

*Themistocles'  
lesson for the Fed*

Marvin Barth

Thematic Markets



# A thematic approach to forecasting

## Themes driving outlook:

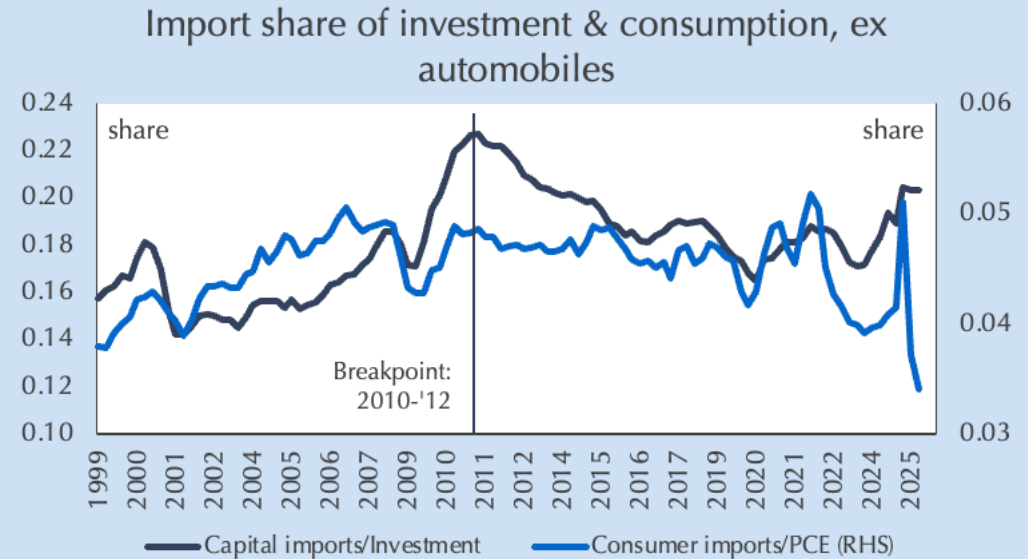
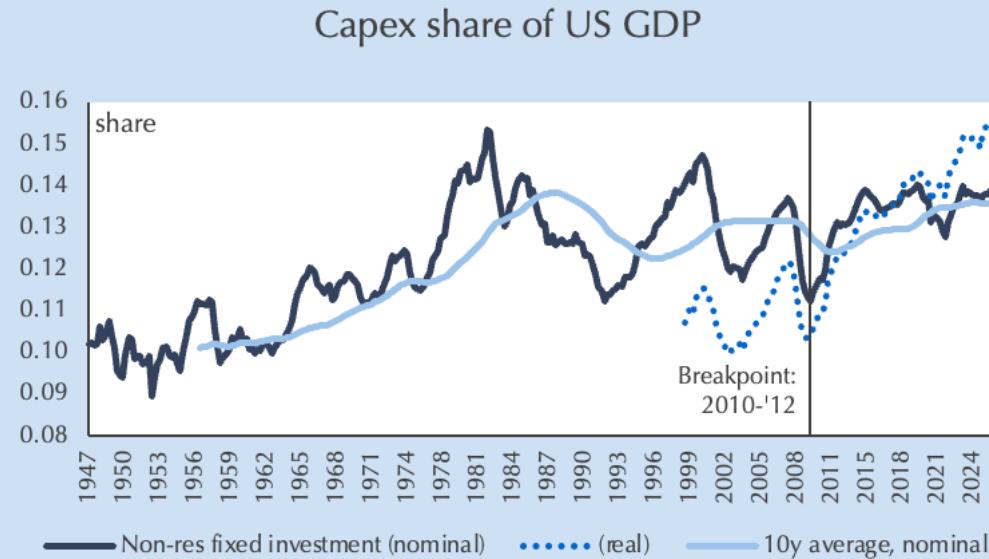
- *Localization*
- *Being is believing*
- *Global entropy*
- *The Politics of Rage*

## Political economy predictions:

- Higher  $y^*$ , MPK ( $r^*$ ), capex with less globalized manufacturing
- Beliefs-led inflation persistence (models miss)
- Rising AD (redundancy, resiliency, military), costs (resource nationalism, transport) & uncertainty
- Demands for democratic & institutional reform, decentralization, & deregulation



