From tariffs on goods to tariffs on capital?

The Mar-a-Lago Accord is a misguided plan to reshape global trade and finance

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AUTHORS
XIAO CUI
xcui@pictet.com
FREDERIK DUCROZET
fducrozet@pictet.com

FOCUS NOTE

SUMMARY

- The swift and aggressive implementation of tariffs by the Trump administration is challenging the dollar's global role. Aggressive tariffs align with the Mar-a-Lago Accord proposal, which suggests sequencing tariffs as part of a broader effort to reshape the global trading and financial system.
- Proposals to impose a so-called "user fee" on foreign holders of Treasury securities, along with ideas for implementing a foreign withholding tax on US financial assets, raise important questions about the safe-haven status of US Treasuries. Are tariffs on capital the next step after tariffs on goods?
- The Mar-a-Lago Accord aims to address dollar overvaluation and the US twin deficits by using tariffs and security guarantees as leverage with trading partners. The goal is to depreciate the dollar while preserving its reserve currency status, and the accord proposes solutions such as currency interventions and debt swaps for extended Treasury duration.
- In our view, the Mar-a-Lago Accord is misguided from both a theoretical and practical perspective. The most radical parts of the plan would challenge US financial stability by destabilizing Treasuries, eroding Fed independence, and undermining the dollar's reserve currency status.
- We think it's highly unlikely that the plan will be implemented in full, but it cannot be completely ruled out that some parts start to be discussed, including a small fee on interest payments on foreign holdings of Treasuries. This fee might only apply to new issuance and vary among countries, and it most likely would not be introduced during times of market turmoil. Even so, this would still represent a major risk for the US bond market and financial stability at large.

ARE TARIFFS ON CAPITAL COMING, THREATENING THE SAFE-HAVEN STATUS OF TREASURY SECURITIES?

The swift and aggressive implementation of tariffs by the Trump administration aligns with the so-called Mar-a-Lago Accord proposal, which suggests sequencing tariffs as part of broader efforts to reshape the global trading and financial system.

The Mar-a-Lago Accord is an idea based on a recent paper published by the current Chair of the US Council of Economic Advisers Stephen Miran. It would have America's trading partners help weaken the dollar (similar to the Plaza Accord) and lower US funding costs, enforced by threats of tariffs and security guarantee removal.

This is happening at a time when a tectonic shift is underway in the global economy. The existing architecture – in which the US delivers financial stability, security guarantees and superior returns in exchange for foreign capital – is faltering as US policies undermine trust in the world's largest economy.

In the Appendix below we provide details on the reasons why we believe the accord is misguided from both a theoretical and practical perspective. But **the mere threat of a tax on foreign UST holdings would fuel significant volatility in financial markets by questioning the safe-haven status of US Treasuries.**

WHAT IF THE MAR-A-LAGO ACCORD IS THE END GAME?

The Trump administration has not formally endorsed the accord, and Miran himself has tried to downplay parts of the plan. However, others have speculated that it represents the end game of all the policies currently being implemented. In a recent speech, Miran again called for global burden sharing for US provision of security and financial stability, suggesting that other countries should contribute by accepting tariffs without retaliation, boosting defence spending, investing in US factories, and making direct financial contributions to the US Treasury.

Despite the theoretical and practical pitfalls of the plan, what if the accord is indeed part of the agenda and some, if not all, of it gets implemented? In our view, this could have significant implications for capital flows and investment returns.

