



OFF THE NEWS

Japan's "Little Abe"

Nicknamed "Little Abe" after the former Japanese prime minister, Sanae Takaichi, the new prime minister, is certainly making waves. Enthusiasts describe her as a Japanese version of U.S. President Donald Trump, meaning a lot of corporate shakeups are coming, along with a booming stock market driven in part by central bank jawboning to bring the economy out of its long-term deflationary spiral. She will also join Trump in confronting China's aggressiveness in the region.

The new Japanese leader's detractors, however, suggest Takaichi resembles more the current leadership of the United Kingdom, led by Prime Minister Keir Starmer. States one Tokyo strategist: "She is about to follow Britain's questionable agenda of far-too-aggressive fiscal and monetary policies. Everyone knows the Bank of Japan has become obedient to the government's every wish. That's why the yen is weakening and interest rates are rising. The situation is dangerous."

The Japanese leader's supporters counter that she is likely to become a Japanese version of Margaret Thatcher with the capability of cajoling the sluggish large corporate sector to restructure itself. After two decades of economically paralyzing deflation, a rise in prices, they say, is just what the doctor ordered.

The one stumbling block for Japan's new prime minister could be the government's promise to Trump to guarantee \$550 billion of investment in the United States (while agreeing to do nothing to weaken the yen). Many Tokyo strategists suggest that Japan currently lacks the resources for such an investment, particularly if Japan is expected to increase its defense spending.



Sanae Takaichi



Donald Trump



Margaret Thatcher



Keir Starmer

*Who will she be? Tokyo insiders suggest Japanese Prime Minister **Sanae Takaichi** will be a **Donald Trump**. Others say **Margaret Thatcher**. Her detractors say **Keir Starmer**.*

A Fed “Greenspan 1987” Scenario?

Strategists knowledgeable about the thinking at the U.S. Federal Reserve suggest that Chairman Jay Powell, in his heart of hearts, and assuming the data cooperate, would like to do another 25-basis-point interest rate cut before the end of the calendar year.

The speculation is that after, if not before, the final December Federal Open Market Committee meeting, the White House will have announced Powell’s replacement. So after that meeting, Powell will essentially be a lame duck. And for a specific reason, he’ll be happy with his situation. Why? Because of the fear of repeating a “Greenspan 1987” scenario.

The suspicion is that five or six months into calendar year 2026, the U.S. economy could be booming as a result of a variety of factors including an influx of tariff revenue and other fiscal stimulus. This includes the effect of the new writeoffs for capital depreciation. Once taking office, the new chairman, like Greenspan did when he first look over as chairman



WHITE HOUSE PHOTOGRAPHIC COLLECTION

President Ronald Reagan attends the swearing-in ceremony for Alan Greenspan as chairman of the Federal Reserve on August 11, 1987. Two months later, on October 19, the world saw the largest one-day percentage drop in the history of the Dow Jones Industrial Average.

in the late 1980s, even if only to protect his market credibility, will force through a series of interest rate tightenings. The already “expensive” stock market will, as it did in 1987, suffer a large correction. By pushing through a final rate cut in December, Powell insulates himself from any blame for the 2026 market turbulence.



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French Fiscal Disaster

Europe is currently experiencing significant security and fiscal challenges. A recent Eurobarometer survey found that 78 percent of citizens are concerned about EU defense and security, and 77 percent view Russia's invasion of Ukraine as a threat to EU security. Security concerns are also voiced internationally. Europe convened two recent emergency UN Security Council meetings—one requested by Poland on September 12 and another by Estonia on the September 22—to denounce Moscow's repeated violations of European airspace and affirm NATO's readiness to defend itself.

Yet Europe's security demands more than just rearmament or joint procurement systems; it requires also fiscal stability. This is a major challenge now. Nine EU countries are currently under the excessive deficit regime due to increased government debt from the pandemic. The pandemic led to recession and

higher public debt, limiting governments' ability to maintain the European social model while boosting defense spending. Bond markets have reacted negatively as investors have shunned risky government bonds. The yield spread between French government bonds and German bunds has recently increased to about 80 basis points. Investors remain uneasy as France has seen five prime ministers lose office in under two years, creating political uncertainty at a time when France is reeling from a precarious fiscal situation. France's fiscal deficit is projected to range from 5.4 percent to 5.8 percent of GDP this year, with government gross debt estimated at 113 percent of GDP in 2024. The need is no longer just about budget cuts; it is also about restoring financial market credibility.

France has seen five prime ministers lose office in under two years.

