Carry On My Wayward Son
Song by Kansas

Carry on my wayward son
For there'll be peace when you are done
Lay your weary head to rest
Don't you cry no more

Masquerading as a man with a reason
My charade is the event of the season
And if I claim to be a wise man, it surely means that I don't know
On a stormy sea of moving emotion
Tossed about I'm like a ship on the ocean
I set a course for winds of fortune, but I hear the voices say

Introduction

This letter has already gone through a few iterations. Version one was scrapped when the facts changed. Version two met the same fate halfway through. I finally completed version three—only for the market to rally 10% the same day. At this point, I surrender. So here we go— It's not perfect, but it's real—and reflective of just how fast this environment is shifting.

I ended my Q4 2024 letter with the words, "2025 will undoubtedly be an interesting year." Well, we're only three months in—and as the saying goes: May you live in interesting times.

Consider just a few headlines from Q1:

1. Global leaders are now dabbling in crypto pump-and-dumps.

2. Zero regulation of crypto—could that be its downfall? North Korea has reportedly stolen $6B in crypto, now their largest revenue source. Overregulation and zero regulation are two very different risks.

3. We may be entering a tariff war bigger than Smoot-Hawley.

4. China is diving deep into AI.

5. The QQQ entered bear market territory.

6. $100 million was spent on a single state supreme court election—in Wisconsin.

7. Over 800 NCAA basketball players hit the transfer portal, yet TV ratings somehow improved. Kaitlin Clark graduated, and the women's tournament lost 10 million viewers.

8. The law of unintended consequences for young men: 24/7 access to weed, gambling, crypto, and porn. It all seemed like a good idea at the time. (More on that later in my section on threats to American exceptionalism.)

9. The Philadelphia 76ers are beginning to resemble the New York Jets of the NBA.

10. Just kidding—tariff escalation was placed on a 90-day pause.

And through it all, the GOAT does it again. Warren Buffett was cashed up at just the right moment—without using a Bloomberg terminal, Excel spreadsheets, quant models, or AI. Sometimes, old-school fundamentals still win.

"I could end the deficit in five minutes. You just pass a law that says that anytime there is a deficit of more than 3% of GDP all sitting members of congress are ineligible for reelection."
– Warren Buffett

After 16 years of S&P-led global stock market domination, U.S. exceptionalism just hit a wall—in a matter of 30 days. That was fast. Two and a half centuries of leadership now seem to be in question. Has America really become the global Wayward Son overnight?

Donald Trump hit the red button—his aggressive tariff policy surprised even his strongest critics. Then he hit the yellow button. For those who believe no one can predict markets, this year is testing that theory to the extreme.

The complex and opaque math behind these "Liberation Day" tariffs has only added to market volatility. The reciprocal calculus is unclear to almost everyone. The U.S. exports services and imports goods—no one truly knows how this wave of tariffs will ripple through that imbalance.

Part I. Is American Exceptionalism Over?

"We always live in an uncertain world. What is certain is that the United States will go forward over time."
— Warren Buffett

According to the latest Global Fund Manager Survey (FMS), institutional investors believe the era of American exceptionalism is ending—after 16 years of U.S. equity outperformance over international markets. We'd argue it's more like 250 years of exceptionalism, with extra credit for the post-WWII era.

That said, let's remember who's voting here: the same fund managers who projected double-digit gains for the S&P in 2022 (it fell 19%) and predicted a decline in 2023 (it gained 24%). These are also the same voices that once championed Trump-era tax cuts and deregulation—now declaring the U.S. a Wayward Son.

