



Investment insight series

Presented By

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12 September 2025

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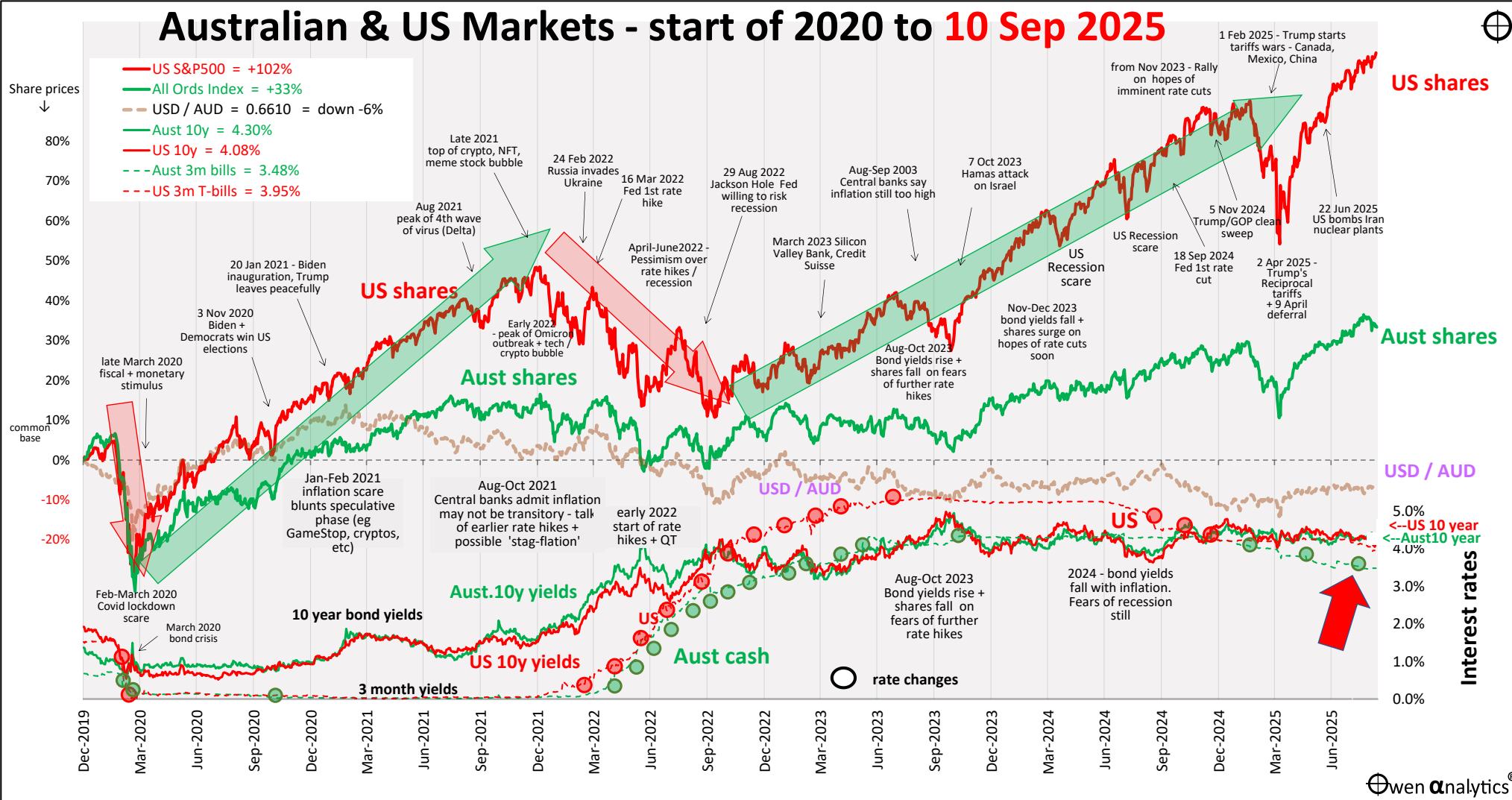
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Agenda

1. Investment market snapshot
2. Where to now for interest rates?
3. Implications of Trump's attacks on US Fed independence?
4. Trump's stable-coin plan – a return to the wild west 'free banking' era
5. Share markets keep marching upward despite turmoil everywhere – how long can it last?
6. Housing affordability & inter-generational equity – any solutions?

