AMERICAN POWER
PUT TO THE TEST

In the early hours of June 22, American B-2 strategic bombers took off from a base in the US Midwest, crossed half the world non-stop, hit three Iranian nuclear targets (Fordow, Natanz, Isfahan) with surgical precision and turned back, landing intact. No allies involved (at least officially). No advanced base needed. No diplomatic compromise. Just a muscular demonstration, perfect in form and message.

This military operation, technically impeccable, is one of the most striking affirmations of American *hard power*. It is not just a question of power: it is a symbolic act, wanted by Donald Trump, to show the world that the United States can do it alone. The "America First" doctrine can also go further and turn into "America Alone", and not by necessity but by choice. The attack is an integral part of the narrative that Trump is pursuing in his second term: an America that stands on two pillars. On the one hand, military strength, on the other, *business*, with the stock markets that can only rise, barring ephemeral interruptions. Supporting her is an enthusiastic electoral base: the people of "MAGA investors", small patriotic savers or simply opportunists, as part of the presidential *entourage*, who invest every day in the American stock market, despite worrying economic signals.

Their weapon of choice? Call options with daily expiration, highly speculative. Their platforms? Robinhood, Webull, Investing. The tools are free, sophisticated, often powered by artificial intelligence. The reasons? Ideological, but also concrete: making money, easy, thanks to Trump. The belief is that the president protects the markets and therefore also their portfolios. According to Morgan Stanley, *retail* investors now account for about 40% of the daily transaction volume on the S&P 500. They are the ones who, with a mixture of hope, patriotism and technology, pushed the main American index to exceed its all-time highs on June 27.

Not everyone shares this euphoria. Warren Buffett, with about $300 billion in cash, remained on the sidelines of the spring *rally*. Many pension funds and institutional investment funds remain cautious. The top-down macroeconomic approach does not help them. For example, the US Gross Domestic Product (GDP) in the second quarter was revised to -0.5% (against expectations of -0.2%); *core* inflation (PCE) rose to 2.7% (it was 2.6% in May). JP Morgan has increased the probability of a recession within 12 months to 40%.

The economy slows down, but the market flies. The price of energy, a key factor in controlling inflation, has become a strategic pressure point, which Trump seeks to keep low at all costs. For this reason, the *escalation* in Iran must only be short-lived, subordinating to this objective also the ambitions of Netanyahu who would have liked to continue until the fall of the Ayatollahs' regime.

The month of June saw a new explosion in purchases on technology stocks and in particular on the FANG+ universe (Facebook, Apple, Netflix, Google, Nvidia, Tesla, etc.), with an average gain close to 8%. The stocks most exposed to artificial intelligence have been the driving force, which not only promises, but is beginning to demonstrate tangible productivity gains: the MSCI World has surpassed its all-time highs. Asia responded positively with Japan (+5.9%), South Korea (+13%) and China rising between +2% and +4%. In Europe, on the other hand, the *rally* took a break with the Eurostoxx 50 down 0.76% in June, (+8.78% since the beginning of the year) and the Swiss SMI, -2% in June, weighed down by Nestlé (+3.27% since the beginning of the year). And the British FTSE 100, up moderately by 0.3% (+7.66% since the beginning of the year), supported by a draft tariff agreement with the US and signs of upcoming rate cuts by the Bank of England. In June, it was noted that the absence of technological giants of artificial intelligence penalized Europe, while the lack of an agreement on tariffs with the US exposes it to a perception of fragility.

Despite the new equity highs, the dollar is in deep retracement: -3.5% against the EUR and CHF in June, increasing a depreciation that against these two currencies since the beginning of the year is around 13%. In fact, the currency market conveys a different message: the global centrality of the dollar is in question. The replacement of *soft power* with *hard power* does not convince some large international investors and analysts. Kori Schake, in the latest issue of *Foreign Affairs*, setting the tone for the whole magazine, believes that the assumptions of Trump and his team are based on a couple of wrong assumptions: "(...) other nations, international organizations, the business world, and civil society organizations can only capitulate to American demands, and even if alternatives emerge, the United States can remain predominant even without allies. This is solipsism disguised as strategy. Instead of producing a less restrictive order in which America can flourish, we fall into a hostile system in which American power will dissolve."[1],

The BRICS, although weak as an organization, appear increasingly determined. China leads the resistance front, India benefits and stalls, Russia takes advantage of Trump's geopolitics by trying to become an ally "of necessity", Brazil observes, and South Africa experiments.

It is true that the strengths of the United States, as Schake herself admits, are impressive. No other power is so focused on its market and so little on external trade. Half of global trade and 90% of foreign exchange transactions take place in dollars, fueling a store of value that allows Washington to live beyond its real capacity. The centrality of the dollar also has the support of a moderately young workforce, talent trained in its universities, abundant natural resources, neighboring countries that are "friendly", or at least non-threatening. These elements, together with *soft power*, are - in part have been - Washington's strength. But how long can the United States afford to impose itself only with fear, with the power of the army? How many B-2 bombers will have to take off?

And Europe? Apparently it is motionless, but inside it something moves. Germany is becoming aware of its needs without the United States. It has decided for a substantial rearmament and wants to

[1] Kori Schake, "Dispensable Nation, America in a Post-American World," *Foreign Affairs*, vol. 104, no. 4, July-August 2025, p. 10.

invest in its obsolete infrastructure. It is a medium power, but it can have an enormous capacity to drag within the framework of the European Union. Its low debt (60% of GDP) allows it unique room for manoeuvre among advanced economies with a multiplier effect for the whole of the Old Continent. Moreover, the euro is today the only credible alternative to the dollar. It is a fragile currency because it is not the expression of a unitary state. But the German power only lacks the conviction to stimulate the entire European economy. A strong euro is also convenient for China to balance American excessive power. The financial markets have taken notice. The DAX has gained more than 20% since the beginning of the year and ended June +0.15%.

July is seasonally a good month for stock markets. It is possible that American institutional investors, put in difficulty by the performance of *retail*, will decide to enter more decisively to recover ground. The tactical ingredients are there: still abundant liquidity, expectations for the approval of the "Big Beautiful Bill", possible postponements or negotiated solutions on tariffs, expectations of inflation that could fall in the coming months, rate cuts by a growing number of central banks starting with the European Central Bank and the Swiss National Bank which have already started them while waiting for the Federal Reserve. Not to mention the *bottom-up approach* that retailers like and which could involve other investors if some leading companies are able to meet high earnings expectations.

However, the real arbiter of the future will be the bond market. If the *fixed income* sector also begins to discount the same fears as the currency market and the *international relations intelligentsia*, August may once again prove to be a volatile mounth, as seen in both 2023 and 2024.

The volatile *rally* in financial markets in the first half of 2025 was stunned by tariffs and driven by a surprising alliance between technology, *retail enthusiasm* in the United States and portfolio rebalancing flows in the rest of the world, with Europe at the center. The strength of this momentum will be confronted in the coming months with the global geopolitical and macroeconomic reality. Nothing is already defined.

Trump, the executor of a new American absolutist paradigm, could confront the pragmatic businessman Trump, hoping that he has not already done too much damage. It will be the bond market that will arbitrate this conflict. As of now, it is legitimate to grant some confidence to Europe, through Germany, but also to Italy (which remains connected to the continent's main economy), India and partially to China. Switzerland will remain a refuge in uncertainty with its currency and with the stock market which, with rates at zero, will return to revalue its main securities. While the historical commercial proximity to Berlin will also favor medium-sized companies. Gold will remain an important hedging tool. The dollar is already well along its devaluation path surrounded by extremes of pessimism.