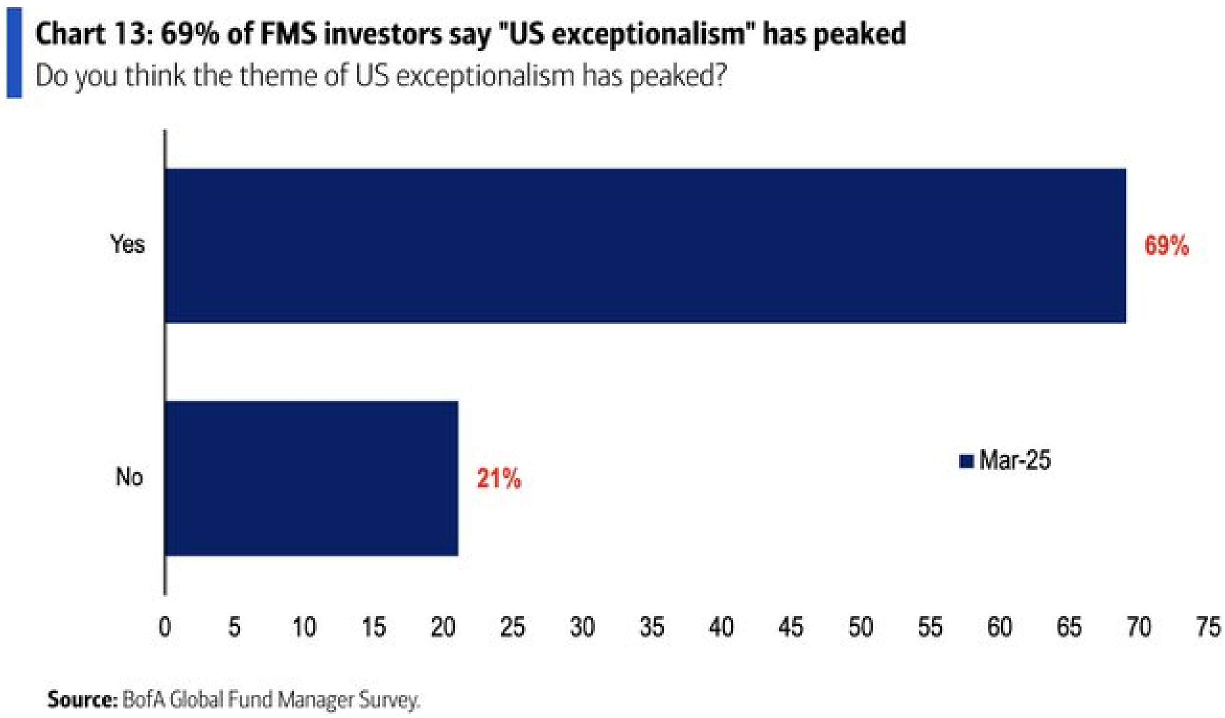
Yes, this moment feels different. Trump is unlike anything we've seen in our lifetimes, but so was everything below:

1. 9/11 – Markets closed for a week, then reopened down 15%.

2. 2008 – We were 24 hours from widespread bank failures.

3. Covid – The entire world locked down.

And if we're going back further: World Wars I and II, the Great Depression, the Cold War, and the fall of communism—all periods of extreme uncertainty and yet, each time, the U.S. moved forward.