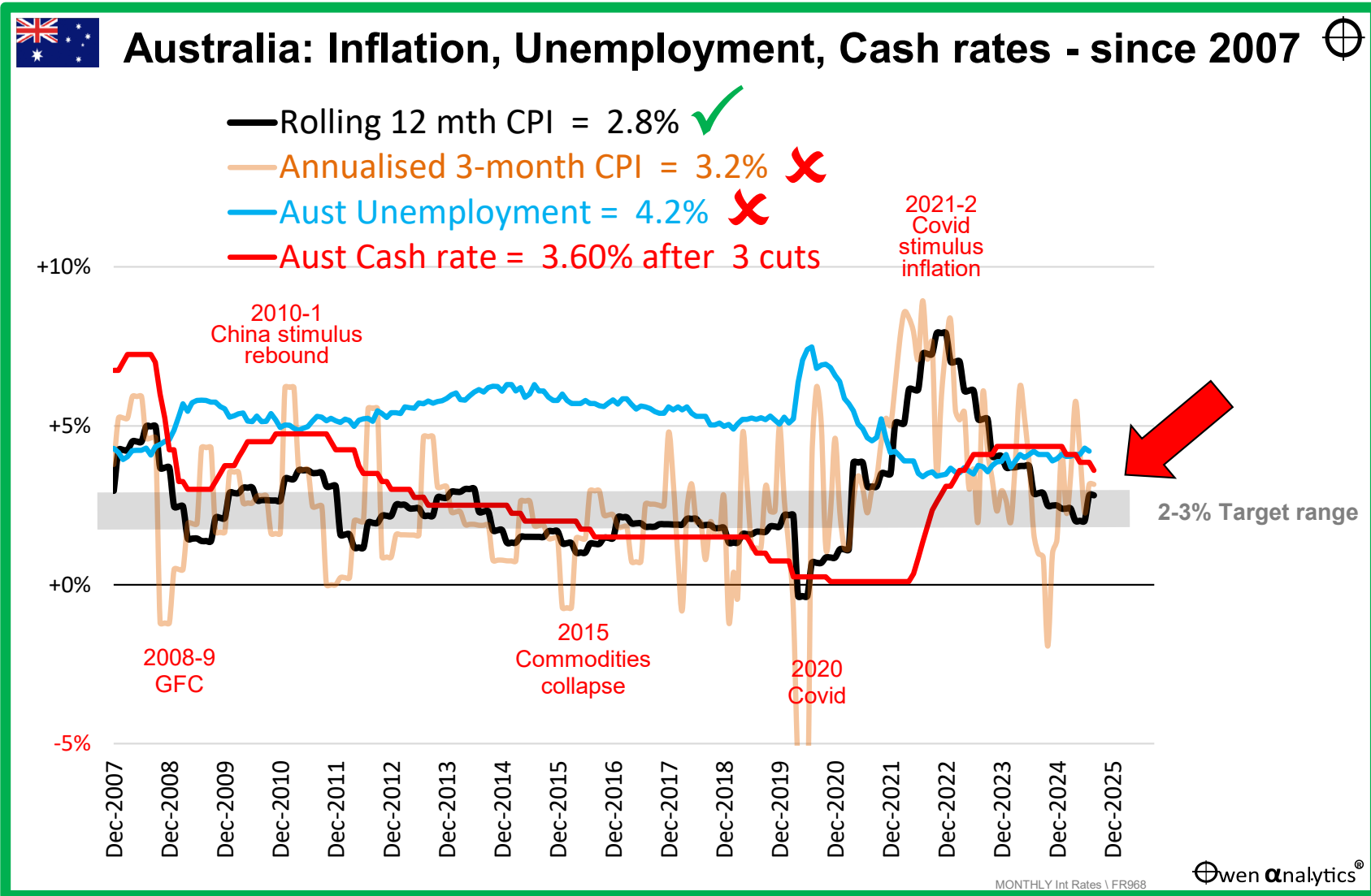
1. Current market snapshot



- Share markets posting new highs
- US profits strong
- But shares horribly over-priced