# Localization: The first casualty of AI & robotics - outsourcing



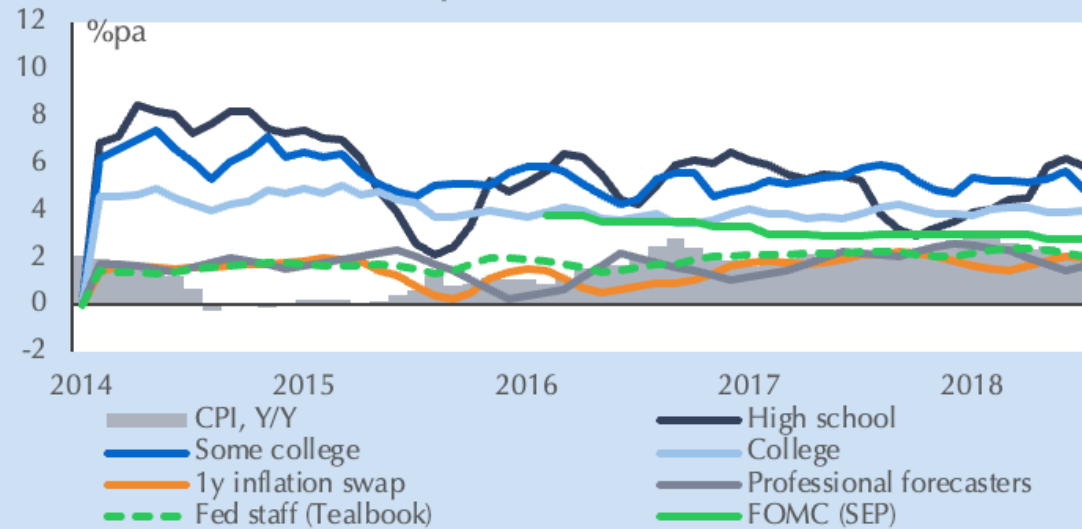
The world changed in 2012:

- Global FDI flows shift from AE -> EM to EM -> AE
- Largest post-War US investment boom began
- US import shares of investment & consumption peaked

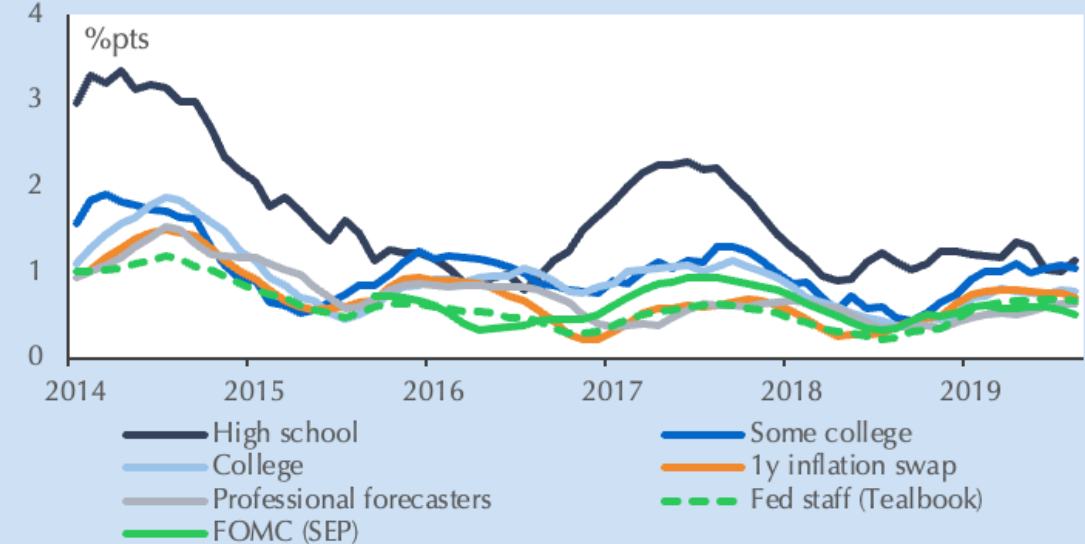


# Being is believing (1): When inflation expectations are stable

1y middle-income\* inflation expectations by education & "expert forecast" led 12m vs CPI



12m rolling RMSE† of 1y inflation expectations by education\* vs "experts"

