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Our Vision

Lower rates as industrial policy: Bessent, Warsh, reshoring, and AI

A concise interpretation of political logic, its transmission channels and its limits. Why Bessent and Warsh don't follow the advice of their mentor, Stan Druckenmiller.

The common goal is not simply "cheap money." It consists of reducing the burden of financing a capital-intensive reconstruction of American productive capacity, provided that the additional supply ultimately compensates for the demand created by the investment boom.

The common strategic logic

Bessent and Warsh approach rates from different positions, but their arguments are two parts of the same supply-side strategy. Bessent is targeting the 10-year Treasury yield, the benchmark for mortgage and corporate lending, and is betting on fiscal credibility, deregulation, cheaper energy and stronger growth rather than direct pressure on the Fed. His "3-3-3" framework has not yet borne fruit.

With high deficits and persistent long-term yields, it is increasingly relying on market signals: issuing Treasuries rather than long-term debt, speculating on expanded buybacks and supporting a stronger yen.

Warsh, on the other hand, makes a monetary argument: AI could increase productivity and potential output, reducing inflationary pressures and leaving room for the Fed to tolerate stronger growth. However, he remains neutral and discreet, limiting himself to saying that the Fed will achieve its inflation target.

The link with reshoring and AI is direct. Rebuilding manufacturing capacity requires factories, machinery, electricity, transportation networks, semiconductors and logistics; AI requires an equally capital-intensive ecosystem: data centers, chips, cooling, and energy. These long-term projects, with high upfront costs, are highly sensitive to discount rates. Lower long-term yields lower the required break-even points and make more marginal investments financeable: lower rates thus become a favourable condition for industrial policy, even if spending remains mostly private.

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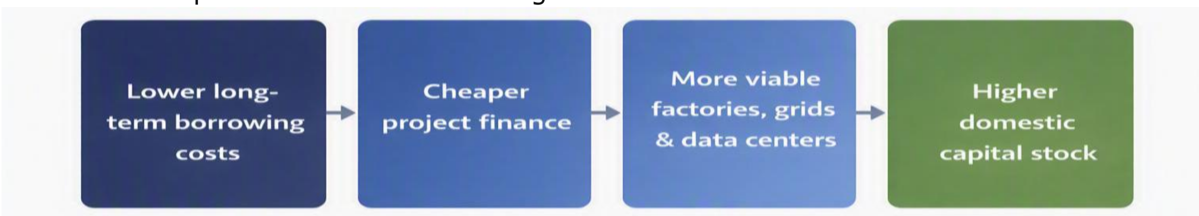
The financing channel

The cost of capital matters for reshoring and AI-related infrastructure.



Why AI strengthens the argument

Warsh's argument has to do with the sequence. Investment in AI first inflates the demand for scarce inputs — electricity, skilled labor, memory, network equipment: a potentially inflationary phase.

In the longer term, AI would lower unit costs and productivity would allow more to be produced without the same price pressure. Stronger growth and lower inflation could then coexist, paving the way for lower rates.
For Bessent, this same channel supports debt sustainability: more productive domestic capital broadens the tax base and makes reshoring less dependent on subsidies or tariffs.

The objective is a virtuous circle: cheaper financing accelerates investment, investment increases supply, and this supply validates lower rates by containing inflation.

The central tension of economic policy

Strategic arguments

- **for lower rates**
- **lower hurdle rates**
- **support large-scale fixed investment**
- **accelerate capacity expansion**

Macroeconomic constraint

- **investment can intensify strains on power and labour**
- **fiscal deficits can push up the term premium**
- **premature easing can reignite inflation**

Lower rates are only sustainable if supply increases faster than demand.

The constraint: rates cannot be lowered by simple will

The main risk: investment pushes inflation and real rates up before productivity gains, while Treasury issues inflate term premiums.

Their thesis is not to finance reshoring and AI with easy money, but to make lower rates sustainable through fiscal credibility, reform and productivity.

If the pressure on long-term rates persists, rhetoric may not be enough. As in 2008 and 2020, we believe that, if necessary, they will step in.

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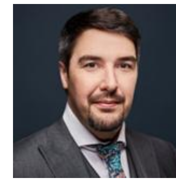

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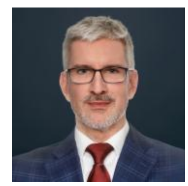

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