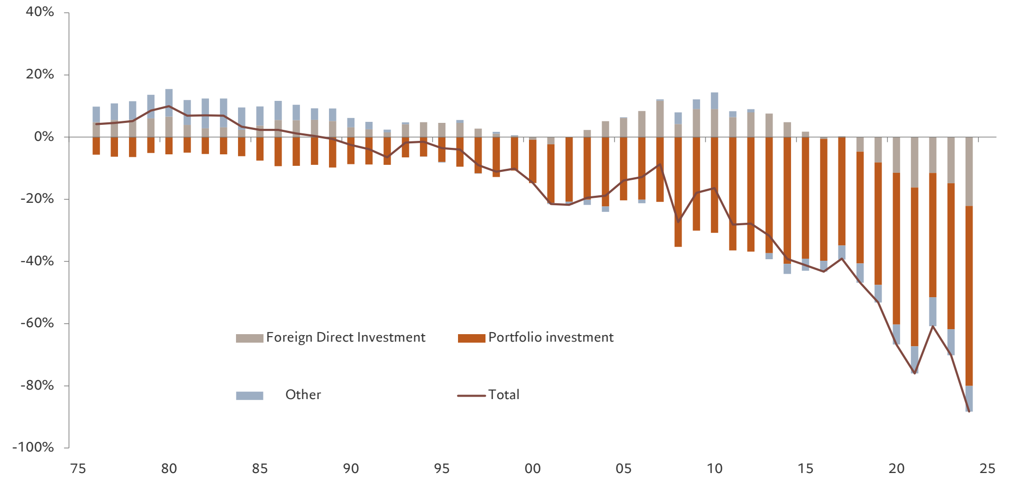
The most radical parts of the plan, including user fees on Treasuries, erosion of Fed independence, breaking trade agreements, and mistreatment of allies, challenge US financial stability by destabilising Treasuries and undermining the dollar's reserve currency status. **Foreign investors own around 30% of marketable outstanding debt, with half of that coming from official (vs. private) demand.**

The accord could potentially introduce additional risks to dollar assets, already challenged by fading US exceptionalism due to growth concerns, rivalry in AI leadership, fiscal spending in Europe, and risks of unwinds after decades of outperformance. The world has a lot of capital tied up in the US – **the US net international investment position now stands at almost -90% of GDP** (chart 1). The deterioration in the deficit since the pandemic was primarily driven by portfolio investment, with foreigners significantly increasing their US equity holdings.

The US government's ability to borrow at low cost is underpinned by the unique status of the dollar as the world's reserve currency and the depth of the US capital markets. Persistent dollar weakness could erode this exorbitant privilege and lead to **an even sharper deterioration in the fiscal outlook**.

The success of the Plaza Accord depended on trading partners coming together to coordinate efforts, followed by credible US fiscal consolidation. If these conditions materialise, the aforementioned risks could diminish. However, it is looking increasingly unlikely each day.

Chart 1: US net international investment position (NIIP)



Source: Pictet Wealth Management, BEA, as of April 2025

INVESTMENT IMPLICATIONS

It is very hard to gauge a floor to the stock market given uncertainty about the full impact of tariffs, or how much US exceptionalism will be challenged. In the near-term, a liquidity crisis might have been averted following the announcement of a 90-day pause on the reciprocal tariffs in excess of the 10% universal ones, which will stay for now. But even if markets stabilise, growing recession risks will likely keep global equities under pressure against the backdrop of very high tariffs on China and the prospect of more sectoral tariffs to come. Significant damage to global trade, supply chains and business confidence has been done.

We reiterate our recommendation to hold onto safe assets like the CHF and gold while keeping some dry powder to reassess how to position strategically once the dust settles. The composition of the MSCI World index could structurally shift over time from 72% US stocks today to ca. 62%, with Europe the main beneficiary. If proposals to tax capital flows came to fruition, this would erode the safe haven status of US Treasuries and the reserve currency status of the US dollar. As a result, the USD would suffer severe headwinds.

For illustrative purposes. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. There can be no assurance that these projections, forecasts or expected returns will be achieved. The projection is not based on simulated past performance.

APPENDIX: A REWRITING OF THE GLOBAL TRADING SYSTEM…

The Mar-a-Lago Accord, an idea published in a paper by the current Chair of the US Council of Economic Advisers, aims to address several key problems identified by the Trump administration:

1. **Dollar overvaluation**. This is thought to be driven by the inelastic demand for reserve assets from the world given the dollar's reserve currency and safe-haven status, and the root cause of economic imbalances – the twin deficits.
2. **Trade deficit and manufacturing decline**. The overvalued dollar makes US exports less competitive and imports cheaper, which has led to a decline in American manufacturing.
3. **Fiscal deficit and defence**. Elevated fiscal deficit and debt levels pose challenges, and the US global defence umbrella is burdensome.

