



Q2 2024

# AMERICA'S SAFE HARBOR ADVANTAGE

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HOW IT WORKS, WHY IT MATTERS, AND HOW A  
RECKLESS PRESIDENCY COULD DAMAGE OUR  
CREDIT RATING, WRECK OUR ECONOMY, AND  
HURT YOUR BUSINESS



Safe Harbor Project

# INTRODUCTION TO SAFE HARBOR

## THEORY OF THE CASE



As the world's economic safe harbor, we're 4% of the world's population, but 16% of its economy – and we capture 30 cents of every foreign investment dollar. The world prefers to do business here because of our sound economy and business-friendly laws. We also have the reputation of honoring our deals and paying our bills.

This “safe harbor advantage” boosts the value of your home, your 401(k), and your business. It means you can borrow more – at lower rates. It means your dollar goes farther. For generations, that advantage has created jobs, boosted incomes, built fortunes, and maintained America's economic competitiveness.



Few Americans appreciate how damaging that advantage could destroy millions of jobs and wipe out trillions in asset value.

But serious investors – America's “smart money” – have always considered political threats to our safe harbor status. For years, they've warned about our rising debt and deepening dysfunction in Congress.

Now, many of them are warning that a reckless presidency could increase our political risk, substantially and irreversibly.



As Americans debate tax rates, trade wars, who's old, and what's “woke,” smart money investors can encourage them to look at the big picture.

We have a lot more to lose than most Americans realize.

## ABOUT THE SAFE HARBOR PROJECT

The Safe Harbor Project helps business leaders explain America's standing as the world's economic safe harbor – and the cost of losing it.

In partnership with trade groups, think tanks, and other business groups, we help executives, entrepreneurs, investors, and small business owners brief their communities, work with local media, and advocate online.

We produce research reports and other training materials. We also organize local events, national webinars, and media trainings.

To learn more, visit [www.safeharborus.com](http://www.safeharborus.com) or contact us at [info@safeharborus.com](mailto:info@safeharborus.com).

# TODAY'S MARKET FAILURE ON "WHO'S BETTER FOR THE ECONOMY?"

## WHILE CEOS SEE NO EVIL, SPEAK NO EVIL...

MAY 29, 2024  
JEFFREY SONNENFELD

THE COMING MAGA ASSAULT ON  
CAPITALISM

TIME

SEPTEMBER 30, 2023  
RONNIE CHATTERJI  
ANDREW WARD

SHOULD CEOS COMMENT ON  
POLITICALLY CONTENTIOUS TOPICS?

THE WALL STREET JOURNAL

JUNE 26, 2024  
ANDREW ROSS SORKIN

WHY MANY CEOS ARE SILENT ON  
THE BIDEN-TRUMP REMATCH

The New York Times

## ...PROMINENT INVESTORS WEIGH IN ON PARTS OF THE PROBLEM

### TAXES

JUNE 11, 2024

BILL GROSS PREFERS  
EUROPEAN BONDS OVER  
TREASURYS

MarketWatch

MAY 16, 2024

RAY DALIO BELIEVES THERE'S A  
35% OR EVEN 40% CHANCE OF  
A CIVIL WAR IN THE U.S.

MarketWatch

### POLARIZATION

MARCH 6, 2024  
MATT LEVIN

HOW INDEPENDENT ARE  
FEDERAL RESERVE OFFICIALS  
FROM POLITICIANS?

MARKETPLACE

### THE FED

JUNE 19, 2024

TO STABILIZE OUR ECONOMY  
AND WORKFORCE, ENCOURAGE  
MORE IMMIGRANTS TO BECOME  
CITIZENS

FASTCOMPANY

### IMMIGRATION

## THE BIG QUESTION

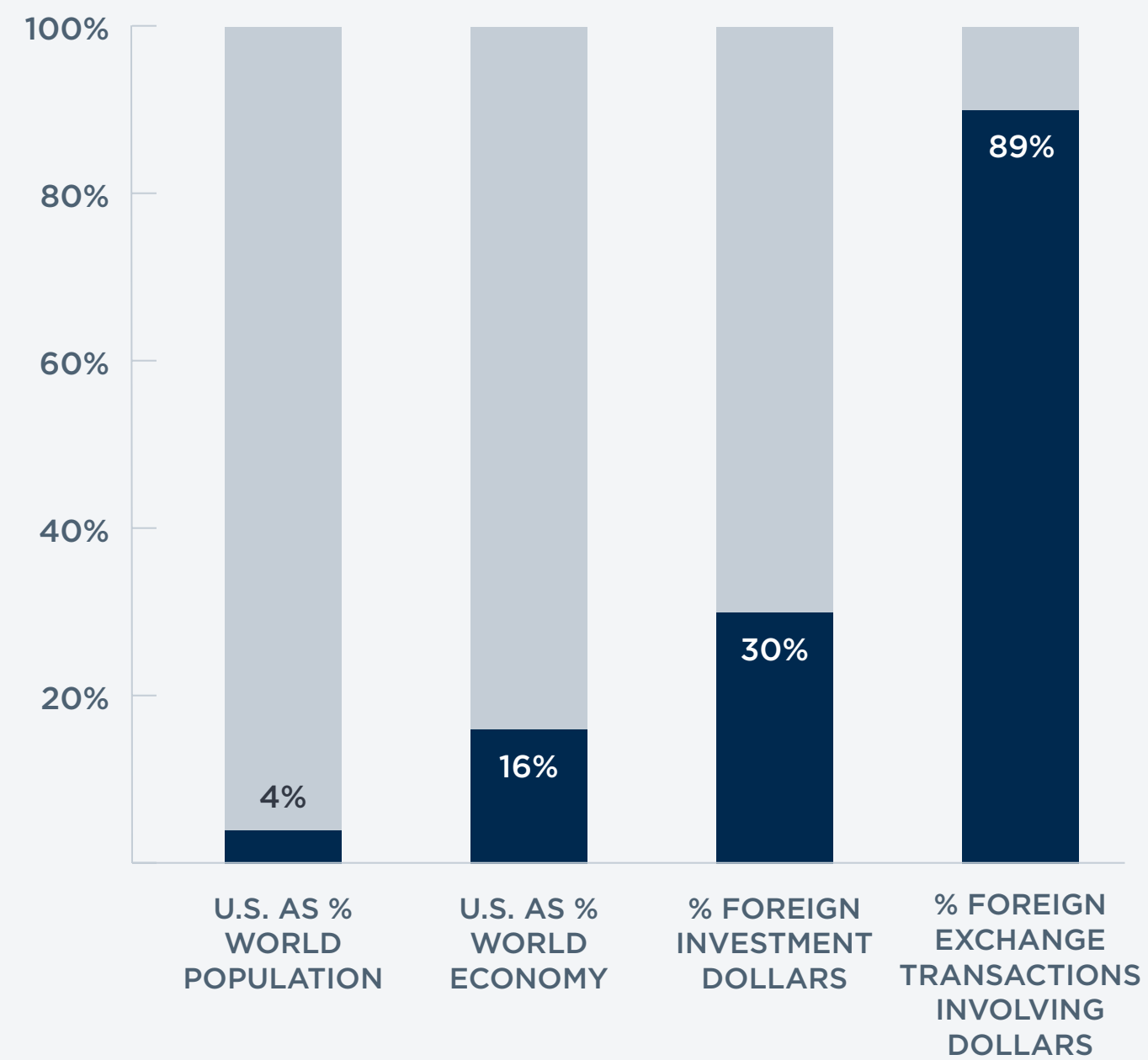
MAY 3, 2024  
PETER COY

WHAT WOULD HAPPEN IF THE U.S.  
SUDDENLY SEEMED LIKE A RISKY  
INVESTMENT?

