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September 29, 2025

US Influence on the Wane: New Evidence

World history goes through phases, not as a cycle of recurring situations but as a series of “regimes” or broad sets of trends and relationships. Each regime is complex, since it encompasses issues such as the political landscape in various countries, the dominant global approach to economic policy and trade relationships, the structure and operation of security alliances, and even cultural norms. The most recent regime was the post-Cold War period of globalization that ended around 2008. Since each regime is so complex, and its elements or facets can change at a different pace, it can be hard to know for sure that a transition is taking place. It can be even harder to know what the new, following regime will look like.

Importantly, several major developments over the last few months have confirmed that the world is still transitioning away from the Globalization period. These developments have also provided added evidence about what to expect during the incoming regime of Global Fracturing or, potentially, Chinese Hegemony. As shown in this report, one key message is that the US continues to lose influence in international affairs as it steps back from its traditional role as global hegemon. Recent evidence of this include the latest United States-China trade talks, the Russian drone incursions in Poland and Romania, and Israel’s attack on Hamas officials in Qatar. These developments are in line with other

examples in recent years, such as the Obama administration’s decision not to enforce its “red line” against Syria’s use of chemical weapons in its civil war and the Biden administration’s chaotic withdrawal of US forces from Afghanistan. In this report, we discuss the latest developments and outline how they might affect financial markets going forward.

US-China Trade Talks

Following up on President Trump’s April imposition of steep US tariffs on imports from China, top officials from the two countries held their fourth round of negotiations in mid-September to resolve the dispute. [According to read-outs from the meetings that took place in Madrid, it appears that the main substantive progress in the talks involved a “framework” deal on US operations of Chinese social media app TikTok.](#)

As of this writing, relatively few details of the TikTok deal have been released. However, it appears that the main elements of the deal are as follows:

- **Transfer to US Ownership:** Under the deal, a consortium of US investors will take an 80% stake in TikTok’s US operations, eliminating the need for a forced divestiture from its Chinese parent company, ByteDance.
- **Data Safeguards:** Also under the deal, TikTok will store US user data only on servers located in the US and managed by a US-based company. Oracle is expected to continue its role as the data security partner.

- **Algorithm Control:** ByteDance will retain control over TikTok's core algorithm, but the US government will have oversight mechanisms to monitor how it is used, especially regarding content moderation and recommendation systems.
- **National Security Review:** The agreement includes provisions for regular audits and reviews by US national security officials to ensure compliance with data protection and content governance standards.
- **Transparency Measures:** TikTok will be required to increase transparency around its content moderation practices and provide US regulators with access to internal decision-making processes.

In our view, there are several ways in which the new TikTok deal reflects the US's waning ability to control its standing in the world. For example, while the US administration initially worked to ban TikTok back in 2018, it has since become clear that the app's popularity makes it politically impossible to ban outright. In other words, legions of US voters themselves want to keep this Chinese product available to them. Second, it's notable that the deal was apparently the only substantive result of the Madrid round of the US-China trade talks, suggesting the US administration still has not been able to force the Chinese into trade concessions geared toward cutting or eliminating the huge US trade deficit with China. Finally, ByteDance's continued control over the powerful TikTok algorithm and its role in developing the US version of the algorithm could create ongoing risks that US users' feeds may be secretly manipulated to support Beijing's political goals or to secretly gather users' data, despite the deal's safeguards.

Russian Drone Incursions

Ever since Russia invaded Ukraine in early 2022, observers have recognized the risk that the conflict could spread westward, perhaps even to the Eastern European members of NATO. Indeed, over the course of the war, there have been incidents of individual Russian aerial drones or aircraft straying into the airspace of NATO members, including Poland and Romania. However, an incursion of Russian drones into Poland on September 10 was by all indications much more substantial and apparently deliberate. A separate, smaller incursion of Russian drones into Romanian airspace shortly afterward also seemed to be deliberate.

[In the Polish incursion, at least 19 Russian drones entered Polish airspace from Ukraine and Belarus.](#) NATO fighter jets scrambled to intercept them, shooting down three that were on course to hit major Polish airports or military bases, including an airport that serves as a hub for Western military aid flowing to Ukraine. The rest of the drones crashed in Polish territory.

According to press reports, the Russian drones were of the Gerbera model, a smaller, cheaper version of the Iranian-designed Shahed drones that have wreaked havoc in Ukraine. It isn't clear whether the drones were armed or only configured for reconnaissance. In any case, the cheap wood and Styrofoam drones were shot down with expensive missiles and prompted costly jet sorties on the part of NATO countries, illustrating the asymmetric advantage that drones can provide on the battlefield by forcing targeted militaries to use expensive weapons systems and munitions to thwart them.

