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Unpredictable America Shakes Foundations of the Global Economy

Donald Trump has upended the old international order, but nations and investors alike are still anchored to the US for now.

By Saleha Mohsin

(Bloomberg Markets) -- Investors embraced in 2025 the so-called TACO trade—that is, a bet that “Trump Always Chickens Out” on any move that would rattle markets for too long. That idea seems blithe now.

President Donald Trump’s war in Iran is too big to be reversed, even if his sporadic signals of a softer line can spur quick rallies. And deep changes regarding America’s place in the world and in the global economy crystallized even before the fighting began. Think back just several months to the World Economic Forum, when Trump and other world leaders and businesspeople gathered in the snowy Alpine town of Davos, Switzerland. There were moments when the room seemed to tilt.

It wasn’t a single speech, or even the strange, unprovoked quarrel over Greenland. It was the growing acknowledgment, in private conversations and in public moments such as the now-famous address by Canadian Prime Minister Mark Carney, that the US was no longer being treated as a predictable actor. It isn’t seen as unreliable in every instance and certainly isn’t irrelevant. But the US is now a nation whose actions can no longer be readily anticipated. That difference changes everything.

For decades, the global order rested on what Carney called the “lie of mutual benefit,” or a useful fiction, that countries played by a set of rules. America was the first among equals. Allies understood the hierarchy, but the arrangement helped them too. The country with the most powerful military and the largest economy, and the owner of the world’s reserve asset, would rule, provided it kept certain nations in its protection and revved up its consumer-driven economy. Other nations could sell cheap goods to the US and hold back on defense spending while bolstering their welfare systems. The patina of shared ownership of the results meant world leaders could return home from global meetings with their heads held high, speaking the language of partnership.

Even adversaries calibrated their moves against a Washington they found legible. Everyone acknowledged that the rules-based order was never pristine: It failed to prevent wars in Afghanistan, Iraq and Syria, or address the broader Middle East conflict; and countries could bend trade rules. But there was a shared expectation about how the US would behave, and thus how the rest of the world would. “You end up in a world where strategic trust has dropped,” said Vivian Balakrishnan, Singapore’s foreign affairs minister, in a March interview with Reuters. “Everyone has to assume the worst.”

Americans themselves are uncertain about what to expect. Trump has tried to undercut the independence of the US Federal Reserve and has derided a conservative-majority Supreme Court as “inept.” The war in Iran came without congressional input and without public debate. The midterm elections in November will be a test of voters’ response to the war and rising oil costs. They could also be another test of the electoral system itself, given Trump’s penchant for coloring outside the lines and his reaction to his loss in 2020.

Yet here’s the paradox: In a world where America is less well understood, capital still wants to be in the US. Despite the US-Israeli airstrikes triggering a 20% disruption in the global oil supply over the first 10 days of the Iran conflict, the dollar has been neither displaced nor debased. In 2025 a “sell America, buy Asia” narrative

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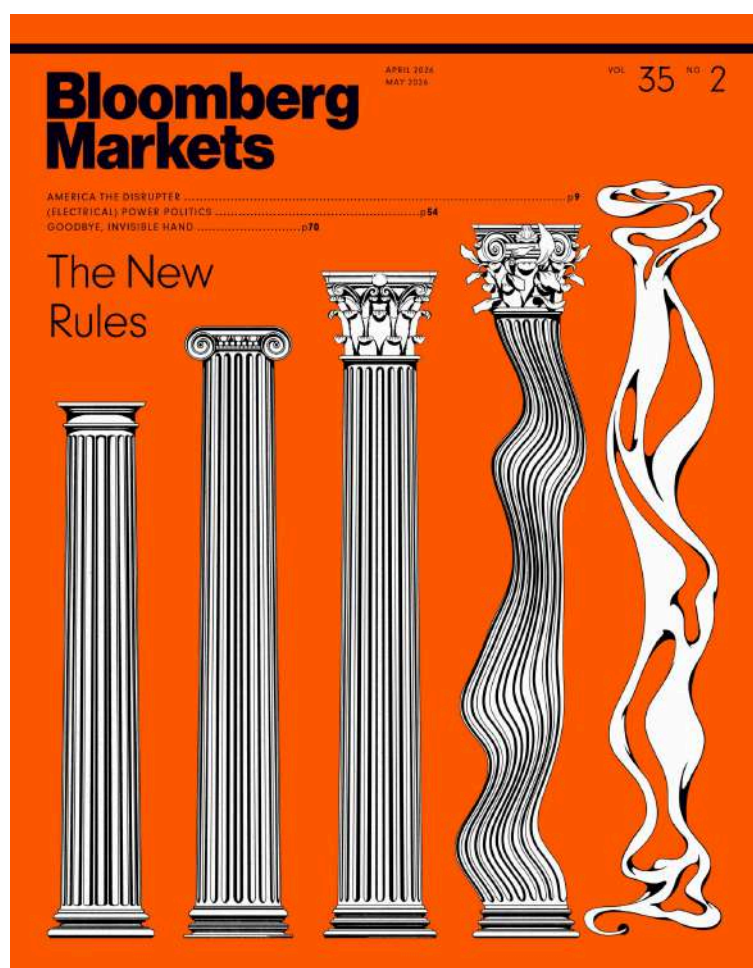
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gripped traders, pushing the dollar index down about 8% for that year. In the immediate days following the Iran strike, it nudged upward.