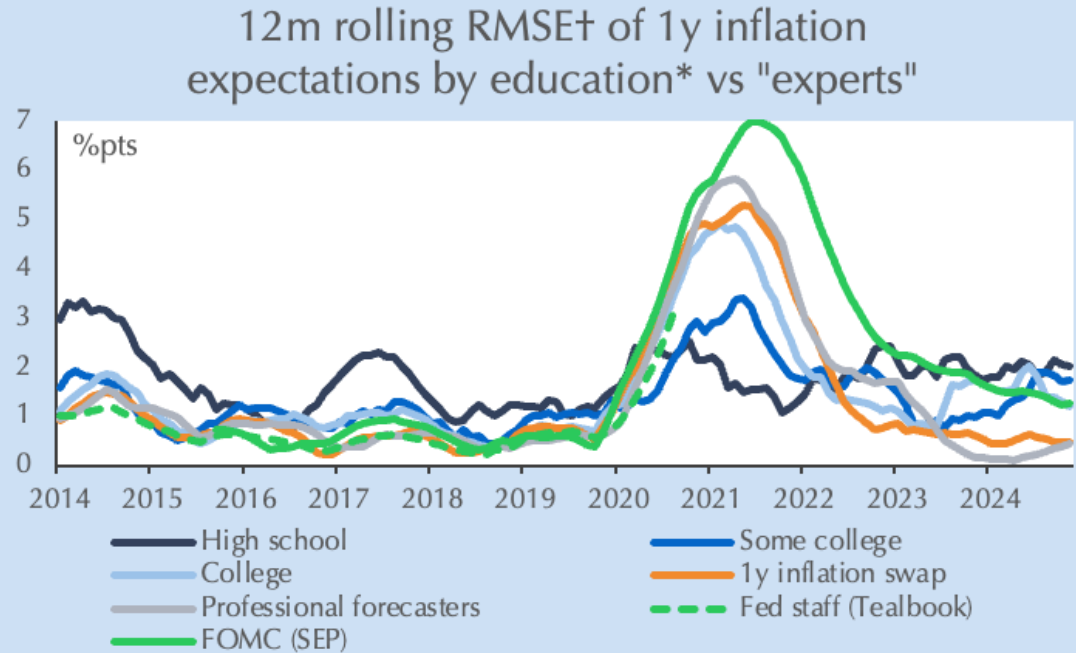
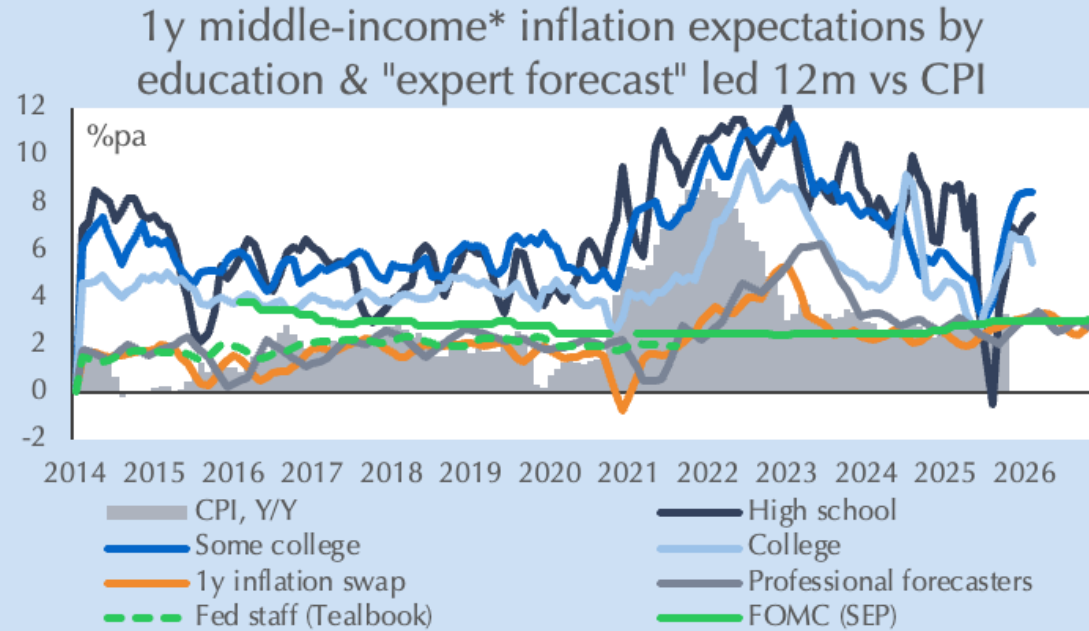


The econometricians win!

Take that Michael Bordo!



# Being is believing (2): Uh, oh! What happened?!



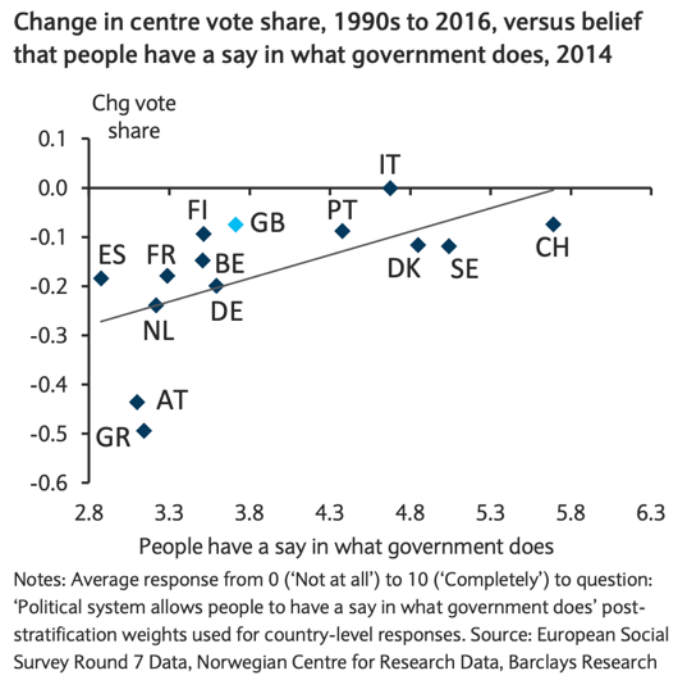
Revenge of the laypeople, narrative economics & Michael Bordo