- 3 rate cuts each for Aust + US

2 (a) Inflation, Interest rates, Unemployment - Aust



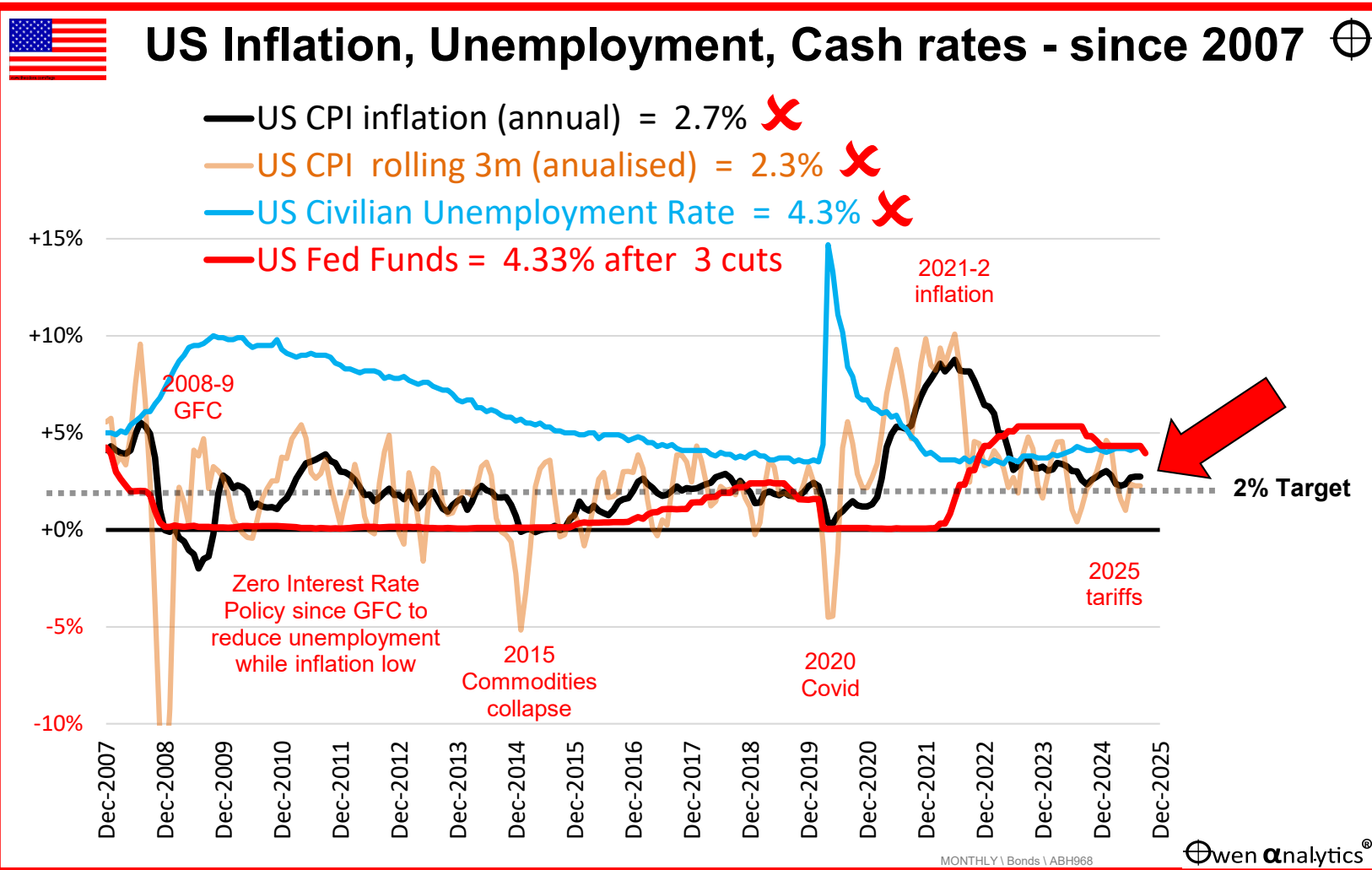
Before Trump's tariff tirade:

- Inflation still too high
- Jobs market still strong (gov)
- RBA – no hurry/reason to cut

Now:

- Inflation remains sticky
- Commodities exports likely to be supported by China stimulus
- But at lower prices – oversupply
- Rate cuts re-fuelling house price rises + new gov policies just add to demand + prices

2 (b) Inflation, Interest rates, Unemployment - USA



Before Trump's tariff tirade:

- Inflation still too high
- Jobs market + spending strong
- Fed – no hurry/reason to cut

Now:

- Inflation still too high – some tariff impacts, PCE back up to 2.6%
- Spending, investment + jobs slowing – uncertainty over Tariffs, export taxes, & other policies
- Unemp 4.3%, Youth Unemp 10.5%
- Enormous pressure to cut
- Fed will resume cuts

3. Trump's attacks on the Fed?

Trump attacks on the Fed

- Personal attacks on Powell –
 - to cut + resign
- Attempted removal of Gov Lisa Cook
 - In the Courts
- Powell's term ends soon
 - Fed chair until May 2026
 - Governor until Jan 2028
 - Scott Bessent now looking for new Chair

Trump's end goal?

