



Rabobank

Invidious

Global Daily

RaboResearch

Global Economics &
Markets
mr.rabobank.com

Michael Every
Global Strategist

Market Comments

Headlines today are of disappointing earnings at NVIDIA. Yet somehow world markets --and the world economy aside from one firm, in one sector, in one country-- managed to survive, and we didn't see a complete meltdown. The neoliberal 'Too-Big-To-Fail-is-how-we-succeed' system needs to try harder to create the Perfect Storm; I'm sure it will, while central banks and central bank-watchers jawbone about 2% inflation and financial stability. Meanwhile, related systemic storms are brewing.

In Tuesday's 'The Powell of the Powerless', I pointed out the dangers of a global system in which the Fed not only 'understands' complex reality with internally inconsistent, secular-religion ideology, but believes it *creates it*. Today, I stress the same solipsistic hubris is *institutional* in geopolitics, which presents terrifying fat tail risks as bad as a burst bubble or Fed policy error.

US national security advisor Sullivan is in Beijing to smooth relations. As recently noted, he said the Middle East was the quietest it had been for two decades *just prior to October 7*. His team appeases Iran, allowing Tehran's proxies to expand regionally: the result has been the closure of the Suez Canal to many, the defeat of the US Navy in reversing it, and now a potential Red Sea environmental disaster after the Houthis blew up a European oil tanker. Before that, we had the US failure to prevent Russia invading Ukraine. Before that, the panicked US withdrawal from Afghanistan. Yes, we also got the low-hanging fruit of Europe, Japan, and Australia nodding to US words while spending little on defence, and the berry of the Philippines reinvigorating its mutual defence pact with the US. However, as a US Navy admiral says it will escort Filipino vessels in the South China Sea against possible Chinese actions, a [long-run lack of investment meaning more time in drydock](#) and strife in the Middle East means [the US doesn't have an aircraft carrier in the Indo-Pacific, should it need one](#).

As @AndrewBadger_ notes, "*What we are seeing -in real time- is a violation of the fundamental principle of sound grand strategy: that ends (aspirations) are in line with means (capabilities).*" He quotes Yale Professor Gaddis, an expert on this topic: "*Because ends only exist in the imagination, they can be infinite... Means, though, are stubbornly finite: they're boots on the ground, ships in the sea, and the bodies required to fill them. Ends and means have to connect if anything is to happen. They're never, however, interchangeable.*" Put simply, this is a national security mirror image of the Fed's - and again it's *institutional*.

Though most current US foreign policy experts are politically 180 degrees removed from the neocon, neoliberal hubris of George W Bush's presidency, whose policy advisor Rove stated, "We're an empire now, and when we act, we create our own reality," they still exhibit *exactly the same* ideologically-closed minds and self-confidence, just in different ways. Of course, they can't see it, which is why they can't course correct - but others do.

As @davidpgoldman notes, "*A Chinese PhD grad of a US university takes the measure of the US foreign policy elite at "The Observer." The hottest topics in contemporary international relations are "human rights" and "environmental protection", rather than "war" and "country"... When our old professor who studied Russia taught a Russian studies course for the last semester before his retirement, I was the only one in the department who signed up. A classmate even asked me in surprise, "Ah? Does anyone still care about this topic?"*

Sadly, very few in US academia do; nor think tanks; nor political circles; nor power circles. Few even study history or philosophy, nor Russian, Chinese, or Farsi, assuming Google Translate gives insight into others' thoughts – that as those countries produce experts who speak fluent English and understand Western economies and societies intimately. Goldman summarises that in the US: *"This is an elite that believes whatever they say is real is actually real."*

Taking a naïve/hubristic geopolitical approach presents staggering fat tail risks. And reality always wins out over those who think they can create it in the end: it already is, if you look at the chaos.

The US will have to spend far more and *more efficiently* ahead to avoid increasing geopolitical tail risks, regardless of its deficit and debt. As geostrategist Harald Malmgren pointed out yesterday, capital investment aside --and too much of it has been put aside for too long-- the Pentagon spends what it needs to on its real time, then this shows up in the following year's defence budget. Do you think all the current military build-up in the Middle East comes for free? We won't even know the fiscal damage for around another year.