“All models are wrong, but some are useful.” – George Box

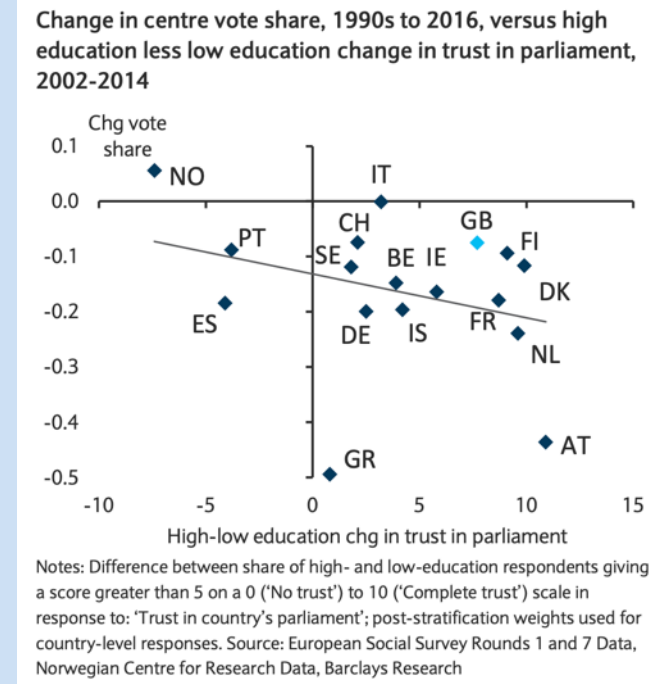


# Politics of Rage (1): Citizens' collapsing trust in elites

Citizens feel disenfranchised...



...by elites



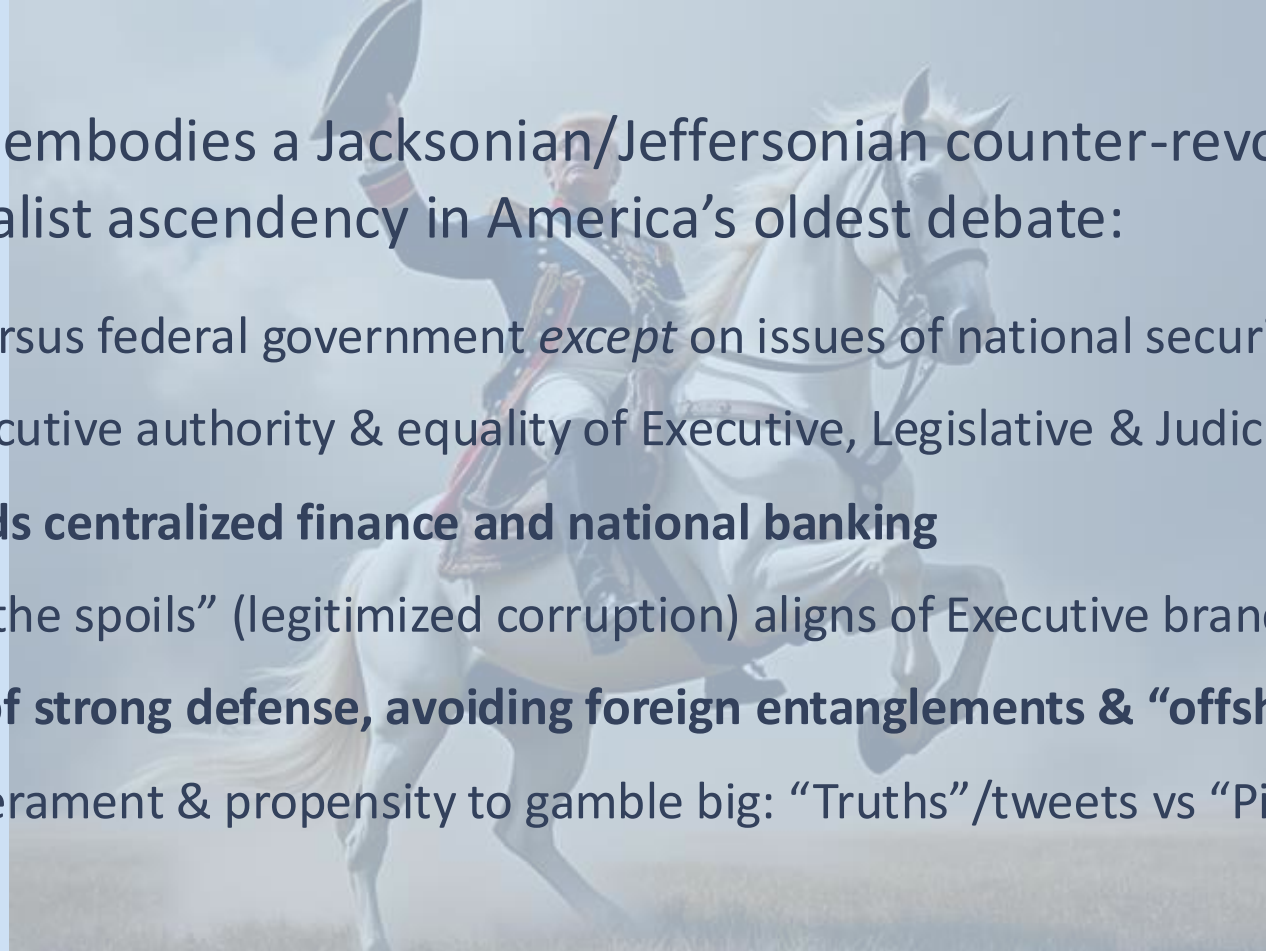
- Loss of trust in government, institutions, expertise
- David Shor: Low-trust, high-ed voters >>> Trump; high-trust, low-ed voters >>> Hillary\*
- Heidi Larson: Ignorance not responsible for anti-vaxers, conspiracy theories; loss of control is†