- Lower short term rates
 - To reduce Gov re-financing + borrowing costs
 - Fed controls this - Fed Funds Rate – FOMC
 - + Stable-coin plan
- Lower long-term rates
 - To reduce gov refinancing costs
 - But bond market controls long rates
 - How to reduce? QE bond buying by Fed
 - (like post-GFC, post-Covid, 1940s-50s)
 - Printing money to finance Gov spending

3. Trump – what's behind his agenda?



Trump – what's behind his agenda?

- In the century to 1914 - America grew to be the **largest economic & military power in the world**
 - High **protection** barriers (to encourage local manufacturing, countering British protective policies)
 - **No central bank** (tried twice, shut down twice)
 - **Gold standard**, hard money (apart from Abe Lincoln's fiat 'green backs' to finance the Civil War)
 - **Small central government**
 - Financed via **import tariffs/customs** duties, not income taxes
 - (+ they even had a devastating/destructive Civil War along the way)
- WW1 to 1970s
 - US reluctantly entered wars to stop Europe's wars + Japan's rampage
 - at huge **cost** to US (money + lives)
 - + **financed** the rebuilding of Europe/Japan + paid for their security (to prevent them warring)
 - + **financed** all the international bodies to prevent future wars (UN, IMF, World Bank, etc)
 - + **paid** for protection for rest of world from Soviet threat

Trump's grand plan

- **Post 1980s Globalisation**

- Massive rise in US gov size + spending (starting with Reagan)
- Went from being largest creditor to **largest debtor nation** (creditors = Japan then China)
- **Out-sourced jobs** to low wage countries (led by US companies)
- Foreign exporters lent Americans the money to pay for the stuff they imported from them
 - → **increased US current account deficits + foreign debt**
- **Strong dollar** (reserve / 'safe haven' currency) → hurts exports + favours exports → trade deficit
- **Lost critical manufacturing** for self-defence + essential industries
- But US is still paying for everyone's else's defence/security! (to stop them fighting each other!)

Trump's grand plan

- The vision? Re-create some of the key conditions that led to America's earlier dominance -
 - High **protection** barriers → to counter foreign subsidies, state support (esp. China)
 - ? **No central bank** → Aim = low interest rates – better for workers, better for the asset rich
 - (from 1942-1952 Treasury instructed Fed to cap rates at 0.375% for bills, 2.5% for bonds)
 - ? **Gold standard** (limited supply limits gov money-printing + inflation) → Bitcoin?
 - **Small central government** → fewer functions, de-reg, cut 'waste', self-serving depts, DOGE
 - Cut deficits/debts → reduce size of gov, stop financing other countries' wars/defence, tariff revenues
 - Financed via **import tariffs/customs** duties, not income taxes → cut income taxes
 - Cut Trade/Current A/c Deficit → lower exports (**higher tariffs**), **smaller gov**, cut interest cost (**cut debt**)
 - → Needs to bring down the Dollar without causing panic/crashes