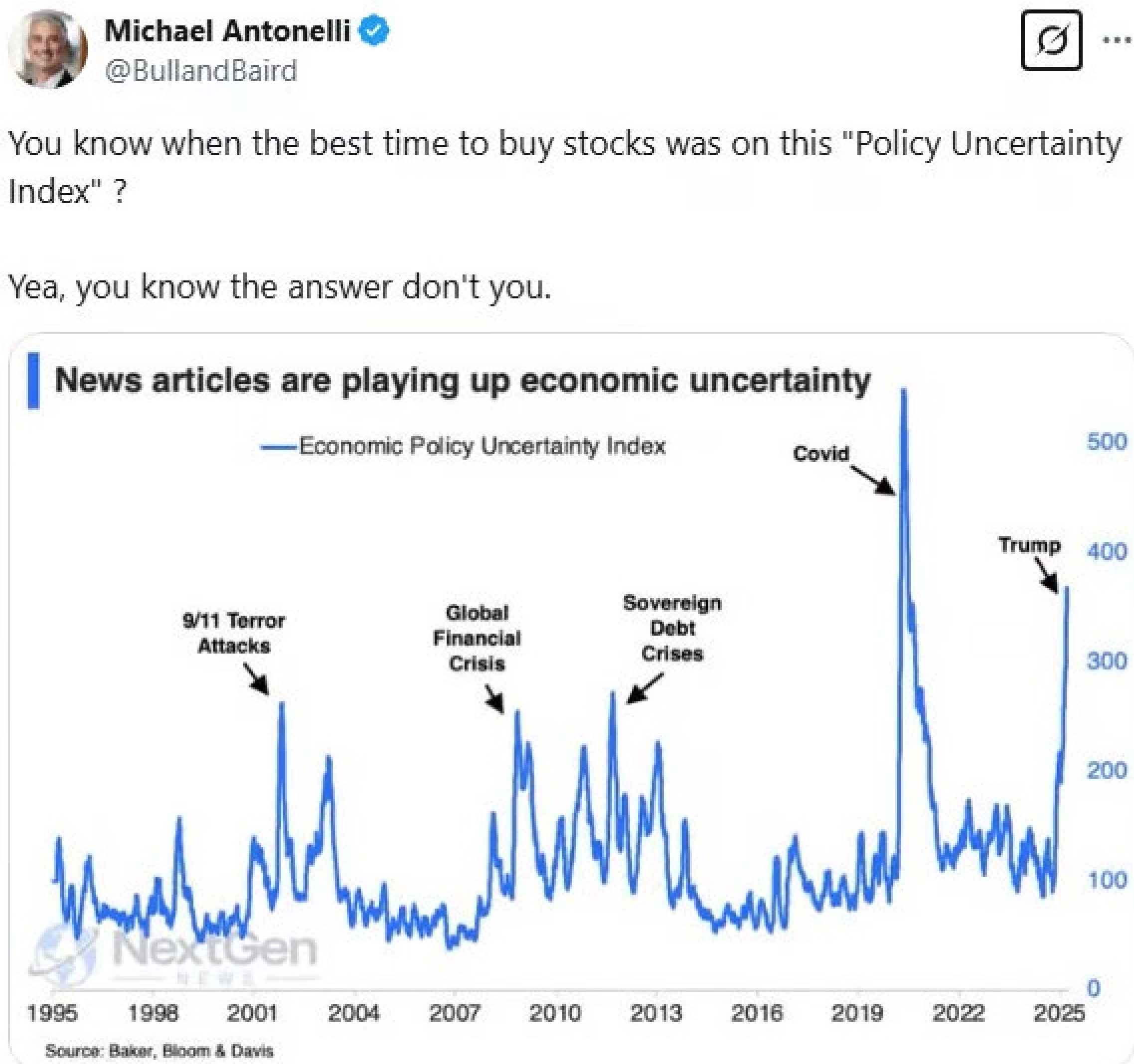


Source BofA

The core of the "end of American exceptionalism" thesis centers on President Trump's geopolitical agenda. At Lansing Street Advisors, we make every effort to steer clear of political commentary—and as stated in past letters, we firmly believe politics should not drive portfolio decisions.

That said, Q1 2025 delivered a spike in policy uncertainty that nearly rivaled COVID-era levels. The chart below shows a key takeaway: historically, days of political turmoil have often turned out to be strong buying opportunities.

Policy uncertainty is currently higher than it was after 9/11 and during the 2008 financial crisis. That may seem excessive—but as always, perception often depends on political affiliation. What's more extreme, in our view, is the idea that this moment marks the end of American exceptionalism.



Source: @BullandBaird

Is Europe going to dismantle its welfare state overnight and become a fast-growth, entrepreneurial juggernaut within a year? Will European couples suddenly start having five or six children and erase decades of demographic decline?

Unlikely.

Wasn't China supposedly reverting to full Communism just a short time ago? Now, it's already in recession. Youth unemployment is over 20%, and the country remains deeply dependent on exports—exports that are increasingly vulnerable to the latest tariff shock. Some analysts believe that sustained pressure could tip key parts of China's economy into crisis.

And what about the rest of Asia? China, South Korea, and Japan are all facing steep declines in working-age populations within the next two generations. There is no easy "growth switch" for these economies to flip.

Even the New York Times highlights the tough choices ahead in Europe, where economic stagnation and political instability make rapid transformation difficult. As the article puts it:

"Economies are stagnating, governments are unpopular and efforts to keep the far right out of coalition governments are barely holding. Now, as critics see it, leaders want to spend money containing Russia instead of helping their citizens.

In Britain, Starmer plans to increase military spending from 2.3 percent of the economy today to 3 percent early in the next decade. At the same time, he plans to cut Britain's annual welfare bill by some five billion pounds (about 6.5 billion dollars) a year. It's a risky proposition after the economy shrank in January and at a time when the hard-right Reform U.K. party is snapping at Labour's heels in some working-class regions. British voters say welfare spending is more important than military spending. 'Welfare Not Warfare,' read a banner at protests last week.