## Politics of Rage (2): America's Jacksonian counter-revolution

President Trump embodies a Jacksonian/Jeffersonian counter-revolution against a century of Federalist ascendancy in America's oldest debate:

- States' rights versus federal government *except* on issues of national security
- President is Executive authority & equality of Executive, Legislative & Judicial branches
- **Hostility towards centralized finance and national banking**
- "To the winner the spoils" (legitimized corruption) aligns of Executive branch with voters
- **Foreign policy of strong defense, avoiding foreign entanglements & "offshore balancing"**
- Jackson's temperament & propensity to gamble big: "Truths"/tweets vs "Pistols at dawn"



# Global entropy (1): Power requires industrial capacity

CNN World Africa Americas Asia Australia China Europe India Middle East More

**Western ammo stocks at 'bottom of the barrel' as Ukraine war drags on, NATO official warns**



**The Telegraph**

**US missiles would run out within days in war with China**

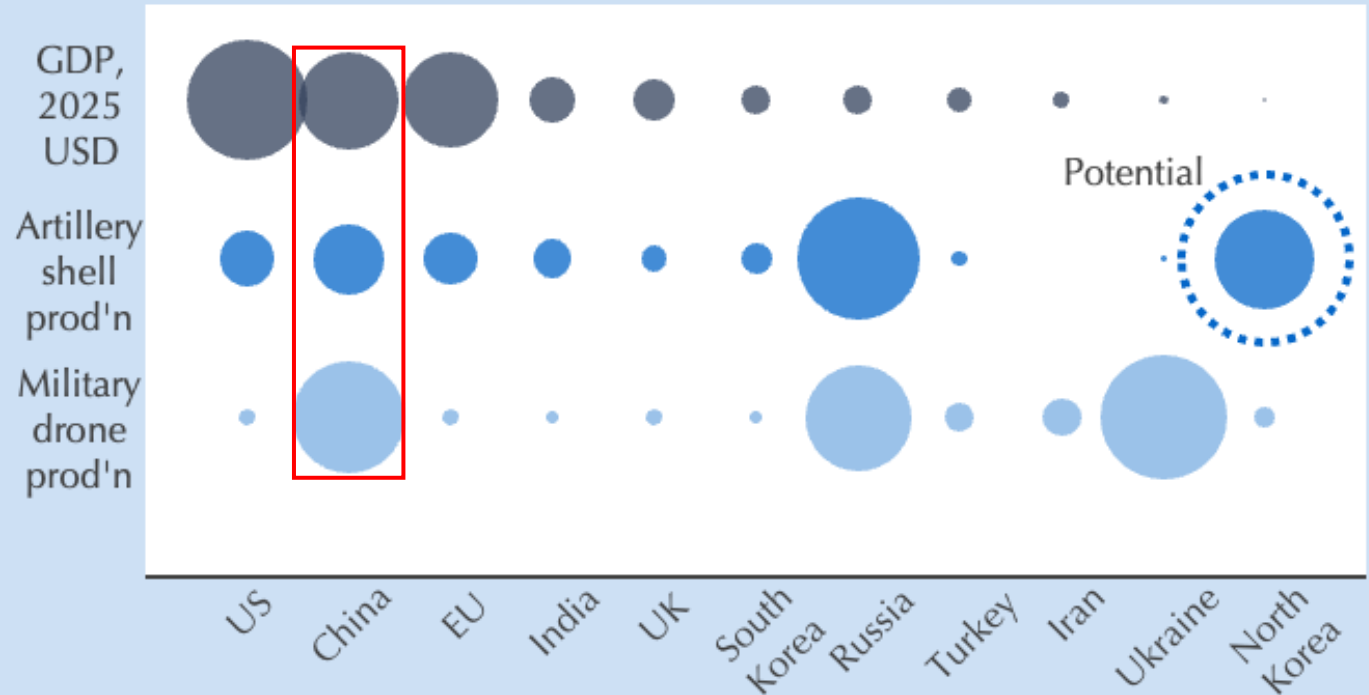
Wargame simulation will raise alarm bells among lawmakers who worry the US's defence industry is woefully underprepared to protect Taiwan