But if you think this is a US issue, it's infinitely worse elsewhere. The US, the EU, UK, NATO allies, Japan, and South Korea are in a far worse starting position. There will have to see far larger increases in defence spending to help fill US gaps.

Moreover, if the US doesn't spend more, or becomes more isolationist, then expect more articles like the one from Hal Brands today arguing 'If South Korea Goes Nuclear, So Will the World'. That's not just a hair-raising thought – it's hair-raisingly *expensive*. In Europe, Poland just boosted its 2025 defence budget to 4.7% of GDP. Now imagine the cost of going nuclear, should the rest of Europe want to move beyond the small French umbrella, which few outside it are convinced actually covers them in a crisis. For all of Europe, it's either massive military-spending increases to keep the US onside, or to defend itself if the US is off its side - with major macro and market spillover effects; or it sees massive geopolitical and geoeconomic decline - with major macro and market spillover effects.

Globally, the systemic hubris of central banks who 'don't do geopolitics' is challenged by this realpolitik. The history of central banking is intimately linked to that of war because it's so staggeringly expensive, and important. The systemic hubris of geopolitical experts who 'don't do central banks' (or "war" or "country") will be challenged too. The history of geopolitics should *always* intimately linked to that of war, because it's so staggeringly expensive to get it wrong.

As such, the heuristic still says it's a question of if, not when, complex reality supplants internally inconsistent, secular-religion ideologies at US think tanks and the Fed in favour of something more pragmatic,...and fiscally AND monetarily expansionary – at least for the government / military, if no one else.

Yes, such looming fat tail risks are hard to price for in a financial economy. However, in the physical economy, CEOs have no such excuse. Neither do politicians, much as they may try. Nor central banks, who are there for a reason, or have no reason to be there. So, while the financial markets will happily look away for now, those acting last in this regard will eventually be punished as hard as those acting first today.

This is all not so much "NVIDIA!" as invidious. Life is simpler when all you have to worry about is once-a-quarter earnings from one firm; but such secular-religion offers purgatory, at best, not anything heavenly.

[For an overview of our macro-economic and financial markets forecasts please click here.](#)

Day Ahead

Aussie Q2 CAPEX plunged 2.2% q-o-q today, far worse than expected. So, "rate cuts!"?

Today next has German CPI, Eurozone confidence surveys, another look at Q2 US GDP, US grade data, and weekly jobless claims and pending home sales.

The ECB's Nagel speaks too, as does the Fed's Bostic, who yesterday wasn't convinced on the need for a September rate cut, but whom the market will thus want to ignore.

[For an overview of our macro-economic and financial markets forecasts please click here.](#)

RaboResearch

Global Economics & Markets
mr.rabobank.com

Global Head

Jan Lambregts

+44 20 7664 9669
Jan.Lambregts@Rabobank.com

Macro Strategy

Global

Michael Every

Senior Macro Strategist
Michael.Each@Rabobank.com

Europe

Elwin de Groot

Head Macro Strategy
Eurozone, ECB
+31 30 712 1322
Elwin.de.Groot@Rabobank.com

Bas van Geffen

Senior Macro Strategist
ECB, Eurozone
+31 30 712 1046
Bas.van.Geffen@Rabobank.com

Stefan Koopman

Senior Macro Strategist
UK, Eurozone
+31 30 712 1328
Stefan.Koopman@Rabobank.com

Erik-Jan van Harn

Macro Strategist
Germany, France
+31 6 300 20 936
Erik-Jan.van.Harn@Rabobank.nl

Maartje Wijffelaars

Senior Economist
Italy, Spain, Portugal, Greece
+31 88 721 8329
Maartje.Wijffelaars@Rabobank.nl

Americas

Philip Marey

Senior Macro Strategist
United States, Fed
+31 30 712 1437
Philip.Marey@Rabobank.com

Christian Lawrence

Senior Cross-Asset Strategist
Canada, Mexico
+1 212 808 6923
Christian.Lawrence@Rabobank.com

Mauricio Une

Senior Macro Strategist
Brazil, Chile, Peru
+55 11 5503 7347
Mauricio.Une@Rabobank.com