The New York Times

# AMERICA'S "SAFE HARBOR ADVANTAGE" IS ONE OF THE BIGGEST WE HAVE

## THE WORLD PREFERS TO OWN U.S. ASSETS, SELL AND LEND TO U.S. CONSUMERS, AND TRANSACT IN DOLLARS



## THE BIG DEMAND FOR DOLLARS BENEFITS US ALL

**INCREASES** the value of your house, 401k, business



**LOWERS** the rate on your mortgage and business loans



**STRENGTHENS** the dollar, so it buys more imports



**REDUCES** the cost of government borrowing

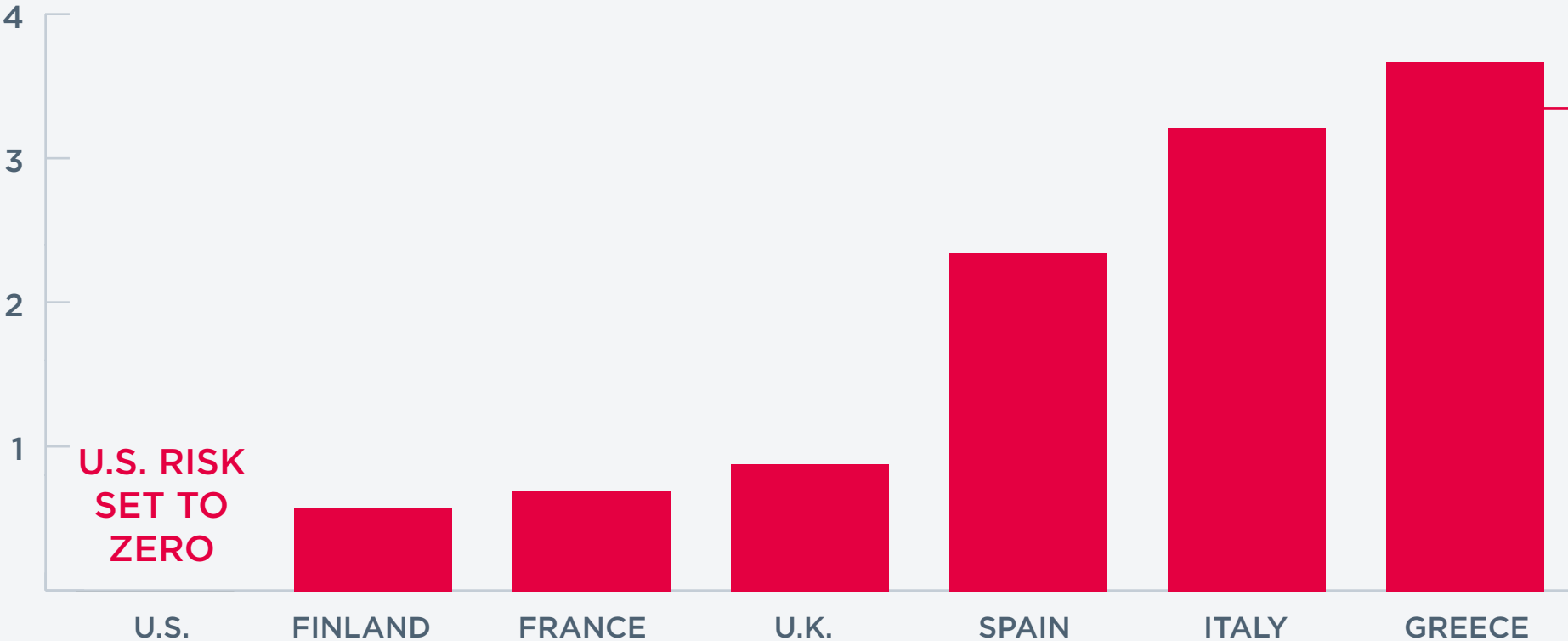


# HOW OUR SAFE HARBOR ADVANTAGE WORKS

**AMERICA'S COUNTRY RISK IS SET TO ZERO, RELATIVE TO OTHER COUNTRIES, CREATING AN ADVANTAGE FOR U.S. ASSETS AND DEBT**



ADDED COST DUE TO COUNTRY RISK<sup>1</sup>

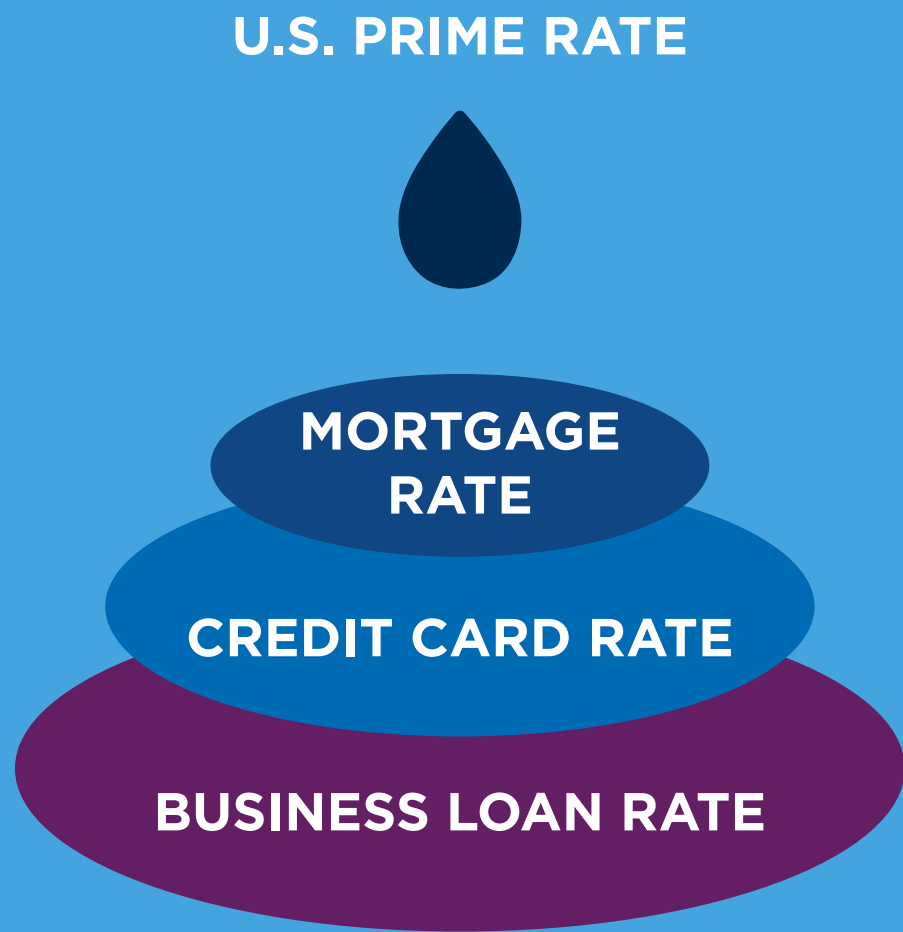


\* AS OF DECEMBER 31, 2023