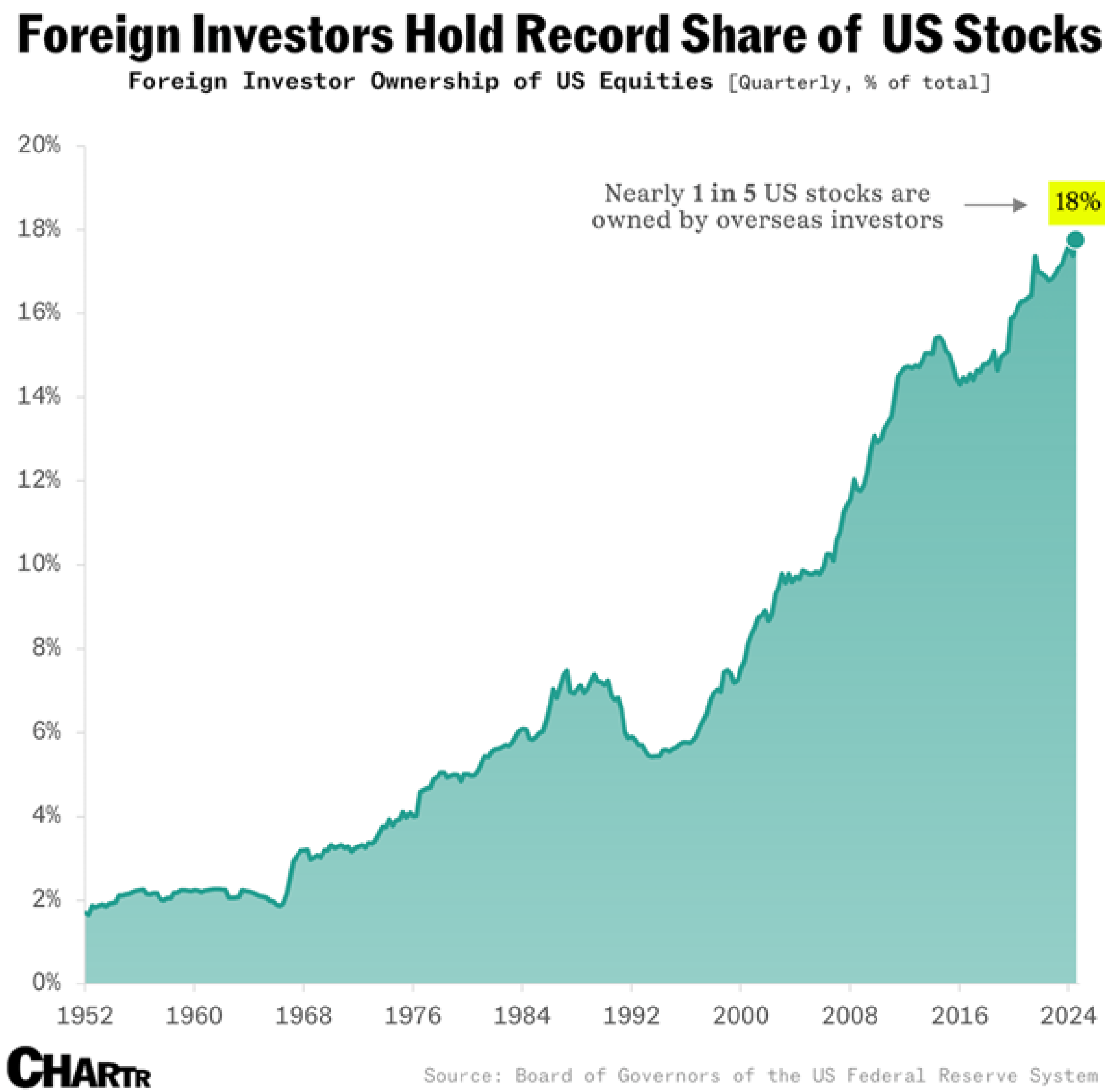
Outside Parliament in central London. Benjamin Cremel/Agence France-Presse — Getty Images

Macron faces similar headwinds in France. Voters say they support a stronger military but don't want to pay for it by increasing taxes, decreasing social spending or raising the retirement age. Macron has already promised not to raise taxes, so some cuts to social spending seem likely. Now parties on the far right and the far left smell blood: Macron is using the Ukraine war to 'justify the destruction of the welfare state,' wrote one right-wing lawmaker on X. Cutting back the social services in favor of defense is 'psychosis,' said the leader of one of France's most powerful unions."