A sustained rise in oil prices could fundamentally alter the equity outlook across Asia, which is dependent on oil and natural gas from the Middle East. And the US is somewhat insulated because of its status as an energy exporter—and the perception that it's still a kind of economic safe haven.



In global finance, trust is not solely about virtue; it's also about scale, liquidity and opportunity. Investors who may question America's politics can't ignore its markets. Although a recent Treasury auction of two-year notes unexpectedly drew weak demand (a mark of concern about a potentially protracted war), US government securities remain the world's deepest, safest asset pool. The AI revolution—real, capital-intensive and concentrated in the US and its tech companies—is reinforcing US economic centrality, even as it destabilizes everything else.



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A short window of time (years, not decades) may determine not only America's place in the world but also the course of AI. Europe has produced hundreds of pages of AI regulation; it's almost too much to be of any real use. In Washington, policy is erratic, including chip deals, AI use in military operations and a public fight between the Pentagon and leading AI lab Anthropic over how the technology can and should be used in warfare. A new White House framework for AI regulation focuses on power costs, safeguards for children and preventing states from making their own rules.

Meanwhile, executives and workers alike sense an existential threat from AI. The level of alarm in boardrooms and living rooms is not remotely matched by what is on the table in Washington.

Some policymakers see the rise of AI as less of a job-eater than globalization was. "AI is a tool. It's not going to replace us as human beings," [Christopher Waller](#), a Fed governor, said in a February [speech](#). What industries are trying to figure out about AI is whether it causes labor reduction versus labor shifting, he said. Other observers are bracing for a different kind of pain. "We're going to have a lot of societal stress" over the coming years, [Reed Hastings](#), the co-founder of [Netflix Inc.](#), said at an event in December in New York. "The rate of change in society that's driven by AI is going to be large." He compared the change to the Industrial Revolution, except that this one will happen over just a few decades.

Financial markets are already reorganizing around AI, pumping up the value of so-called hyperscalers and key chipmakers while punishing the shares of any company suspected of being vulnerable to disruption. Periods of

intense financial innovation without adequate oversight have rarely ended quietly, and social upheaval tends to follow economic crises. In this way, the same forces drawing capital into US markets—data centers, semiconductor demand—could also intensify geopolitical tensions and competition.

We're still a long way from the euro or the yen or the renminbi displacing the dollar, yet policymakers around the world are recalibrating. For example, the European Central Bank has begun revamping its euro liquidity facilities, explicitly aiming to make the single currency more attractive to global reserve managers. The move could help make the ECB another global lender of last resort. The Federal Reserve's dollar swap lines were deployed at massive scale during the 2008 financial crisis and revived in 2020, bolstering the dollar along with US economic power.

The ambition is clear: If the US is less predictable, Europe should become a beacon of stability. ECB President Christine Lagarde speaks openly about the "deliberate weaponization of dependencies" on America. "Trusted partners do not always remain so," she said in a speech at the Munich Security Conference in February.

China, too, may see opportunity in American volatility. The US's growing appetite to intervene directly in markets—for example, by acquiring equity shares of Intel and other companies—and Trump's attempts to bully the Federal Reserve are showing China that the US economic system is less distinct from its own, says Eswar Prasad, an economics professor at Cornell University. "The contrast between a market-oriented liberal democracy and a command system is no longer as stark in practice as it is in theory," he says. "If America blurs that line, China does not have to win the geopolitical contest outright. It can win by default."

What happens when trust dissolves? What we're seeing now is allies hedging, building parallel institutions, exploring alternative payment systems and diversifying reserve holdings at the margin. In essence, they're curbing exposure to America. Even if the US remains a dominant financial power, the margin of that dominance can shrink. Multipolarity doesn't require America to collapse. It requires others to develop credible alternatives.

The question for investors and policymakers is not whether the dollar falls from its perch. It's whether trust erodes enough to raise the cost of capital for the US. Should portfolios diversify more aggressively away from dollar-based assets? Is tail-risk protection against financial crisis now prudent? These questions are no longer fringe.

Investors know that humility is warranted. The past year has been a cascade of apparent hinge moments—the April 2025 tariff announcements, Trump's attempt to fire a sitting Fed governor—that seemed epochal and then receded as markets stabilized. The TACO trade worked.

But accumulation matters, and institutional norms, once bent, may not snap back to their original shape. A central bank pressured once can be pressured again. A generation of workers displaced by automation doesn't simply learn new skills on command.

The Trump administration is still counting on the benefits of a familiar international order. The US's position in the global economy is "a key factor in enabling economic security," Treasury Secretary Scott Bessent said in a February speech in Dallas. "This status rests on confidence in our institutions and, critically, in the health of the US Treasury market," he said as he cited the importance of continued investment in the US. Investors have an insatiable appetite for American federal debt, because it's underpinned by institutions they still trust more than the alternatives.

It's worth remembering that not everything is in the hands of the White House. Both the Fed and the courts are still asserting themselves. In a Supreme Court ruling in February, Justice Neil Gorsuch, who Trump selected for the job during his first term, joined the majority to rule that the administration's use of a specific law to impose tariffs was illegal. In the ruling, Gorsuch laid out a defense of the authority of Congress in such matters, explaining that its slow decision-making also lent itself to predictability. What the justice writes about

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congressional authority also speaks to America's place in geopolitics: "Retrieving a lost power is no easy business."

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