One key question regarding the latest Russian incursion was its purpose. Polish

President Nawrocki said recently that he has convinced President Trump that the mass incursion was deliberate, although he didn't indicate what intelligence Poland might have to confirm that assessment. In any case, we believe the assertion is credible, especially given that Russian intelligence agents have not been shy about conducting sabotage operations across the European NATO countries since the war started.

If the incursions were indeed deliberate, the next question is this: Why were they launched? Like many Western observers, we believe they occurred for two related purposes. [First, the incursions likely aimed to test NATO's defenses.](#) As such, the NATO response was probably encouraging to the Russians, given that the Western forces were forced to rely on fighter jets and advanced missiles but still only managed to shoot down three of the 19 drones. A second reason was probably for Russia to taunt NATO allies or to send a political message, perhaps something like, "We can hit you, and you can't hit back in any logical, effective way. Therefore, it's futile to oppose our efforts in Ukraine."

Whatever the reasons for the incursions, the fact that they occurred at all suggests President Putin and the rest of Russia's leadership see little risk of provoking a US response. In other words, these incidents suggest the Kremlin is not intimidated by the US in the way that it was for decades during the Cold War.

Israel's Attack on Qatar

In yet another concerning geopolitical development, Israeli forces fired ballistic missiles into Qatar on September 9 to kill several top political leaders associated with the Hamas Islamist group that governs Gaza, who were meeting in Doha at the time.

According to press reports, Israel launched its missiles from fighter jets over international waters in the Red Sea. The missiles overflew Saudi Arabia before hitting Qatar. The attack killed several top Hamas figures, but apparently none were in the very highest echelons of the group's leadership.

Importantly, the Israelis only warned the US about the impending attack shortly before it took place, giving US leaders insufficient time to stop it. President Trump later indicated he was perturbed by Israel's treatment of its top ally, although, to date, we have seen no indication that Trump will impose any meaningful punishment on Tel Aviv.

The Israeli attack was notable for a number of reasons. Perhaps the most important is that the attack contravened the wishes and interests of the US and Qatar itself, which has been a key part of the Abraham Accords that renewed Israeli diplomatic ties with several Arab countries. The attack therefore represents an extraordinary instance of Israel willing to weaken some of its most important political ties in order to take out Hamas officials. In turn, that reflects an extraordinary level of independence in decision-making by Prime Minister Netanyahu, whose government has virtually become a pariah state among some foreign observers for its vast, aggressive war against Gaza.

The extent to which Netanyahu can move against the wishes of the US and other allies is probably limited, given that Israel remains dependent on the US and other countries for much of its weaponry and other military aid. However, his willingness to strike out on an independent path and accept international political costs to undercut Hamas and build domestic political support suggests a higher

level of risk in Israel's continuing war. Naturally, a key part of this risk is that the conflict could spread to include attacks on the region's key energy facilities.

Investment Implications

We see a common thread running through each of the recent developments described here. To a greater or lesser degree, we think each reflects the US's declining willingness or ability to control events in international affairs, even if US interests are in play. As we've written many times before, the US's growing reluctance to play the role of global hegemon likely reflects voter fatigue with the economic, social, and cultural costs of hegemony, along with the growing economic and military power of China and its allies. We've described how the growing rivalry between the tiring US hegemon and the fresh, rising Chinese challenger has begun to split the world into relatively separate geopolitical and economic blocs, with big impacts on the global economy and financial markets.

As we have also long argued, these trends have clear investment implications. For example, we continue to believe that global fracturing will make the world's supply chains less efficient and contribute to relatively higher and more volatile consumer price inflation and interest rates going forward, which should be negative for **bonds**. That's especially the case if growing debt prompts the government to adopt financial repression, i.e., artificially holding down bond yields. In contrast, increased

global tensions will likely buoy prices for **commodities**, especially gold.

As the world transitions into the new regime of Global Fracturing or, potentially, Chinese Hegemony, we think equities will provide the best returns on average. **Foreign developed-country equities** are likely to outperform as governments ramp up their fiscal stimulus to boost economic growth and better prepare for the more chaotic world of the future. Foreign defense stocks are especially well placed to outperform as the nations of Asia and Europe rearm. If China inherits global hegemony peacefully, **Chinese equities** could also perform well, at least in the near-to-medium term.

For **US equities**, investors' continued excitement and optimism about artificial intelligence could keep boosting prices for large cap growth stocks, especially in the Information Technology and Communication Services sectors. However, valuations for these stocks are already quite high, so they are vulnerable if AI optimism fades, interest rates spike, or geopolitical tensions worsen. Therefore, we continue to advocate for diversified portfolios that include large, well-run, dividend-paying stocks, whether they are in the growth-oriented sectors of the market or in traditional value sectors.

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