— New York Times, "Welfare vs. Warfare"

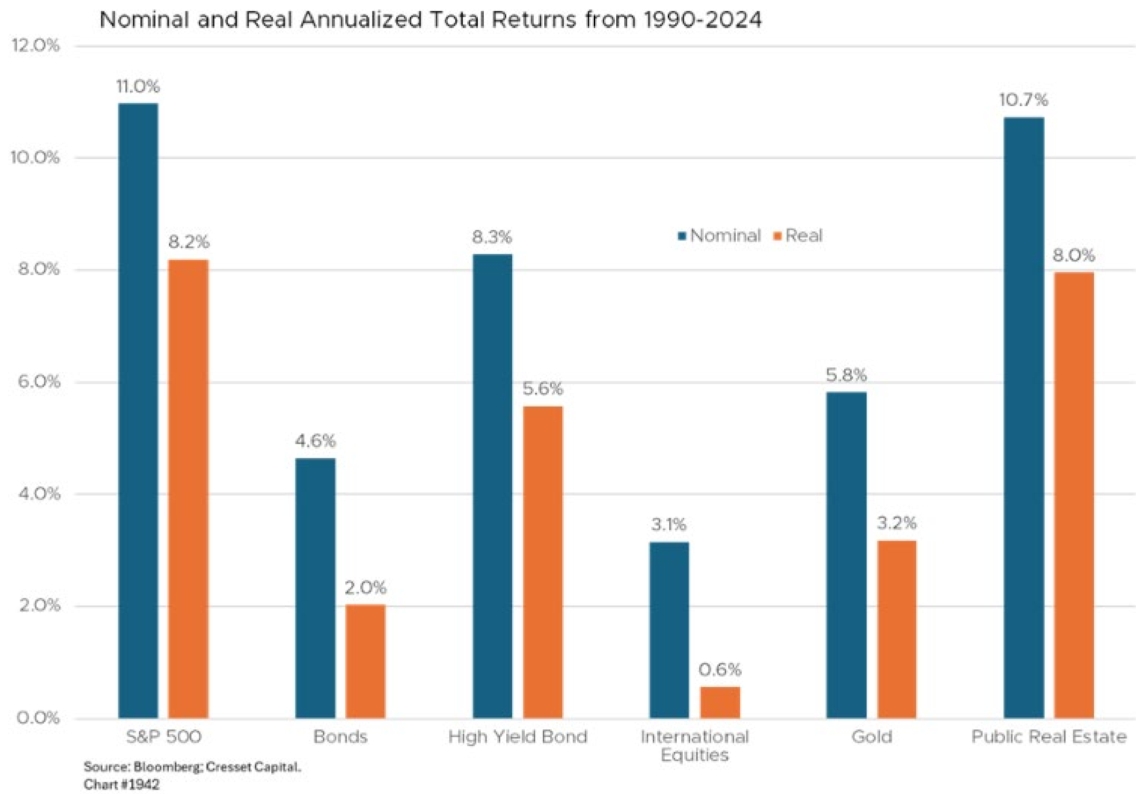
This is not a landscape poised for seamless leadership succession. The math is difficult, the politics are messy, and the idea of a clean handoff away from U.S. economic dominance is far more complicated than headlines suggest.

As global fund managers declare the end of American exceptionalism, citizens outside the U.S. are pouring record amounts of money into U.S. equities. An interesting contrast. The people who actually live and work in these countries appear to be voting—with their pocketbooks and their paychecks—for continued confidence in the American economy.



To be fair, this chart has flashed a potential top for U.S. stock outperformance in prior cycles. So yes, a rotation to international equities may be due. But let's keep perspective: shifting toward cheaper global assets is very different from declaring the end of American exceptionalism.