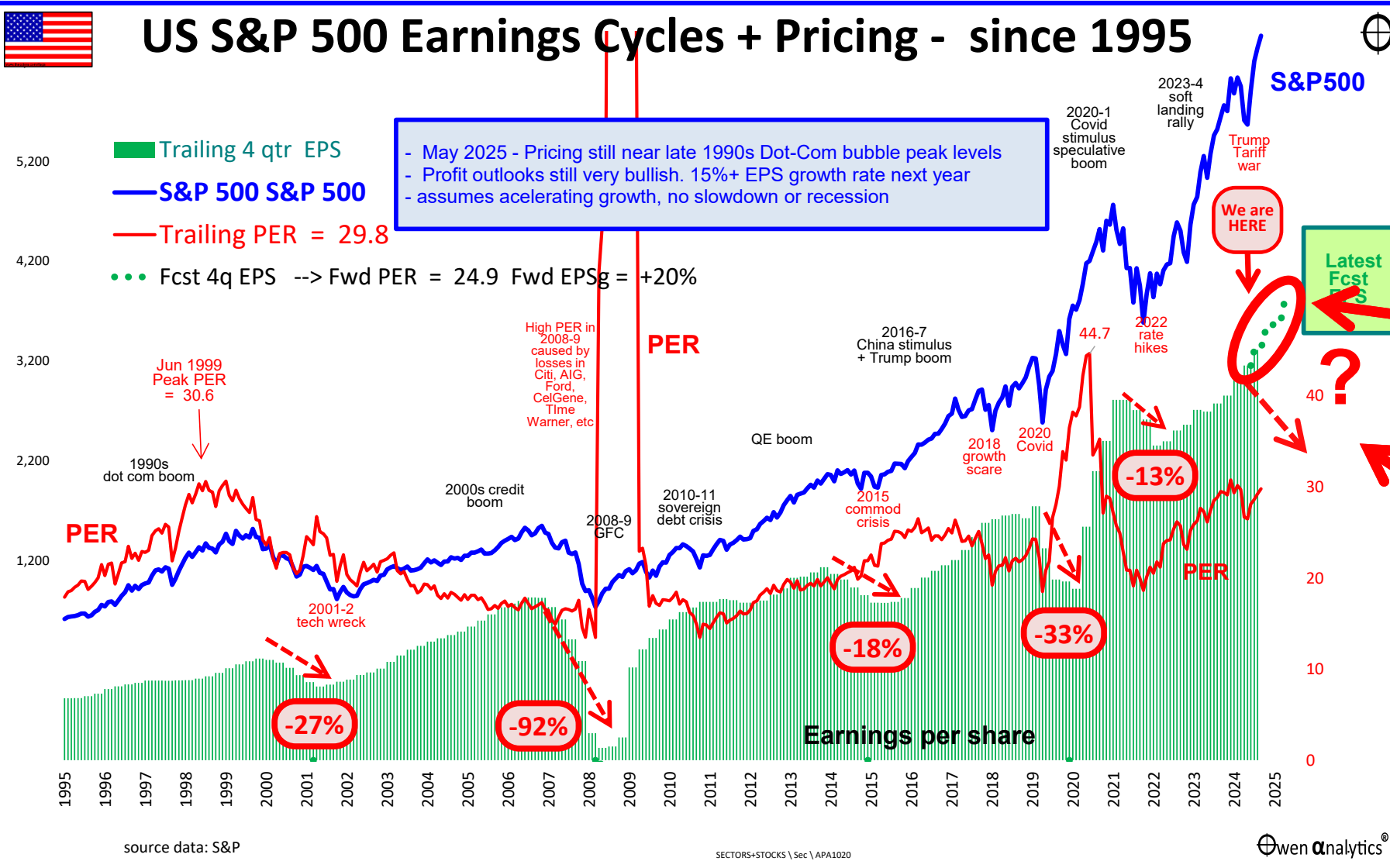
All of that in 4 years?

Trump's grand plan

Stable-coin plan to finance US gov deficits (embedded in the Genius Act') + reduce power of banks