The overarching goal of the accord is to depreciate the dollar and at the same time preserve the dollar's dominant reserve currency status, while avoiding higher interest rates. The solutions proposed to address these problems are:

1. **Tariffs and security guarantee removals** would be used as tools for generating negotiating leverage with trading partners. Tariffs would also generate revenue for the government, which could support domestic tax cuts.
2. **Currency intervention**, through either a multilateral or a unilateral approach. A multilateral approach, like the Plaza Accord, involves coordination with other countries to depreciate the dollar. A unilateral approach would involve the US government purchasing foreign currencies by using the Exchange Stabilization Fund (ESF) or setting up a sovereign wealth fund.
3. **Debt swap**. To reduce the upward pressure of foreign selling of US currencies and assets, the US would encourage reserve managers to swap their current Treasury holdings for zero-coupon century bond, thus extending the duration held by foreign governments.
4. **A "user fee" on Treasury holdings** would be applied to the interest payments on Treasuries held by foreign official holders. This could involve withholding a certain percentage of the interest payments these entities receive. The fee aims to reduce the demand for dollar assets, thereby addressing dollar overvaluation.

…THAT IS LIKELY MISGUIDED

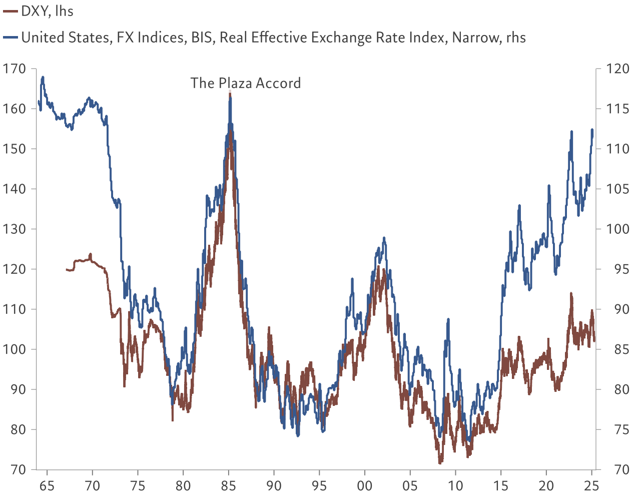
In our view, the Mar-a-Lago Accord is misguided from both a theoretical and practical perspective. Theoretically, we don't fully subscribe to the idea that:

1. The strong dollar is the root cause of the US' large trade deficit, the declining manufacturing sector, or the deteriorating fiscal backdrop.
2. The dollar is overvalued due to its reserve currency status and the unnatural demand from reserve managers.

We think the issue of twin deficits stems from consumption and production imbalances that can best be explained by China's meteoric rise in global manufacturing, not by dollar strength (chart 3). The savings and investment mismatch among major economies lies at the heart of the problem. Additionally, large increases in dollar reserves tend to occur during periods of dollar weakness, not periods of dollar strength, and vice versa, as countries try to prevent excessive dollar fluctuations (chart 4). Reserve demand thus counteracts dollar movement, weakening the argument that reserve demand drives dollar strength.

Importantly, dollar strength does not automatically lead to twin deficits. In fact, the US was running a fiscal surplus when the real effective exchange rate (REER) was last at its local peak in the early 2000s (chart 5).