**U.S. SAFE HARBOR ADVANTAGE WAS BUILT AND MAINTAINED OVER GENERATIONS**

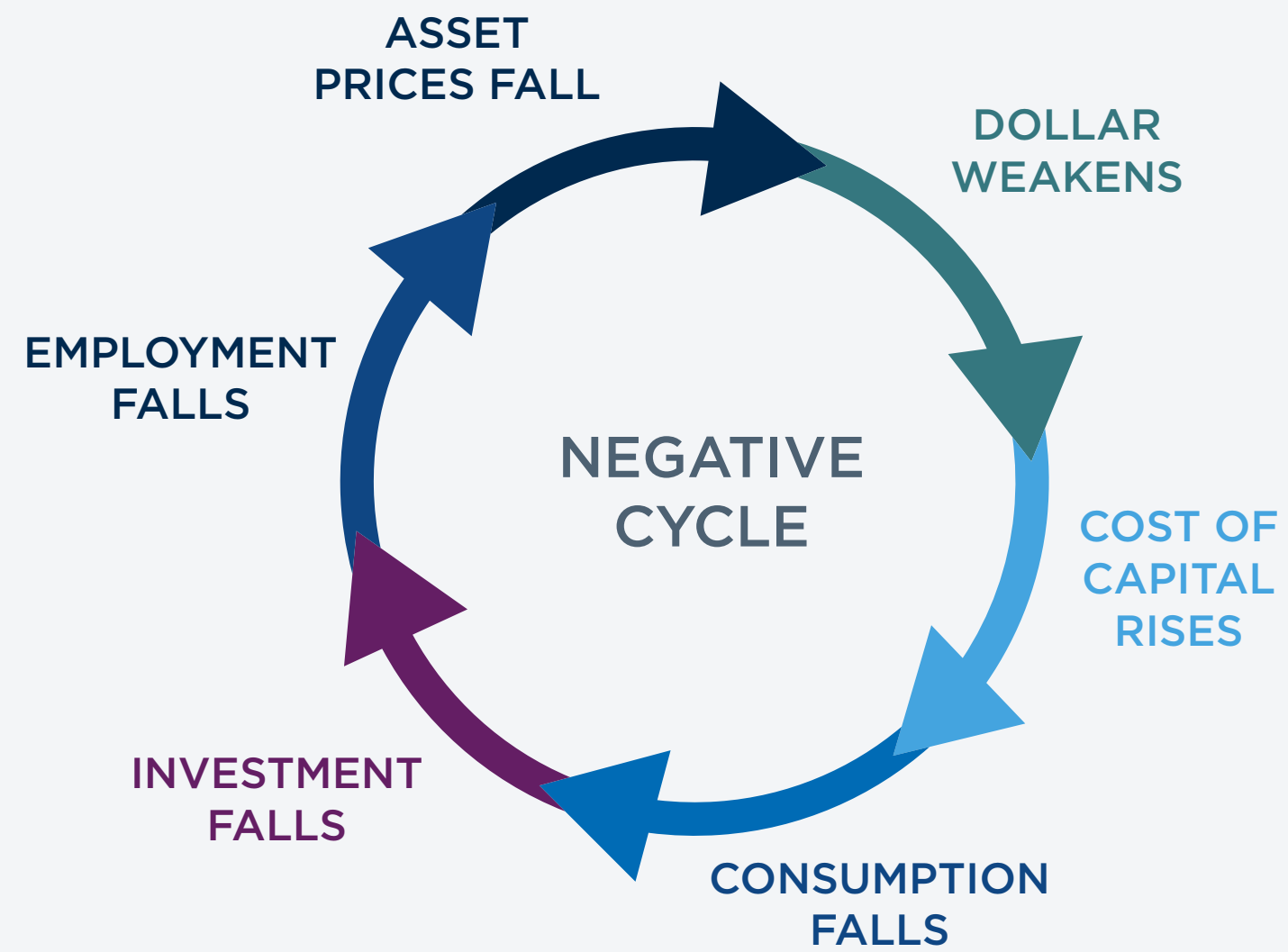
- REPUTATION FOR PAYING OUR BILLS
- STRONG CURRENCY
- GLOBAL CONFIDENCE IN U.S. TREASURIES
- CREDIBLE, INDEPENDENT FED AND TREASURY
- LARGE, STABLE ECONOMY
- LEGAL AND POLITICAL STABILITY

**OUR ENTIRE ECONOMY KEYS OFF THE U.S. GOVERNMENT'S CREDIT RATING**



# WHAT DAMAGING OUR SAFE HARBOR ADVANTAGE LOOKS LIKE

**BAD THINGS HAPPEN ALL AT ONCE - AND THEY AMPLIFY ONE ANOTHER IMMEDIATELY**



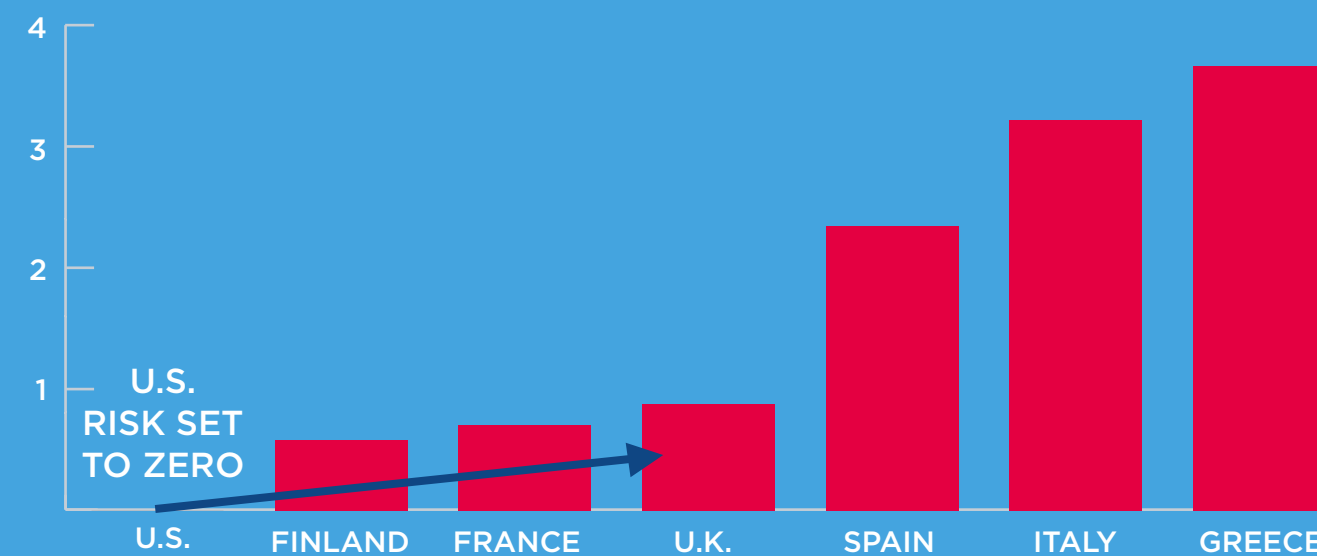
**TO APPRECIATE THE POWER OF OUR SAFE HARBOR ADVANTAGE, IMAGINE LIVING AND WORKING UNDER THE UK'S SAFE HARBOR ADVANTAGE**

Ten years with +88bps reduces aggregate equity wealth by

**17% or \$7 trillion**  
(nearly \$50K per household)

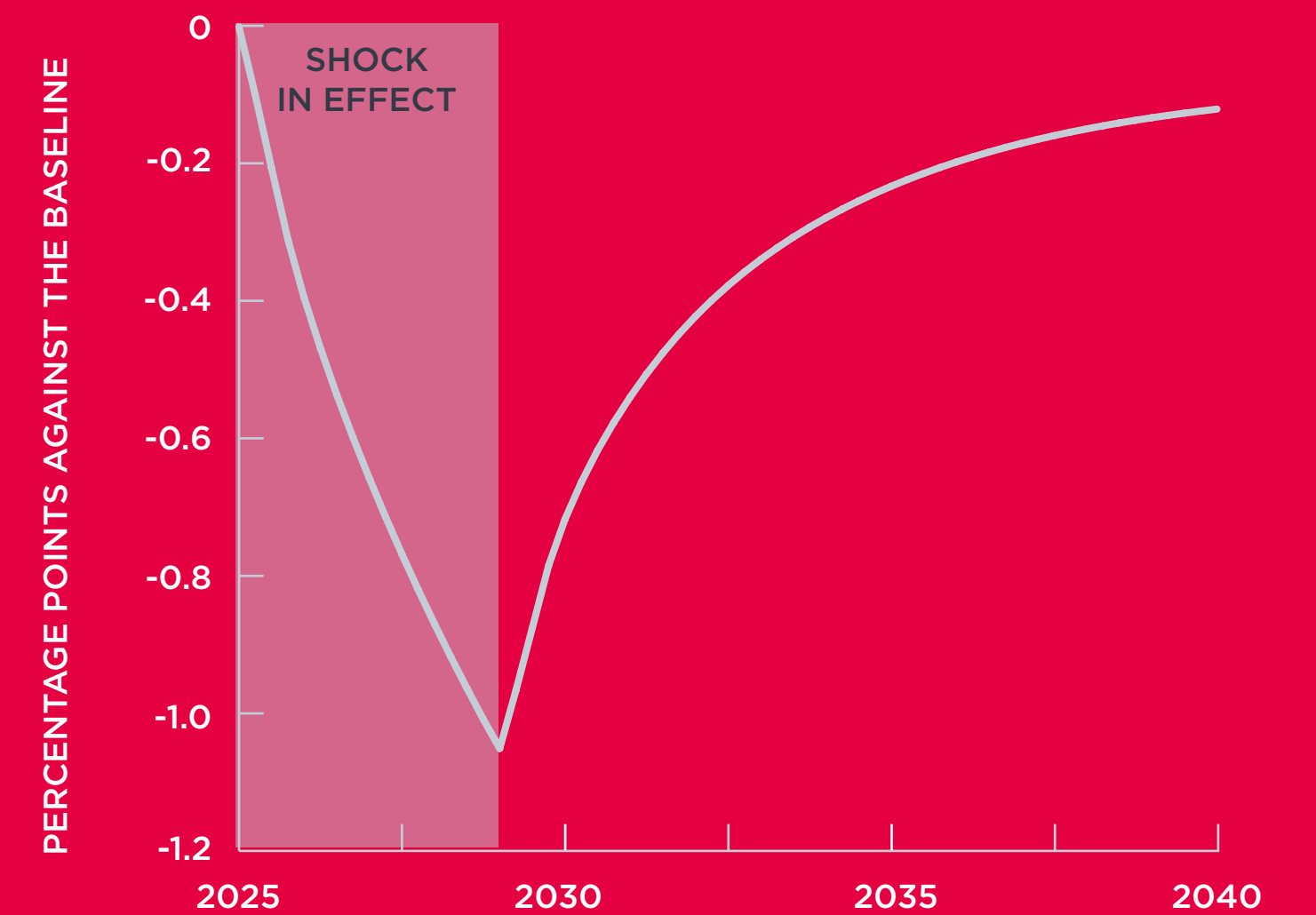
One million fewer jobs created<sup>2</sup>