**RESPONSIBLE STATECRAFT**

**By the numbers: US missile capacity depleting fast**

Our industrial base isn't keeping up with the pace of weapons transfers to Ukraine and Israel

GDP ≠ military-industrial capacity

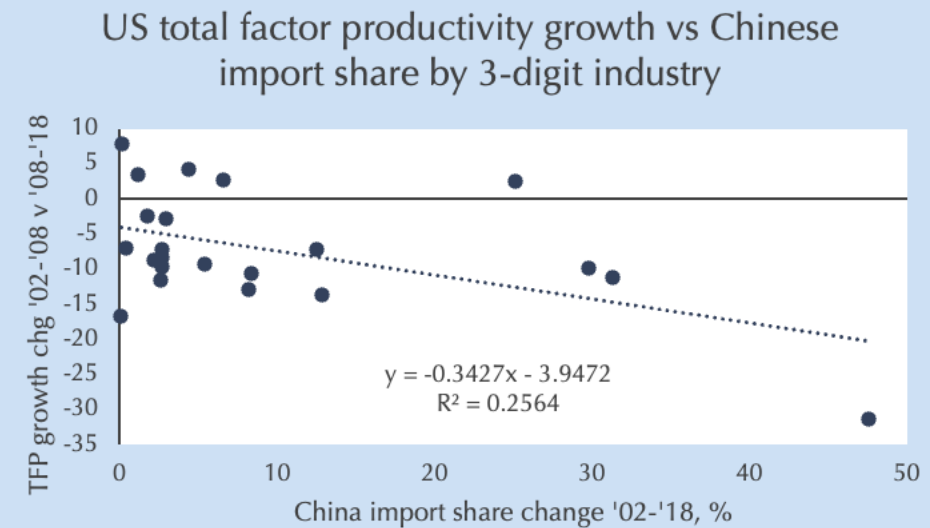


# Global entropy (2): Not a bug, a feature – “Unrestricted Warfare” as a geoeconomic shaping operation

*Time (not economically) efficient development...*



...While undermining strategic competitors

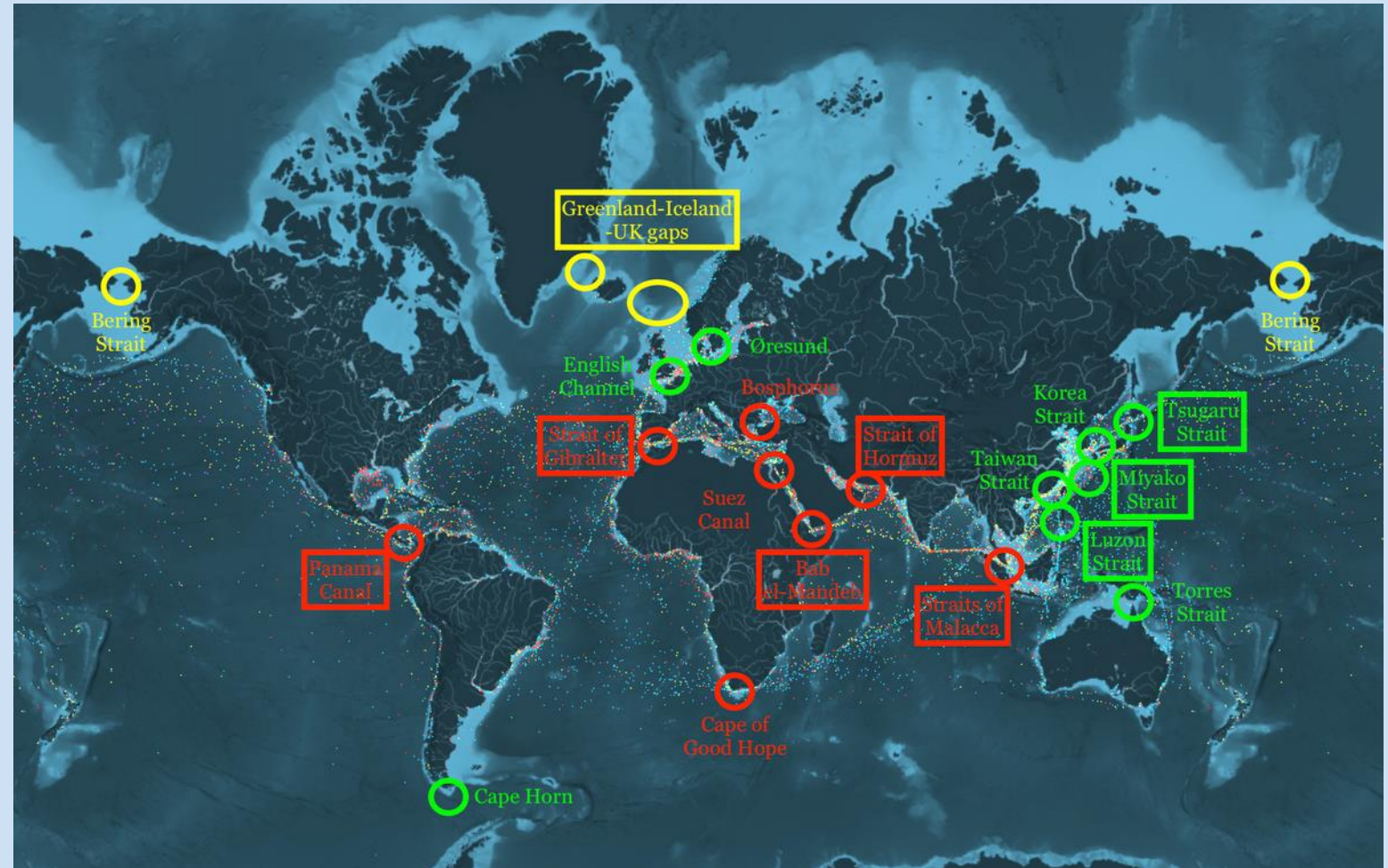


- Persistent Chinese overcapacity is not a bug, it is a geoeconomic shaping operation
- Rapidly climb technology frontier & build (military) industrial capacity
- Undermine strategic competitors' industrial capacity & technological leadership



## Global entropy (3): The US learns asymmetric (hybrid) warfare

- Security of Western Hemisphere waters & **access points**