Renan Alves

Macro Strategist
Brazil
+55 11 5503 7288
Renan.Alves@Rabobank.com

Molly Schwartz

Cross-Asset Strategist
+1 516 640 7372
Molly.Schwartz@Rabobank.com

Asia, Australia & New Zealand

Teeuwe Mevissen

Senior Macro Strategist
China
+31 30 712 1509
Teeuwe.Mevissen@Rabobank.com

Benjamin Picton

Senior Macro Strategist
Australia, New Zealand
+61 2 8115 3123
Benjamin.Picton@Rabobank.com

FX Strategy

Jane Foley

Head FX Strategy

G10 FX

+44 20 7809 4776

Jane.Foley@Rabobank.com

Rates Strategy

Richard McGuire

Head Rates Strategy

+44 20 7664 9730

Richard.McGuire@Rabobank.com

Lyn Graham-Taylor

Senior Rates Strategist

+44 20 7664 9732

Lyn.Graham-Taylor@Rabobank.com

Credit Strategy & Regulation

Matt Cairns

Head Credit Strategy & Regulation

Covered Bonds, SSAs

+44 20 7664 9502

Matt.Cairns@Rabobank.com

Bas van Zanden

Senior Analyst

Pension funds, Regulation

+31 30 712 1869

Bas.van.Zanden@Rabobank.com

Paul van der Westhuizen

Senior Analyst

Financials

+31 88 721 7374

Paul.van.der.Westhuizen@Rabobank.com

Cas Bonsema

Senior Analyst

ABS, Covered Bonds

+31 6 127 66 642

Cas.Bonsema@Rabobank.com

Agri Commodity Markets

Carlos Mera

Head of ACMR

+44 20 7664 9512

Carlos.Mera@Rabobank.com

Michael Magdovitz

Senior Commodity Analyst

+44 20 7664 9969

Michael.Magdovitz@Rabobank.com

Paul Joules

Commodity Analyst

+44 20 7887 824436

Paul.Joules@Rabobank.com

Energy Markets

Joe DeLaura

Senior Energy Strategist

+1 212 916 7874

Joe.DeLaura@Rabobank.com

Florence Schmit

Energy Strategist

+44 20 7809 3832

Florence.Schmit@Rabobank.com

Client coverage

Wholesale Corporate Clients

Martijn Sorber	Global Head	+31 30 712 3578	Martijn.Sorber@Rabobank.com
Hans Deusing	Europe	+31 30 216 9045	Hans.Deusing@Rabobank.com
Neil Williamson	North America	+1 212 808 6966	Neil.Williamson@Rabobank.com
Adam Vanderstelt	Australia, New Zealand	+61 2 8115 3102	Adam.Vanderstelt@rabobank.com
Ethan Sheng	Asia	+852 2103 2688	Ethan.Sheng@Rabobank.com
Ricardo Rosa	Brazil	+55 11 5503 7150	Ricardo.Rosa@Rabobank.com

Financial Institutions

Short-term Interest Rates

Marcel de Bever	Global Head	+31 30 216 9740	Marcel.de.Bever@Rabobank.com
-----------------	-------------	-----------------	------------------------------

Bonds & Interest Rate Derivatives

Henk Rozendaal	Global Head Fixed Income	+31 30 216 9423	Henk.Rozendaal@Rabobank.com
----------------	--------------------------	-----------------	-----------------------------

Solutions

Sjoerd van Peer	Global Head	+31 30 216 9072	Sjoerd.van.Peer@Rabobank.com
-----------------	-------------	-----------------	------------------------------

Relationship Management

Rogier Everwijn	Global Head	+31 30 712 2440	Rogier.Everwijn@Rabobank.com
Rob Eilering	Banks	+31 30 712 2162	Rob.Eilering@Rabobank.com
Petra Schuchard	Insurers		Petra.Schuchard@Rabobank.com
Frank Dekkers	Asset Managers		Frank.Dekkers@Rabobank.com
Javier Alvarez de Eerens	MDB	+31 30 712 1015	Javier.Alvarez@Rabobank.com
Christel Kleinhaarhuis	Fintech		Christel.Klein.Haarhuis@Rabobank.com