**ADDED COST DUE TO COUNTRY RISK**



**AND EVEN IF THE RISK IS TEMPORARY, IT TAKES YEARS TO BUILD BACK**

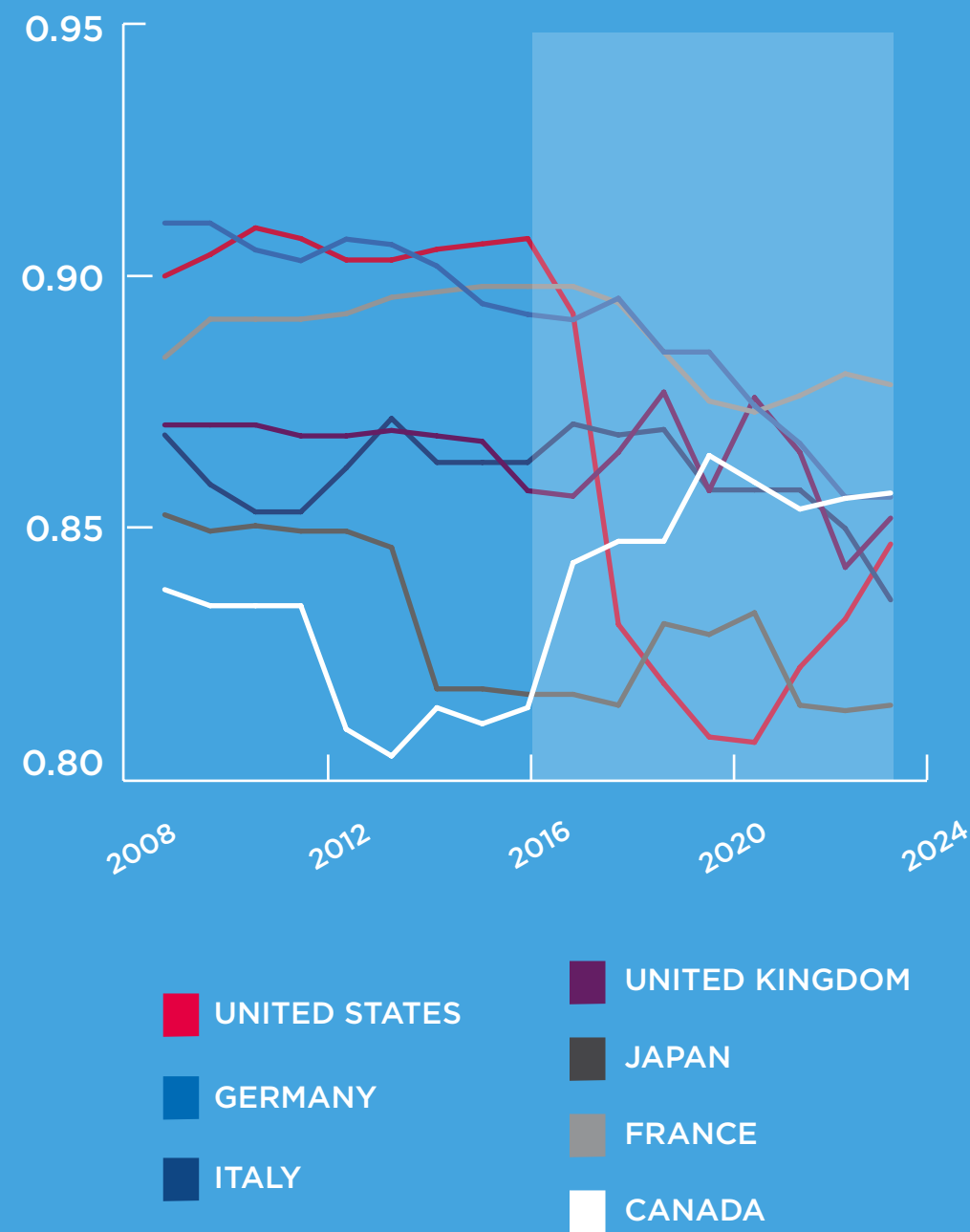
**EFFECT ON THE LEVEL OF REAL GDP OF A TEMPORARY +100 BASIS POINT INCREASE IN THE U.S. EQUITY RISK PREMIUM AND 10% DECLINE IN FDI<sup>3</sup>**



# WHY SMART MONEY IS WORRIED ABOUT OUR SAFE HARBOR ADVANTAGE

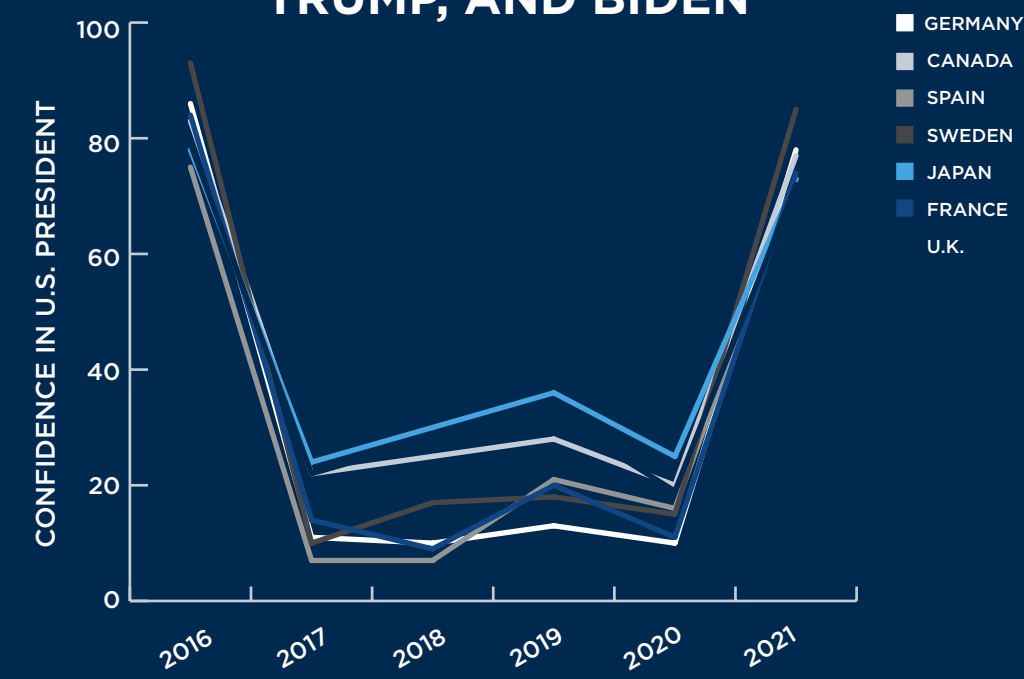
U.S. POLITICAL RISK, WHICH HAD BEEN FALLING FOR YEARS, ROSE UNDER TRUMP, IS IMPROVING UNDER BIDEN

ELECTORAL DEMOCRACY INDEX, G7 COUNTRIES<sup>4</sup> (2008-2023)