- Control of **maritime chokepoints** controls critical resources
- Economic security requires **clear supply lines**




















# Implications: BOOM!

## Themes driving outlook:

- *Localization*
- *Being is believing*
- *Global entropy*
- *The Politics of Rage*

## Political economy predictions:

- Higher  $y^*$   GDP growth 2.7% (1y), 2.6% (3ya), 2.5% (10ya)
- Capex higher  Largest post-war capex boom
- Higher MPK  Real yields , EPS growth , ERP , \$ 
- Import compression 
- Accelerating price pressures 
- Rising demand for redundancy , resiliency , military 
- Rising resource nationalism 
- Rising uncertainty 
- Demands for institutional accountability 
- Decentralization (GENIUS Act, Fed balance sheet) 
- Deregulation (Reversal of Dodd-Frank) 



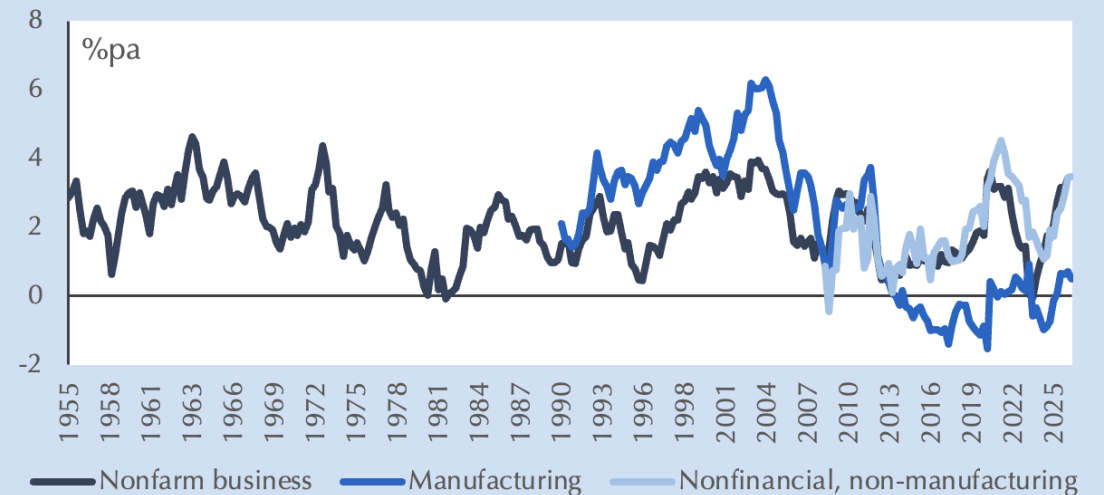
# Two examples: Viewing tariffs through alternative lens