Capital Markets

Laura Bijl	Global Head	+31 88 726 3254	Laura.Bijl@Rabobank.com
Christopher Hartofilis	Capital Markets USA	+1 212 808 6890	Christopher.Hartofilis@Rabobank.com
Ian Baggott	Capital Markets Asia	+852 2103 2629	Ian.Baggott@Rabobank.com
Adriana Gouveia	Capital Markets Brazil	+55 11 5503 7305	Adriana.Gouveia@rabobank.com
Willem Kröner	Global Head ECM	+31 30 712 4783	Willem.Kroner@Rabobank.com
Harman Dhami	DCM Syndicate	+44 20 7664 9738	Harman.Dhami@Rabobank.com
Crispijn Kooijmans	DCM FIs & SSAs	+31 30 216 9028	Crispijn.Kooijmans@Rabobank.com
Bjorn Alink	DCM Securitisation & Covered Bonds	+31 30 216 9393	Bjorn.Alink@Rabobank.com
Othmar ter Waarbeek	DCM Corporate Bonds	+31 30 216 9022	Othmar.ter.Waarbeek@Rabobank.com
Joris Reijnders	DCM Corporate Loans	+31 30 216 9510	Joris.Reijnders@Rabobank.com
Brian Percival	DCM Leveraged Finance	+44 20 7809 3156	Brian.Percival@Rabobank.com

Disclaimer

Non Independent Research

This document is issued by Coöperatieve Rabobank U.A. incorporated in the Netherlands, trading as “Rabobank” (“Rabobank”) a cooperative with excluded liability. The liability of its members is limited. Authorised by De Nederlandsche Bank in the Netherlands and regulated by the Autoriteit Financiële Markten. Rabobank London Branch (RL) is authorised by De Nederlandsche Bank, the Netherlands and the Prudential Regulation Authority, and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Further details are available on request. RL is registered in England and Wales under Company no. FC 11780 and under Branch No. BR002630. This document is directed exclusively to Eligible Counterparties and Professional Clients. It is not directed at Retail Clients.

This document does not purport to be impartial research and has not been prepared in accordance with legal requirements designed to promote the independence of Investment Research and is not subject to any prohibition on dealing ahead of the dissemination of Investment Research. This document does NOT purport to be an impartial assessment of the value or prospects of its subject matter and it must not be relied upon by any recipient as an impartial assessment of the value or prospects of its subject matter. No reliance may be placed by a recipient on any representations or statements made outside this document (oral or written) by any person which state or imply (or may be reasonably viewed as stating or implying) any such impartiality.

This document is for information purposes only and is not, and should not be construed as, an offer or a commitment by RL or any of its affiliates to enter into a transaction. This document does not constitute investment advice and nor is any information provided intended to offer sufficient information such that it should be relied upon for the purposes of making a decision in relation to whether to acquire any financial products. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness.

The information contained in this document is not to be relied upon by the recipient as authoritative or taken in substitution for the exercise of judgement by any recipient. Any opinions, forecasts or estimates herein constitute a judgement of RL as at the date of this document, and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. All opinions expressed in this document are subject to change without notice.

To the extent permitted by law, neither RL, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Insofar as permitted by applicable laws and regulations, RL or other legal entities in the group to which it belongs, their directors, officers and/or employees may have had or have a long or short position or act as a market maker and may have traded or acted as principal in the securities described within this document (or related investments) or may otherwise have conflicting interests. This may include hedging transactions carried out by RL or other legal entities in the group, and such hedging transactions may affect the value and/or liquidity of the securities described in this document. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities (or related investments) are described in this document. Further, internal and external publications may have been issued prior to this publication where strategies may conflict according to market conditions at the time of each publication.

This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of RL. By accepting this document you agree to be bound by the foregoing restrictions. The distribution of this document in other jurisdictions may be restricted by law and recipients of this document should inform themselves about, and observe any such restrictions.

A summary of the methodology can be found on our [website](#)

© Rabobank London, Thames Court, One Queenhithe, London EC4V 3RL +44(0) 207 809 3000