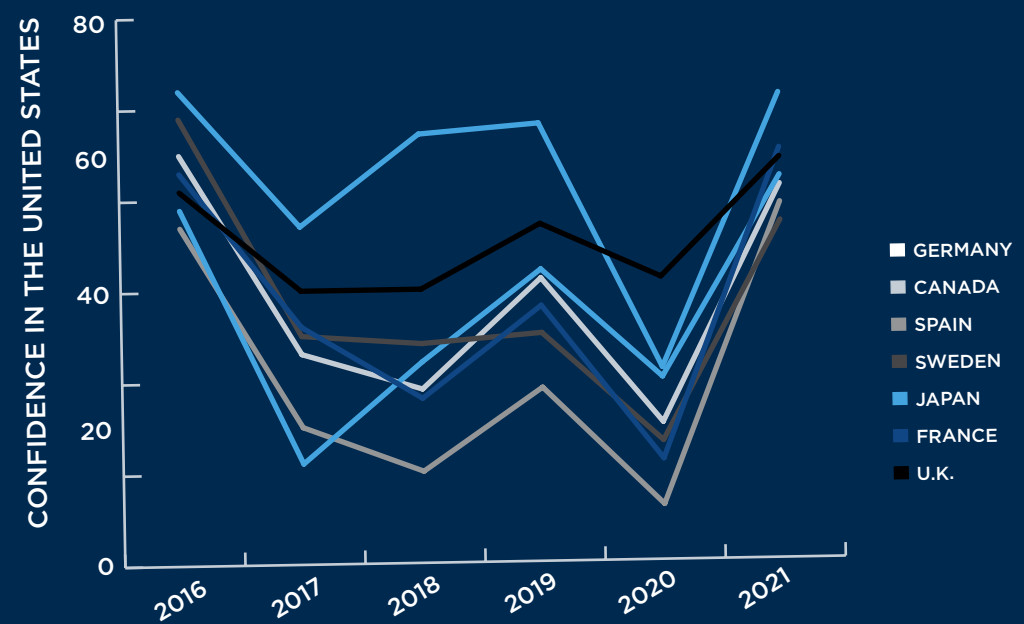


FOREIGN INVESTORS DIDN'T TRUST TRUMP -- AND THEY DIDN'T LIKE THE U.S. FOR ELECTING HIM

ALLY CONFIDENCE IN OBAMA, TRUMP, AND BIDEN<sup>5</sup>

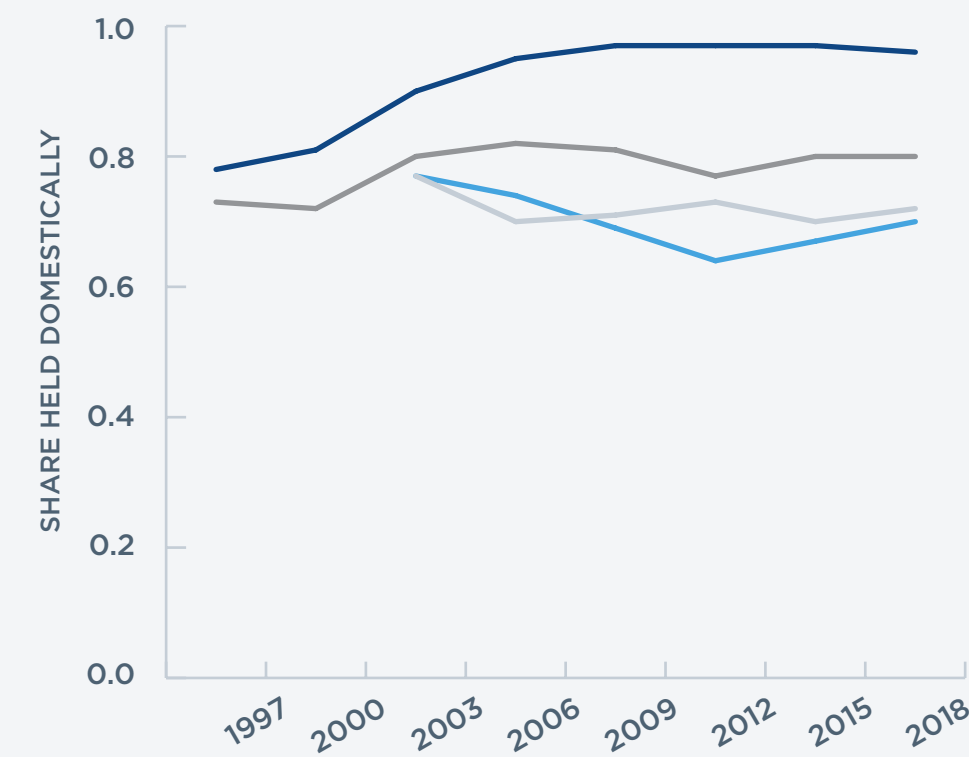


ALLY CONFIDENCE IN THE U.S.<sup>6</sup>



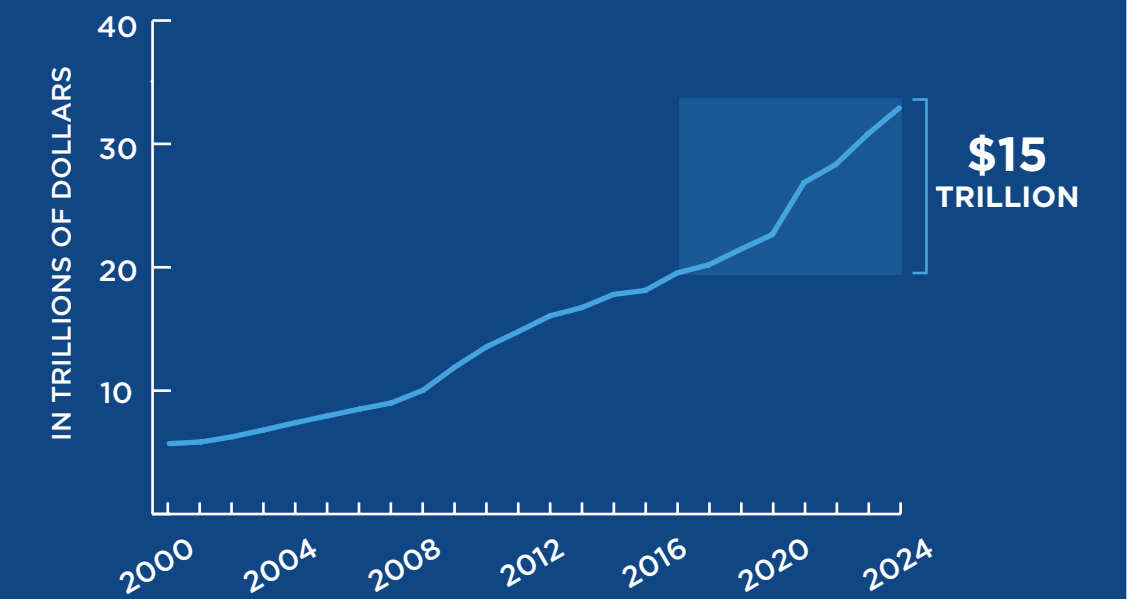
AMERICAN DEPENDS MORE ON FOREIGN INVESTMENT THAN OUR COMPETITORS DO

TRENDS IN GOVERNMENT DEBT<sup>7</sup> (1997-2018)



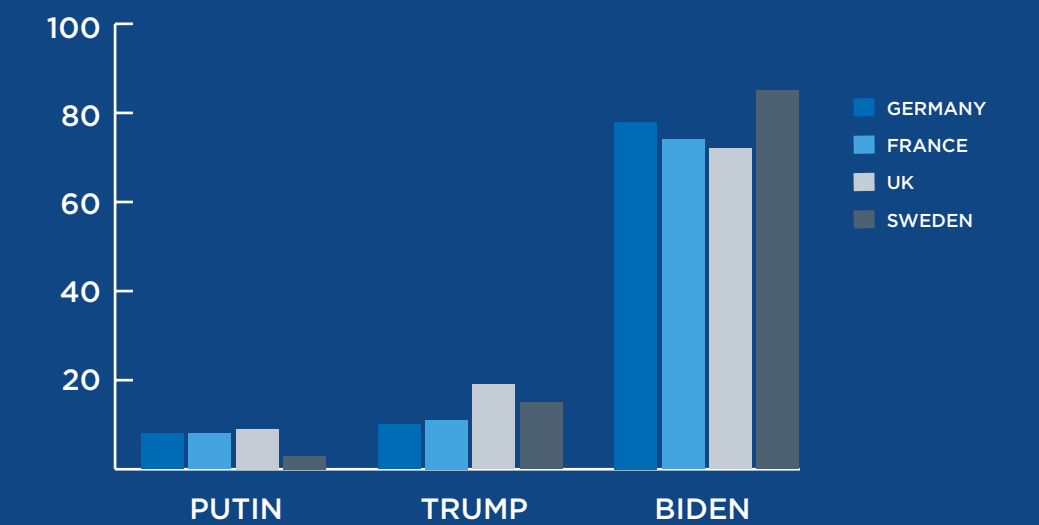
IT'S HARDER TO PUSH "AMERICA FIRST" WHEN YOU'RE CARRYING \$15 TRILLION IN NEW DEBT

U.S. DEBT<sup>8</sup> (2000-2024)



Who's a better salesman for U.S. debt?