Chart 2: Nominal and real dollar indexes



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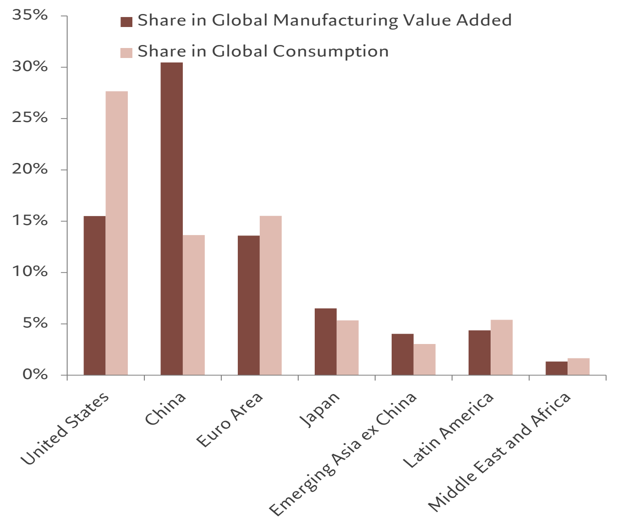
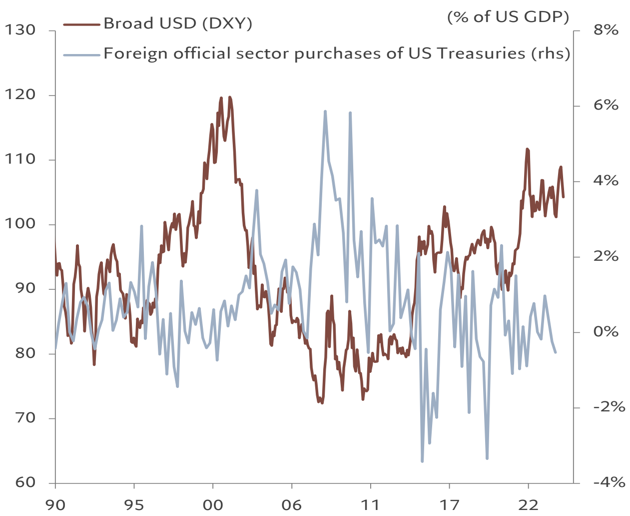
Source: Pictet Wealth Management, Federal Reserve, Bloomberg, as of March 2025

Chart 3: Production and consumption imbalances



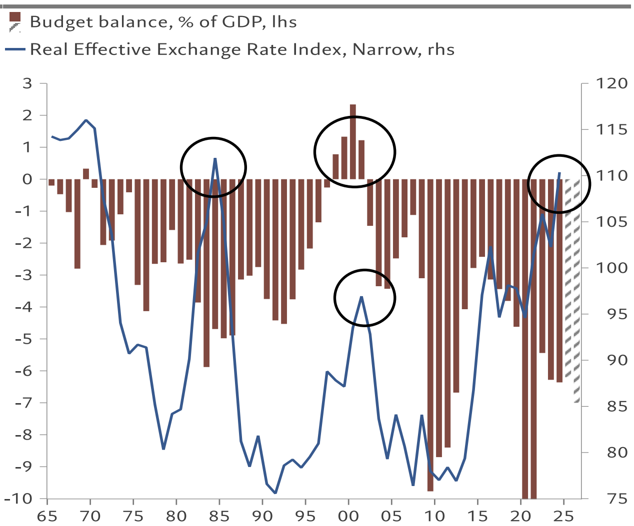
Source: Pictet Wealth Management, World Bank, as of March 2025

Chart 4: US dollar and foreign reserve transactions



Source: Pictet Wealth Management, US Treasury, Bloomberg, as of March 2025

Chart 5: US dollar and the fiscal deficit



Source: Pictet Wealth Management, Federal Reserve, CBO, as of March 2025, shaded columns are Pictet projections.

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Practically, the incentives in the accord are not strong enough to get the trading partners on board to cooperate, and the tools are poorly designed, **potentially harming the dollar's reserve currency status**.

1. Charging a "user fee" on Treasury repayments abroad could be interpreted as breach of contract, or akin to a default, and will damage the US' preeminent status in the global financial system. There is no incentive for foreign reserve managers to swap their coupon-paying Treasuries to zero-coupon bonds that mature in 100 years. This particular proposal looks highly unrealistic.
2. Fed independence could be severely threatened. If the Treasury pursues a strategy involving significant selling of dollars to strengthen foreign currencies, the Fed might need to stabilise the market through open market operations or interest rate policy. Such Treasury-Fed coordination may not be feasible and would severely undermine the credibility of the central bank.
3. The success of the accord depends on cooperation from the trading partners, particularly China. China does not need or want a US' security guarantee and generally views the Plaza Accord as a key factor behind Japan's lost decades. Therefore, cooperation from China on currency intervention is highly unlikely.

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