Tariffs didn't deter investment in the US, they *accelerated* it

| 2025 Announced investments       | US\$ bns | US share | World share |
|----------------------------------|----------|----------|-------------|
| US total                         | 2,578    |          | 79%         |
| (Including full Stargate)        | 2,978    |          | 81%         |
| Of which, US manufacturing       | 1,368    | 53%      |             |
| Of which, after "Liberation Day" | 1,656    | 64%      |             |
| EU total                         | 96       |          | 3%          |
| UK total                         | 142      |          | 4%          |
| China total                      | 381      |          | 12%         |
| India total                      | 51       |          | 2%          |
| Total                            | 3,272    |          |             |
| (Including full Stargate)        | 3,672    |          |             |

As US manufacturing productivity turns a corner

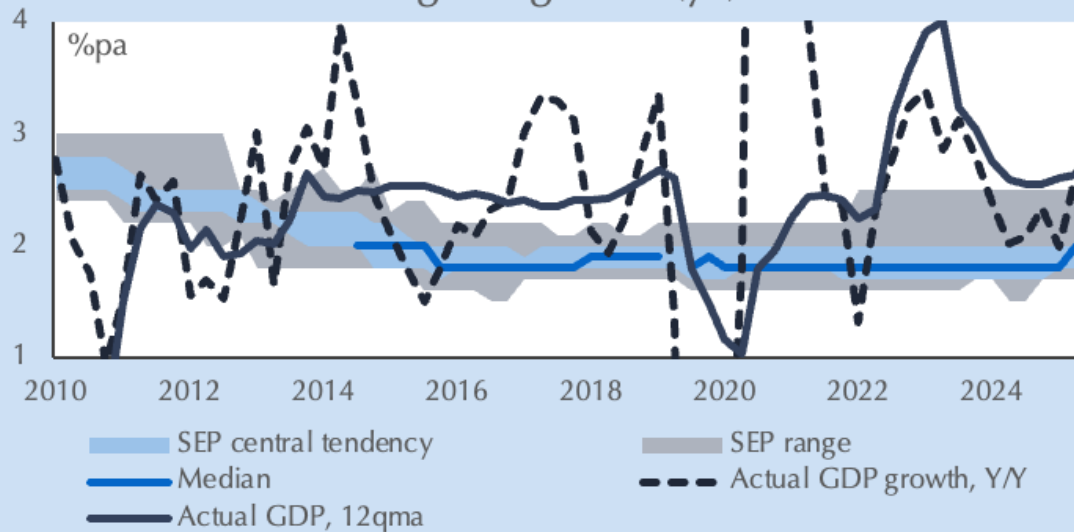
Labor productivity decomposed by sector, 3y moving average



# Meanwhile, over at the Fed...

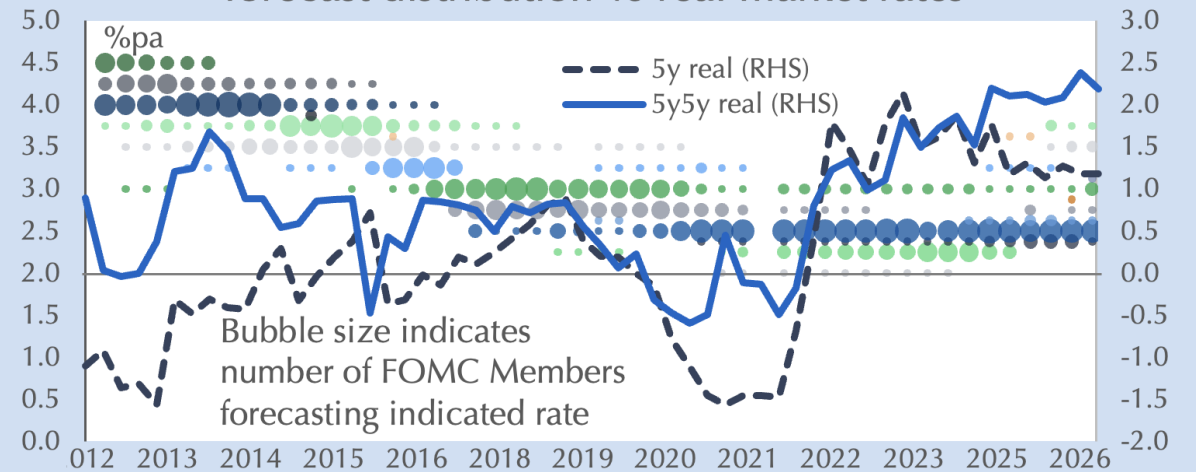
GDP growth has outpaced the most bullish FOMC members'  $y^*$  estimate for over a decade

US GDP growth vs FOMC projections for long-run growth ( $y^*$ )



...Even as real interest rates have exceeded their highest " $r^*$ "

FOMC longer-run Fed funds rate forecast distribution vs real market rates



How exactly are they defining restrictive?



# Third worst FOMC in history?