EUROPEAN COUNTRIES' TRUST IN WORLD LEADERS<sup>9</sup>



# FOR SMART MONEY, IT'S LESS ABOUT A DEMOCRAT OR REPUBLICAN IN OFFICE; IT'S THE EROSION OF POLITICAL GUARDRAILS

## THE THREATS ARE DIFFERENT

- PULL OUT OF NATO
- 10% TARIFF ON ALL IMPORTS
- FED MAKEOVER/TAKEOVER
- MASS FIRINGS AT DOJ, PENTAGON
- PREEMPTIVE PARDONS FOR ELECTION INTERFERENCE

## FORMER CABINET WARNINGS VS. NEW LOYALTY TEST

Three out of five former Trump Cabinet members resigned in protest, were fired for refusing an improper order, resigned under scandal, challenged and/or oppose his candidacy.

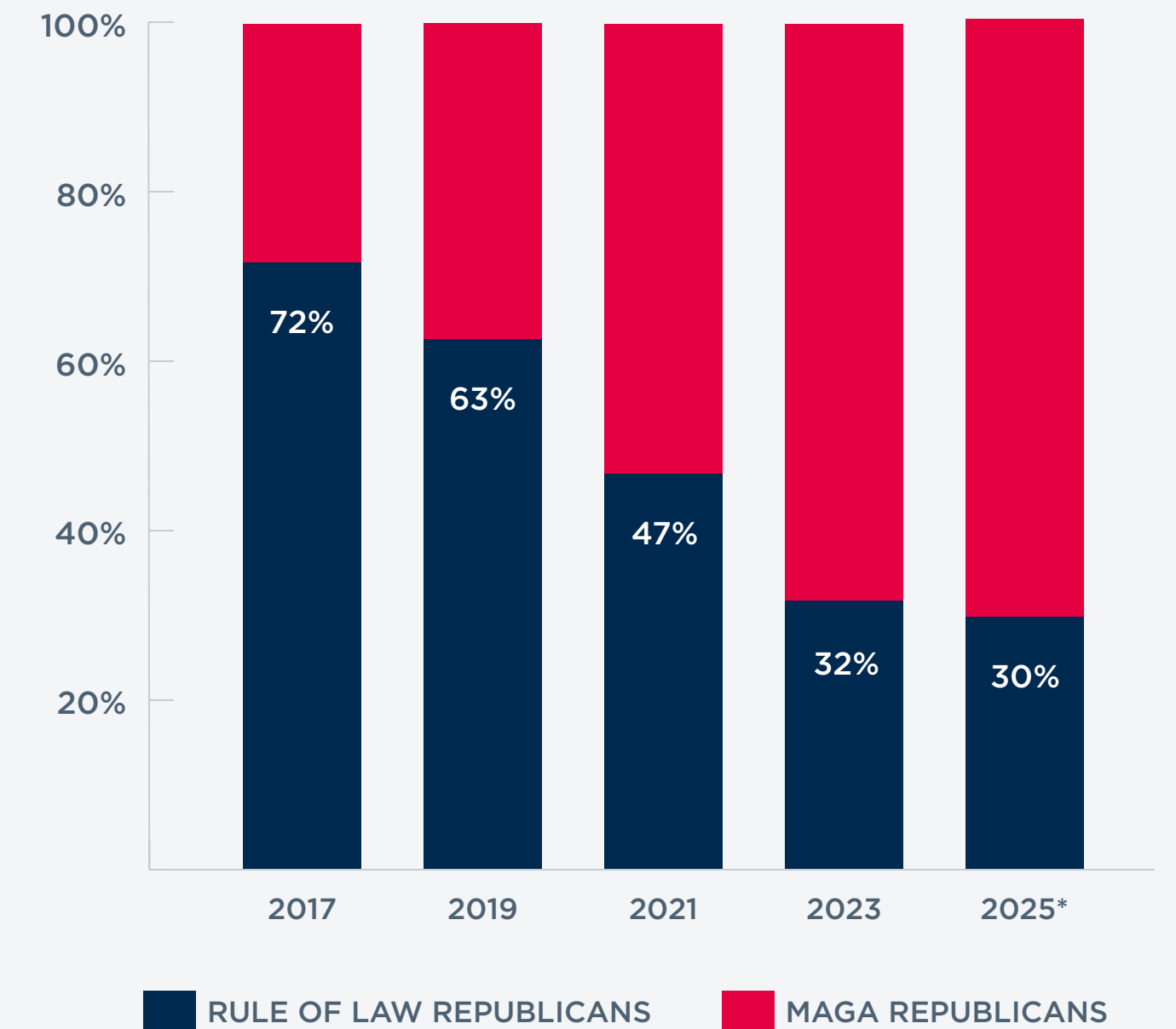


The new threat? A mandatory loyalty pledge and an election-deniers-only policy.

## CONGRESSIONAL "GUARDRAILS" ARE FAILING

Rule of law Republicans (like Ryan, McCain, Romney, and Portman) have been replaced with MAGA Republicans.

PERCENT OF RULE OF LAW REPUBLICANS VS. MAGA REPUBLICANS IN THE SENATE



\* PROJECTED



# SMART MONEY UNDERSTANDS FINANCIAL MARKETS TEND TO UNDERPRICE POLITICAL RISK, IN GENERAL, AND U.S. POLITICAL RISK, IN PARTICULAR

## POLITICAL RISKS MANIFEST IN LESS PREDICTABLE WAYS

Democracies perform better than autocracies, and free market democracies perform better than populist ones. Stable nations manage incremental risk well enough to avoid crises, while unstable nations face more “black swan” events.

When the UK left the EU without a plan, UK political risk rose, but demand for UK assets remained stable – until a new Prime Minister proposed a reckless national budget, causing an abrupt selloff.

## THE U.S. OPERATES IN A “BENCHMARK BLINDSPOT”

Measuring country risk requires at least one benchmark nation set at 0% risk. We’re that nation.



## AMERICA’S PLACE AT THE CENTER OF GLOBAL CAPITAL FLOWS OFFSETS OUR FLAWS, UNTIL IT DOESN’T

The UK’s fall had only a modest impact on the rest of the world, because the UK represents just 2.2% of the global economy.

Our centrality cushions us against rising political risk, but that same centrality raises the stakes.



