Weekly Market Flash

Yet Another Year of Economic Resilience

December 31, 2025

Well, here we are. 2025 is coming to an end and we have somehow made it through. Yay! There are plenty of things we could dwell on as standout themes for the year gone by, but the one that looms largest in our minds is – not for the first time and probably not for the last time – the resilience of the global economy. Let's look at some of the ways we managed to survive the year, economically speaking, when there was so much change afoot.

Ghosts of the 1930s

Two senators of a bygone era became a big part of the economic Zeitgeist this year. Reed Smoot of Utah and Willis Hawley of Oregon were the driving force behind the Smoot-Hawley Tariff Act of 1930, an act part and parcel of the isolationist tack American politics had taken since the early 1920s and one that poured more cold water on a world economy already freezing from the onset of the Great Depression. Since then, critics of tariffs in general have never hesitated to call on the haunting specter of Smoot-Hawley to argue for why an exorbitant tax on goods coming into the US is a bad idea.

So when the Trump administration trotted out its "Liberation Day" tariff schedule on April 2, with tariff rates that in many cases soared past the levels of Smoot-Hawley, a tidal wave of criticism ensued. Financial markets tumbled in the wake of the April 2 announcement at levels suggesting that another Great Depression was in the offing. Famously, the administration backed off ("TACO-ed" in the wry parlance of Wall Street) and held off (indefinitely, as it turned out) on those nosebleed levels. Still, though, after all was said and done, the average tariff rate on imported goods into the US remained around 17 percent – the highest since, yes, the days of Smoot-Hawley in the early 1930s.

Not Your Great-Grandfather's Economy

And yet, there was no Depression, no recession even. In fact, the US economy has grown at a higher pace this year – so far, given that we only just got the third quarter numbers last week and won't have Q4 data until later in January – than at any time in the post-pandemic period. Inflation, which was supposed to skyrocket, has been relatively subdued even if still stubbornly stuck above the Fed's two percent target. Unemployment has been trending up, but remains far away from the levels usually associated with a sharp economic reversal. Outside the US, countries that were on the receiving end of the tariff shock have mostly kept on keeping on – notably China, which has successfully managed to find other markets to offset the slowdown in its level of exports to the US.

What is important to bear in mind here is that the economy of 2025 bears very little resemblance to the one of the 1930s. For one thing, it is an economy far more dominated by a wide variety of services than was the case 95 years ago. Tariffs did, clearly, have a major impact on certain categories of goods, notably raw materials like steel and foodstuffs like coffee, among many others. But their impact on many domestic services was more muted. Price changes were thus varied and reflected many more driving forces than tariffs alone, such as a greater level of consumer pickiness in making discretionary spending choices (recall our comments last week about the so-called "K-shaped" economy).

Another way today's economy differs from that of our great-grandparents is the outsize role played by investment in technology. Today, of course, the main event in this space is the multi-billion dollar race for dominance in artificial intelligence, the fruits of which probably accounted for around half of the total growth rate of real GDP this year. It remains unclear how much of this massive investment spree will translate into measurable productivity gains – but that is a question for another day.

Globalization and Global Order

We will leave this discussion with a couple notes on a topic you will be hearing a great deal about from us next year. One of the popular sentiments expressed in the financial media in recent years has been the so-called end of globalization. This formulation mixes up a very broad term with a more narrowly defined one. What has ended is not globalization, which simply refers to the act of seeking and utilizing sources of wealth outside one's home market. Globalization has been going on since the fifteenth century, and will continue going on indefinitely.

What ended – and really, what ended many years ago – was the cultural dominance of neoliberalism. Neoliberalism is the narrower term we noted above. It refers to a belief in free trade, open borders and minimal interference from government-backed regulation as the best prescription for global growth. While there were always plenty of naysayers and critics, neoliberalism dominated economic thought and practice from the early 1980s to the late 2010s – a period we refer to as the Global Age. And even at its peak, in the heady years following the end of the Cold War in 1991, the nuts-and-bolts components of neoliberalism were more of an aspiration than a real description of how countries in the real world traded and dealt with each other.

More importantly to us today, the Global Age was the second act of a global order that began after the Second World War, an order entirely dependent on the active leadership of the United States and a strong alliance among the nations of the West (a term less useful as a geographic descriptor than as an alliance of shared values and democratic commitments). When the Global Age ended, not long after the 2008 global financial crisis, the Pax Americana global order started to weaken as well. We are of the opinion that we finally lost it, likely for good, this year. What will emerge as the new global order is very much unknown as we head into 2026. The good news, though, is that we begin the new year with a global economy still resilient, still adaptable, and still able to somehow steer through the fog.

More to come on all of this in the year ahead. May the New Year be a happy, healthy and prosperous one for you and yours.

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