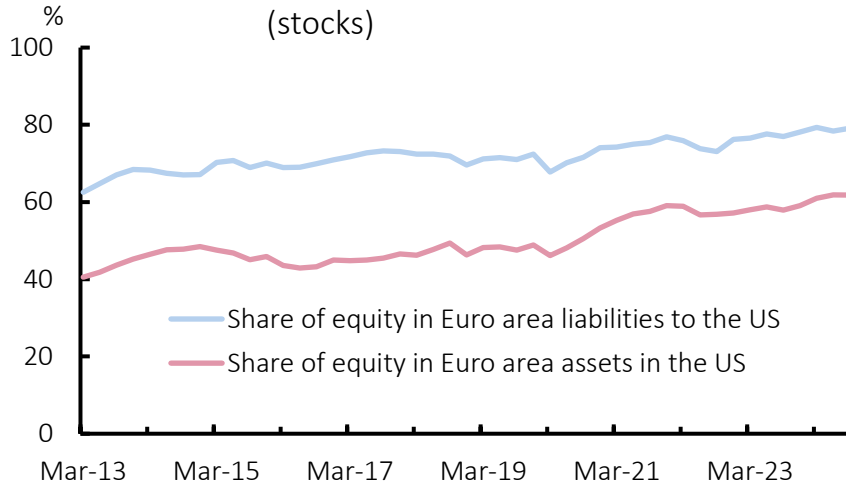
- Given US equity market outperformance – itself probably a reflection of stronger trend growth, Europeans are rational when they send their savings to the US

Debt/ equity breakdown: investors' preference rather than supply structure

Europeans buy more US debt, American investors buy more European equity

Different preferences for asset classes

Breakdown of bilateral portfolio investment
(stocks)



Source: ECB and AXA IM Research, February 2025

Although Europe's equity market capitalisation is about 1/4th of the US, equity dominate American investments in Europe, whereas Europeans favour more debt when they invest in the US (the recent rise in the share of equity is likely a consequence of the decline in bond prices/rise in equity prices).

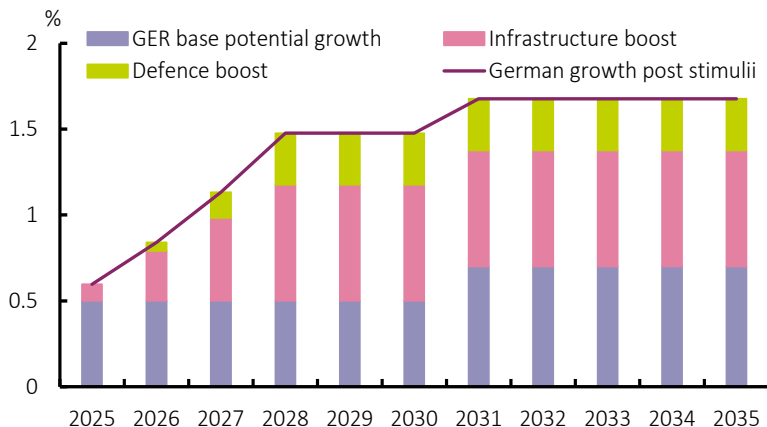
=> Would Europeans invest more in European equity under CMU, or does the preference for US debt reflect a structural preference for debt in general, irrespective of the local supply of assets?

A window of opportunity to strengthen the Euro as a reserve currency

If Europe ceases to be a « structural exporter of saving », less drawback from a reserve currency status

The German shift

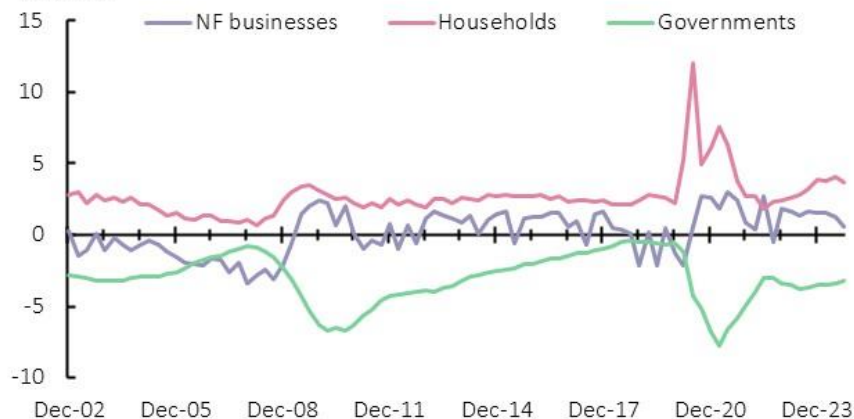
German GDP growth



Source: European Commission and AXA IM Research, March 2025

Towards the end of current account surpluses in Europe?

Net lending/net borrowing by sector in the EA
% of GDP



Source: European Central Bank and AXA IM Research, March 2025

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