## WHEN MARKETS RESPOND LATE, THEY TEND TO OVERCORRECT

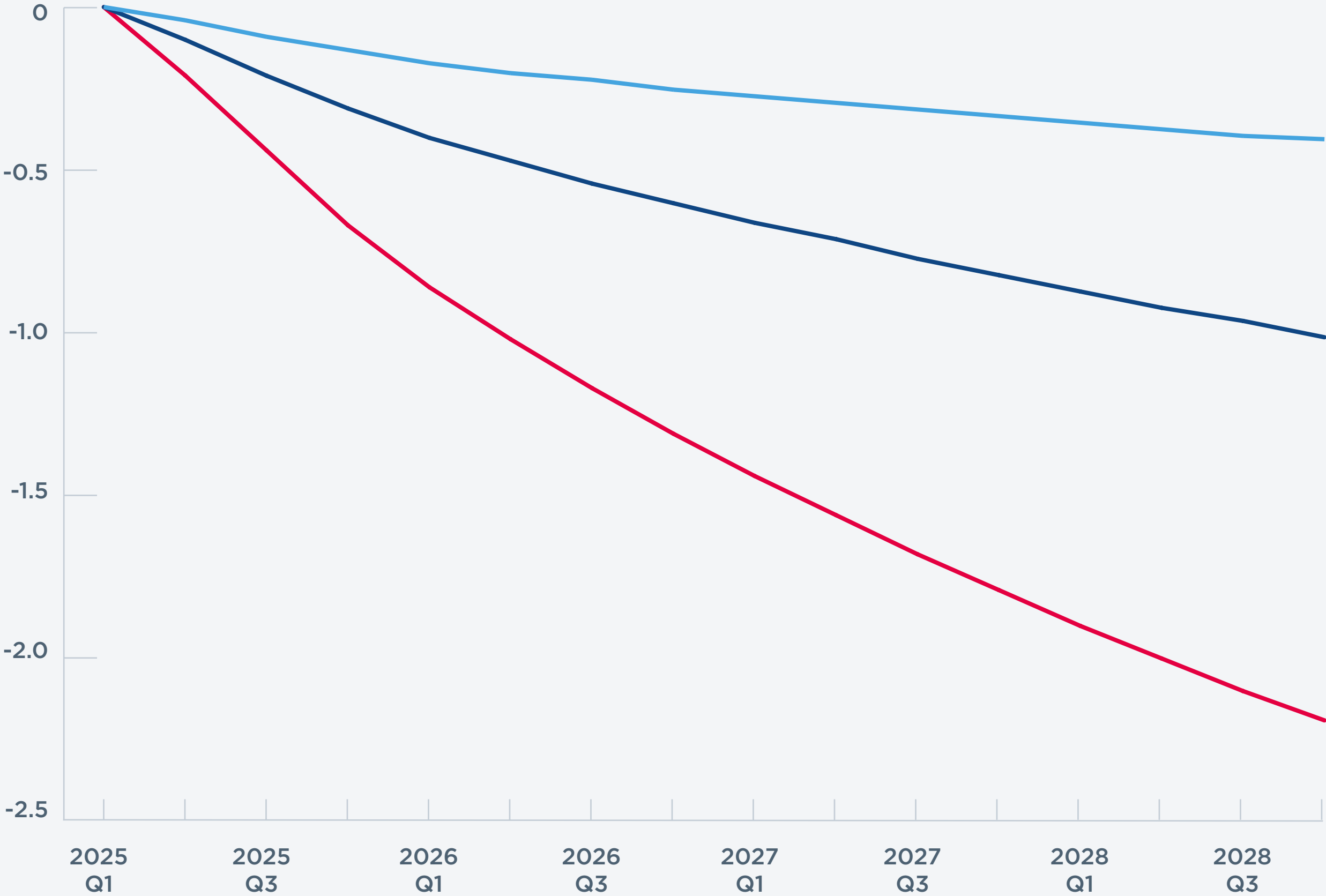
For much of 2011, Congress and the White House debated whether and how to raise the U.S. debt limit, closing the deal just hours before missing payments.

Financial markets realized Washington dysfunction was worse than they thought, and S&P downgraded U.S. Treasuries from AAA to AA+.

The next week:  
S&P 500 closed 7% lower (wiping out \$1 trillion in asset value);  
VIX doubled;  
BBB spreads jumped 50 bps.<sup>10</sup>

# THREE SCENARIOS: BAD, WORSE, AWFUL

A RECKLESS PRESIDENT'S EFFECT ON THE LEVEL OF REAL GDP DUE TO INCREASES IN U.S. EQUITY RISK PREMIUM<sup>11</sup>



**BEST CASE: HIGHER DEBT, POLITICAL RISK, AND FURTHER TAX CUTS INCREASE INVESTORS' DEMAND FOR HIGHER RETURN ON THEIR CAPITAL**

50 basis point increase | \$136B GDP lost by end of term

**ONE LIKELY CASE: BECOMES "DICTATOR FOR A DAY," LAUNCHES GLOBAL TRADE WAR, OR MESSES WITH THE FEDERAL RESERVE**

100 basis point increase | 239K jobs lost in first year; \$342B GDP lost by end of term

**WORST CASE: THE PRESIDENT, UNLEASHED, MAKES GOOD ON PROMISES OF "TERMINATION OF ALL RULES, REGULATIONS, AND ARTICLES, EVEN THOSE FOUND IN THE CONSTITUTION"**

300 basis point increase | 1.8M jobs lost in first year; \$743B GDP lost by end of term

# TRADE WAR CASE STUDY

## ALL TRADE WARS ARE EXPENSIVE; TRUMP'S FIRST ONE MADE NO SENSE

Prices rose for U.S. consumers and producers; retaliatory tariffs hurt U.S. exports; escalation drew in new products, sectors; consumption and investment fell.

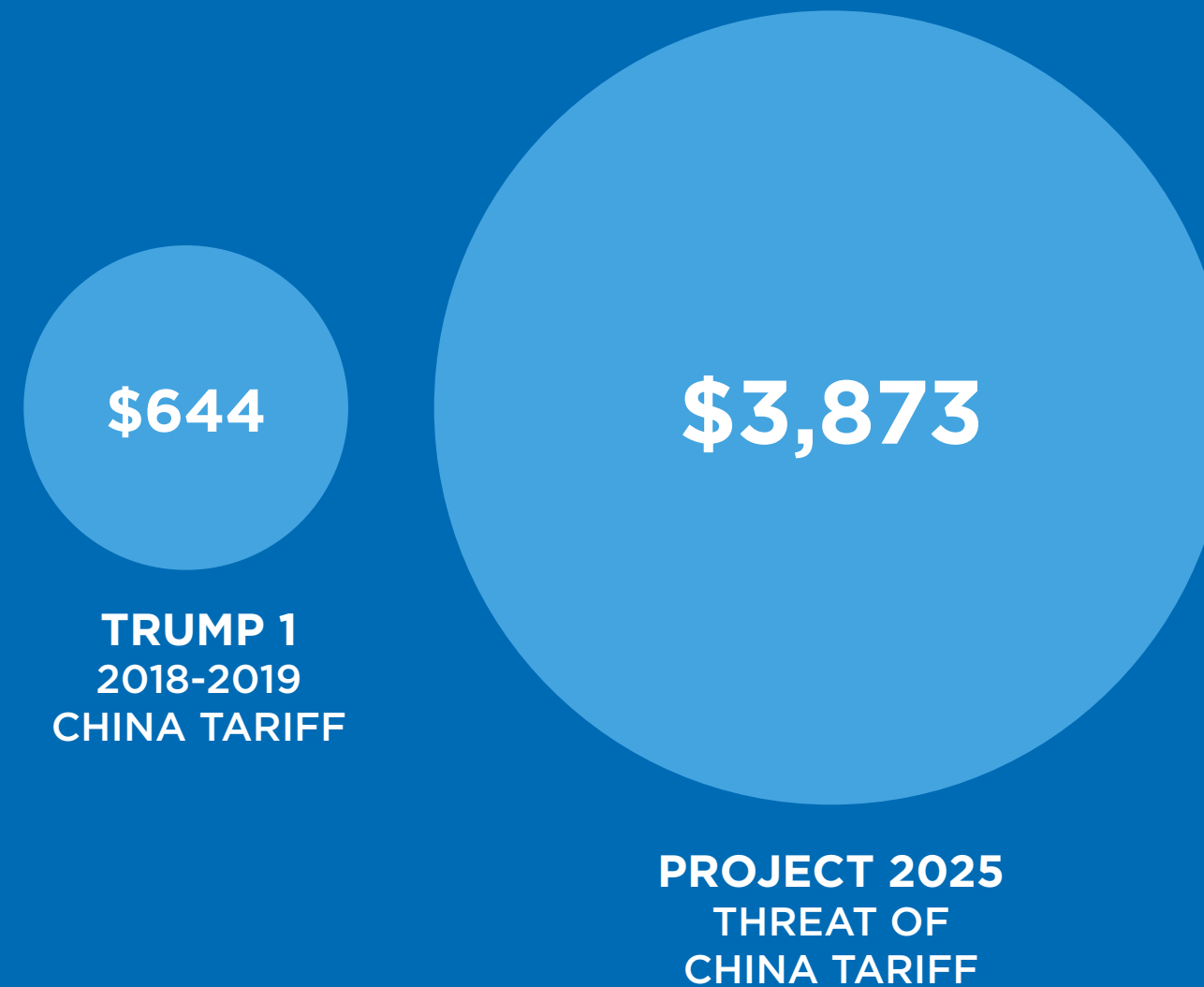
Worse, Trump 1 sacrificed our most important sectors, like agriculture, autos, and tech, for weaker ones, like steel and washing machines.

Trump 1 never forced China to make good on its \$200B "buy American" pledge.

