

## Magnets, Bombs, and AI

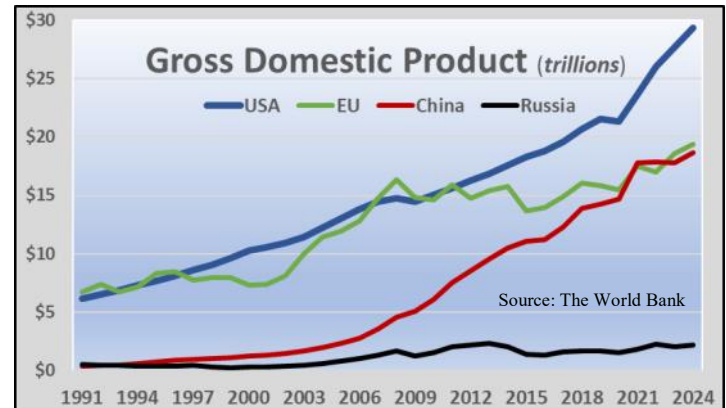
A new era of global economic warfare was unleashed on "Liberation Day" with sweeping tariffs on most of our trading partners with China in the crosshairs. The US and China are in a battle for world dominance. China's supreme leader, **Xi Jinping**, envisions the "Great Rejuvenation of the Chinese Nation" restoring China to its ancient prominence and glory as the center of the universe. This conflict encompasses an even broader geopolitical clash, including ideology, technology, human rights, and China's imperialistic claims to Taiwan and the South China Sea.

China is the "world's factory" producing nearly 32% of global manufacturing output with a massive workforce, low labor costs and highly developed infrastructure. China makes nearly 90% of the world's **rare-earth magnets**. Rare-earth magnets are vital to everything from smart-phones and automobiles to airplanes, guided missiles, and satellites. The US is actively working to establish rare-earth mining and manufacturing, but the process is daunting and will take 5 -10 years. Therefore, **magnets** stand at the center of the China trade war and China, in response to the US tariffs, now requires licensing to export rare-earths and has slow-walked approvals for magnets leading to temporary factory closures here at home.

On the opening day of the Winter Olympics, **China's Xi** and **Russia's Putin**, the two most powerful autocrats in the world with aspirations of grandeur, joined forces ratifying a "no limits" partnership devised to displace the US led Western dominated global order. Russia's war on Ukraine was joined by **Iran** with drones and **North Korean** personnel to press its territorial expansion on an independent democratic nation, while China has assisted in Iran's nuclear ambitions. The partnership of these four authoritarians is dubbed "The Axis of Upheaval", united by their opposition to the Western-led international order fortified by NATO, the transatlantic alliance of collective defense.

In support of Israel in its war with Iran on June 22<sup>nd</sup>, the US bombed three nuclear facilities to thwart Iran's ability to enrich nuclear material. Although Iran's capabilities were not eliminated, the bombing led to a ceasefire between Tehran and Tel Aviv. More importantly, China and Russia ghosted Iran and did not intervene proving "The Axis of Upheaval" is a partnership of convenience. A few days later at the 2025 NATO summit, Allies agreed to spend 5% of their GDP on core defense and security laying the foundation for a strong, united NATO.

In 2010, China's economy grew by 10% capping several years of double-digit growth while the US growth rate was around 2.5%. Based on projecting these growth rates into the future, many economists predicted that



China would overtake US economic superiority by 2020! However, China's growth slowed under Xi Jinping's restrictive policies, emphasizing national security and state control. Xi's crackdown on the private sector and his zero-COVID policy had a negative impact on China's economy. The above chart shows that the USA is the global economic leader. In fact, since the its effective response to Covid-19, US growth ballooned, while China's economy languished. The USA is the world's undisputed economic superpower with no forecasts of being displaced in the foreseeable future.

Many believe to maintain this superiority, the US must win the Artificial Intelligence (AI) race. OpenAI's ChatGPT is the early leader. However, with the release of DeepSeek in January, China closed the gap nearly matching the performance of American models at a fraction of the cost. DeepSeek stores much less data, leading to quicker responses even without the benefit of Nvidia's advanced chips. At this stage in the evolution of AI, China may have an advantage in global distribution due to lower cost and less training time. However, American tech giants, knowing that AI is transformative and will define their future growth, are committed to spend over \$300 billion this year to create the next generation of ever more powerful AI models.

The "Liberation Day" tariffs which reignited global economic warfare were paused (except for China) for 90 days until July 9<sup>th</sup> for trade talks. Global stock markets rebounded from tariff induced losses, with the S&P 500 and Nasdaq surprisingly ending the quarter at all-time highs. Fed Chairman Powell has been able to preserve the dry powder of lowering rates because of the strength of the US economy and the healthy job market while waiting to see if tariff costs will rekindle inflation or curb America's economic growth.