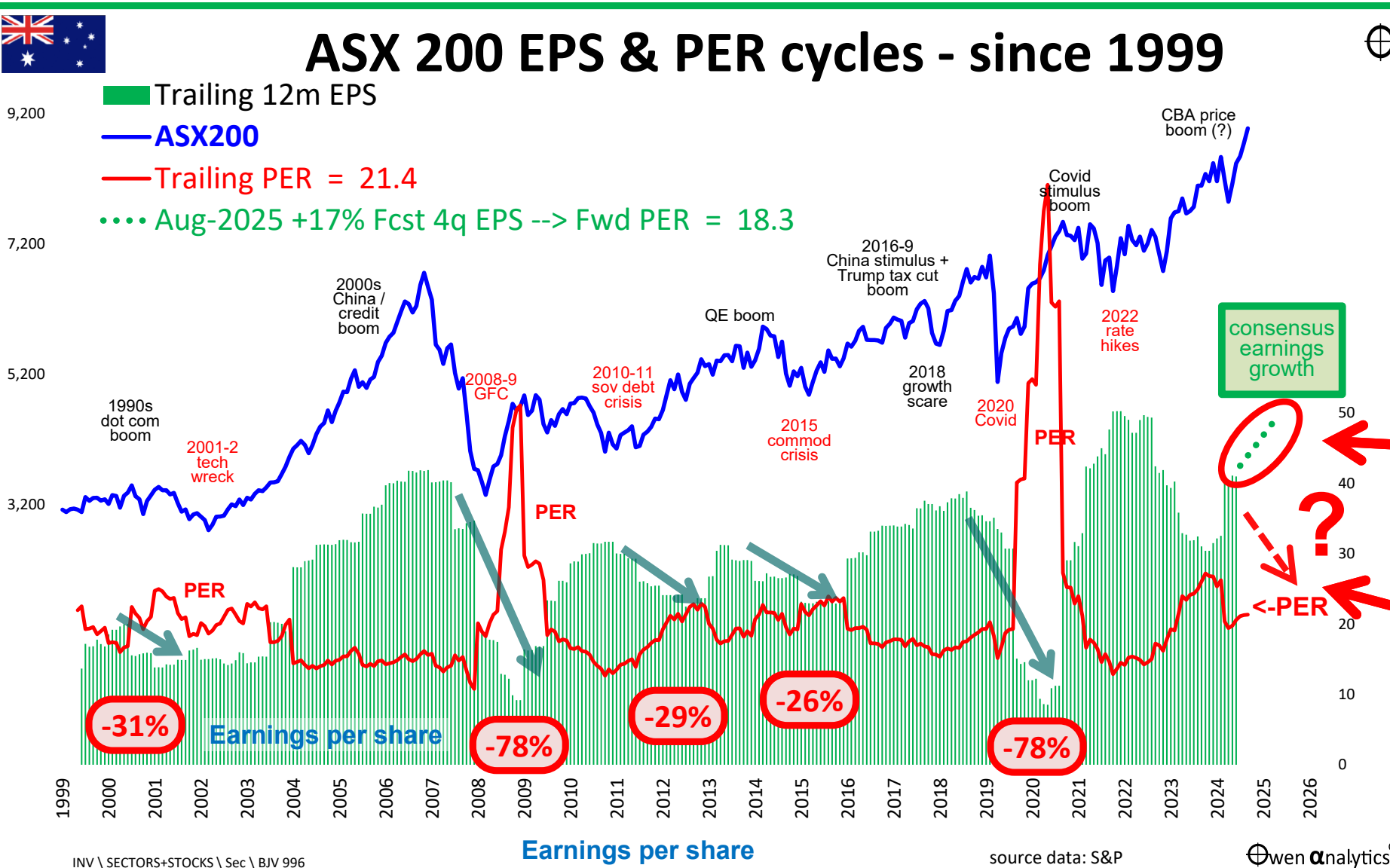
- Banks and other institutions to offer **stable coins** – akin to bank notes (or debt note securities)
- This time – not paper notes, but digital form – **stable coins**
- Instead of digital bank a/c backed by US gov guarantee (FDIC) → digital coin backed by the **issuer**
- eg Visa, Mastercard, Wal-Mart, Amazon, eBay, Apple, Google, etc
- To guarantee full value, stable coins need to be backed by **US dollars** (not gov deposit guarantee)
- Removes 'moral hazard' borne by US tax-payers since FDR (FDIC).
- Stable coin issuers must back their stable coin currency with **US T-bills**
- BINGO! – issuers must buy US T-bills – ie they must **lend to US gov to finance gov deficits**
- High demand for T-bills to back stable-coins → reduce T-bill rates → **reduce gov refinancing cost**
- The ultimate plan is to **remove FDIC** (gov guarantee of bank deposits)
- 'Free banking' – individuals free to choose what 'money' they use → credit decision → risk of loss

4 (a) US pricing + earnings outlooks still super - bullish



- US market very expensive
(-v- earnings & divs)
- US earnings forecasts still ridiculously bullish
- But good chance of **earnings decline** in Tariff induced slowdown

4 (b) ASX pricing + earnings outlooks still bullish



- ASX expensive
(-v- Earnings + Divs)
- ASX earnings forecasts still very bullish
- But good chance of earnings decline in broad US / China / global slowdown

5. Asset Allocation themes

Growth / Equity / Risk assets

- Global TACO Trade rally continues – despite very high pricing
- confidence in no broad recession +/- more rate cuts (forced or not) = **good**

Defensive / Debt assets

- Race for yield – rate cuts, bank hybrids going → flood of money hurts returns
- ‘Private Credit’ (non-bank loan sharks) – bad debts / gating, shifty deals - **avoid**
- Bond yields rising medium term – inflation + ballooning debt - **avoid**

‘Alternatives’

- **Venture Capital + Private Equity** headaches continue – **stay out**
- **Industrial commodities** – still weak demand + over-supply - **wait**
- **Gold** – US deficit / debt / funding / inflation / USD fears + geo-politics = **good**
- **Crypto** – ‘Genius Act’ + stable-coin reforms → ‘free banking’ idea

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