## PROJECT 2025'S PROPOSED TRADE WAR WILL BE WORSE

10% global tariff + 60% tariff on all Chinese imports = \$3,873 added cost to consumer.

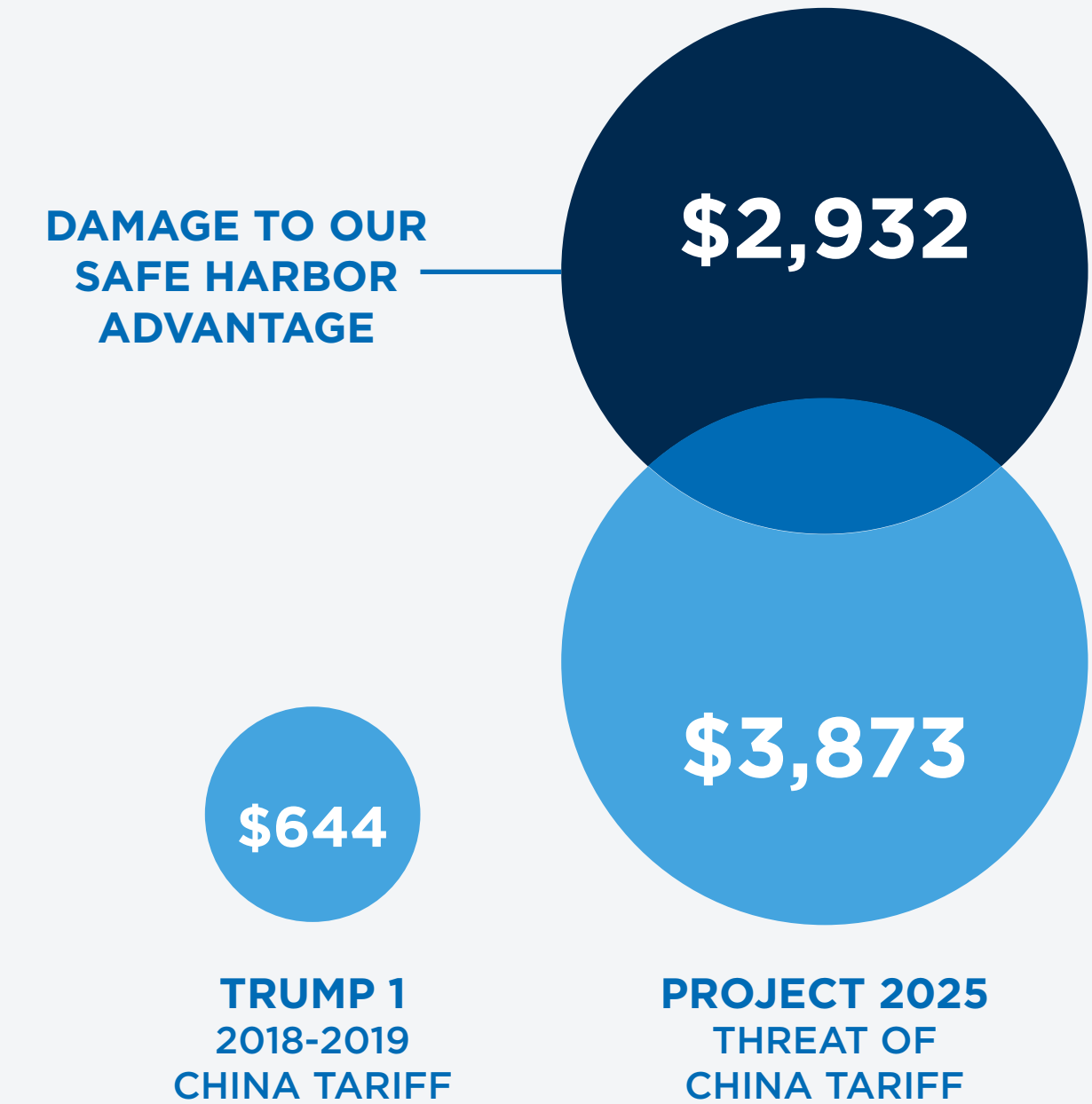
COST TO GDP PER HOUSEHOLD<sup>12</sup>  
IN DOLLARS



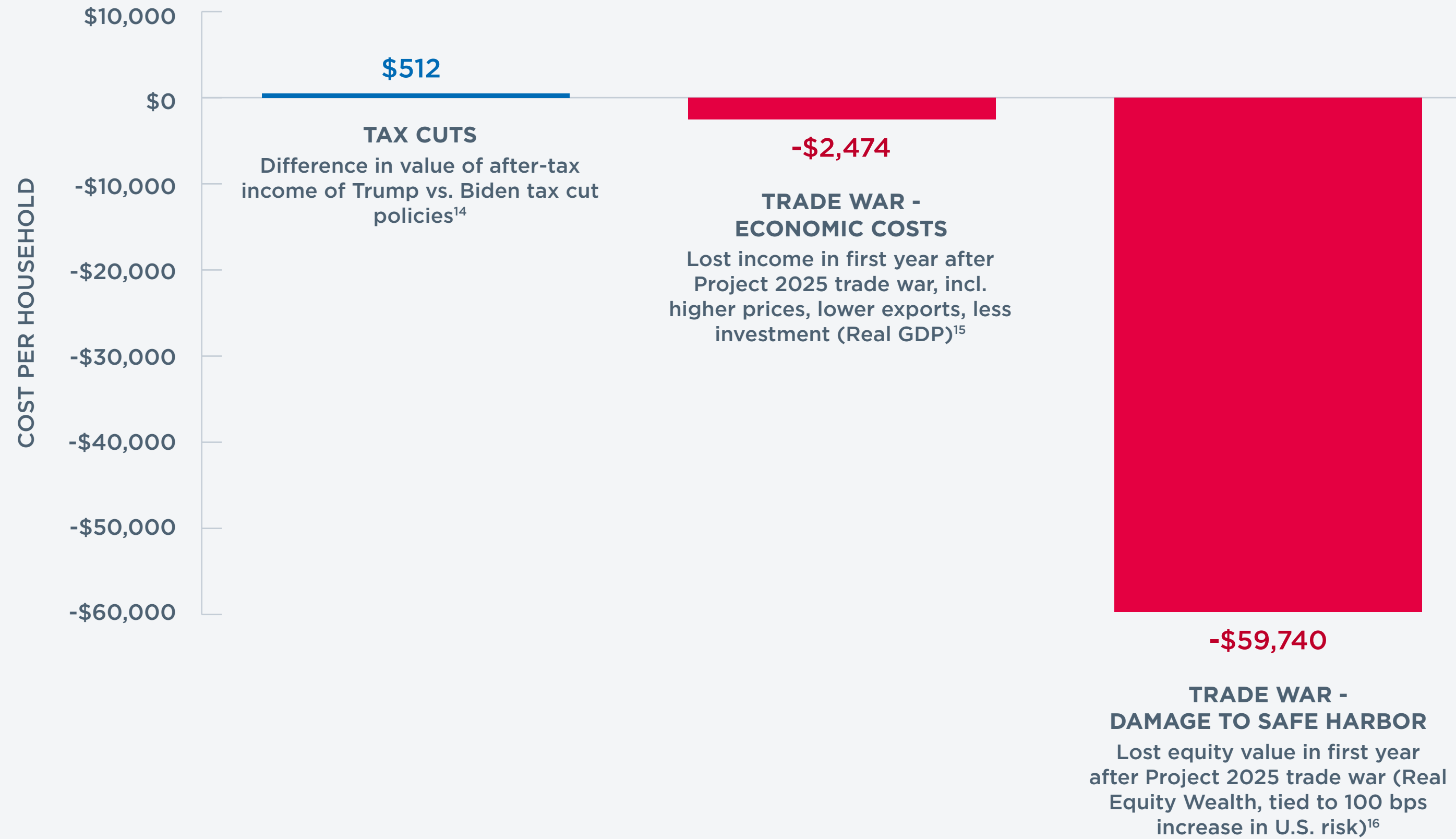
## A GLOBAL TRADE WAR THAT HURTS OUR CREDIT RATING NEARLY DOUBLES THE COST

Cost of a trade war that raises our political risk by 100 bps.

COST TO GDP PER HOUSEHOLD<sup>13</sup>  
IN DOLLARS



## HOUSEHOLD COST OF TAX POLICY VS. TRADE WARS



# ENDNOTES

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# Safe Harbor Project