—*Mansoor Dailami*
(Excerpt from *Mr. Dailami's contribution on p. 48*)

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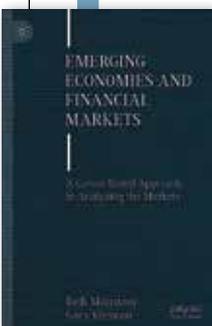
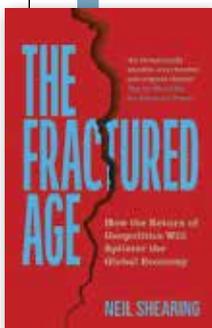
New and notable works from some of our regular contributors.

The Fractured Age: How the Return of Geopolitics Will Splinter the Global Economy by **Neil Shearing** (John Murray Business, September 2025)

"The globalization era has ended but the world isn't necessarily deglobalizing. Instead, the United States and China are pulling apart and, as they do so, other countries are coming under pressure to pick sides. The fault lines along which this fracturing takes place will define our collective economic prospects over the next decade," says Shearing.

Emerging Economies and Financial Markets: A Career-Tested Approach to Analyzing the Markets by **Beth Morrissey** and **Gary Kleiman** (Palgrave MacMillan, June 2025)

This essential reference on assessing the vulnerabilities of emerging markets covers decision-making in the public, multinational, and private sectors, as well as the roles of participants including the IMF/World Bank, banks, insurance companies, and mutual and pension funds. The authors' firsthand experience with stock, bond, currency, and derivatives markets development and growth are discussed using illustrative examples and case studies from every emerging region.



How Stablecoins Could Bring Down U.S. Interest Rates

“With the passage this year of the GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins Act), there is now a clear regulatory pathway in the United States for stablecoin issuers to broaden their reach and solidify stablecoins as a core part of the payment system. ...

“Essentially all stablecoins are denominated in dollars, and their success is at least partly due to the U.S. dollar’s enduring status as the world’s preferred currency. Stablecoins are also contributing to the dollar’s dominance by allowing an ever-growing share of people around the globe to hold assets and conduct transactions in the most trusted currency.

“My thesis is that stablecoins are already increasing demand for U.S. Treasury bills and other dollar-denominated liquid assets by purchasers outside the United States and that this demand will continue growing. All else equal, this new demand lowers borrowing costs for the U.S. government. ...

“The inter-quartile range of private-sector estimates compiled by Federal Reserve staff roughly projects stablecoin uptake reaching between \$1 trillion and \$3 trillion by the end of the decade. For reference, the Fed grew its holdings of U.S. Treasury securities by just over \$3 trillion during the latest round of quantitative easing in response to the Covid-19 pandemic. In total, under \$7 trillion in Treasury bills are outstanding today. If these forecasts prove accurate, the magnitude of additional demand from stablecoins will be too large to ignore. ...

“The supply–demand balance for loanable funds determines the neutral interest rate, or r^* I believe a range of different factors are putting downward pressure on r^* and should be considered in formulating monetary policy. Some researchers have tried to estimate how much stablecoin growth might lower interest rates. In 2024, work by Marina Azzimonti

and Vincenzo Quadrini estimated that if stablecoins are in widespread use and fully backed by U.S. securities, it could put as much as 40 basis points of downward pressure on interest rates.

“In estimating the effect of the projected growth of stablecoin issuance on demand for Treasuries and other highly liquid dollar assets, it is helpful to make

A failure of the central bank to cut rates in response to a reduction in r^* is contractionary.

a comparison to what most researchers believe was a large factor during an era of declining interest rates that began around the turn of the millennium—what former Fed Chairman Ben Bernanke called the global saving glut. In measuring the global saving glut, Bernanke reported that the annual U.S. current account deficit widened by 4 percentage points of U.S. GDP from 1996 to 2004. ...

“Projections indicate between \$1 trillion to \$3 trillion of growth in stablecoins over the next several years. ...

“An additional \$2 trillion of foreign demand for dollar assets by the end of the decade would, all else equal, increase the current account deficit by roughly 1.2 percentage points of GDP over this period. This increase would represent about 30 percent of the size of the original global saving glut. More bullish stablecoin-uptake forecasts on the order of \$4 trillion would double the size of this effect, making it about 60 percent the size of the original global saving glut. These magnitudes would matter for monetary policy. ...

“Even relatively conservative estimates of stablecoin growth imply an increase in the net supply of loanable funds in the economy that pushes down r^* . If r^* is lower, policy rates should also be lower than they would otherwise be to support a healthy economy. A failure of the central bank to cut rates in response to a reduction in r^* is contractionary.”

—U.S. Federal Reserve Governor
Stephen I. Miran, from his speech at
the BCVC Summit 2025, November 7, 2025