At its core, investing is about simple math: how much did your portfolio return *after inflation*? As shown in the chart below, over the past 35 years, U.S. equities have not only outpaced inflation—they've trounced international stocks. Real returns tell the story. While international equities barely kept up with inflation, U.S. stocks delivered +8.2% annualized above the inflation benchmark.



Source: Cresset Capital

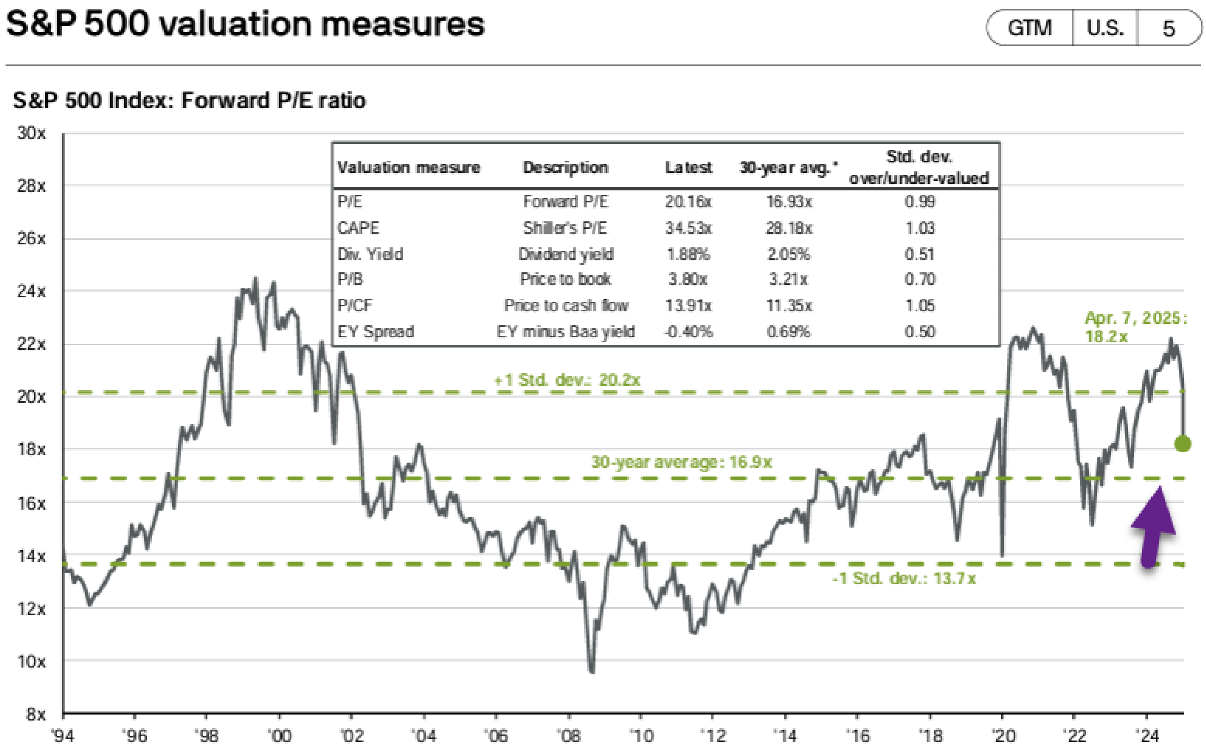
Part II. Valuations

Could we see a recession? Absolutely. But in the meantime, valuations are becoming more attractive by the day.

As the JP Morgan chart below illustrates, we’re approaching 30-year median valuation levels for the

S&P 500. And if you strip out the so-called “Magnificent Seven,” the broader market would already be trading below the long-term average.

In this chart, high equals expensive and low equals cheap. After an extended period at the high end of the valuation spectrum, we're now drifting back toward the historical average—offering a potentially more favorable entry point for long-term investors.



Source: *JP Morgan*

Valuations have become more reasonable—thanks in large part to the sharp market selloff following Trump's surprise tariff announcement. As seen in the chart below, periods of panic selling in U.S. equities have historically been followed by strong forward returns.

S&P 500: Biggest 2-Day % Declines and Forward Total Returns (1950 - 2025)

Biggest 2-Day % Declines					Forward S&P 500 Total Returns		
Rank	End Date	Start S&P	End S&P	2-Day	1-Year	3-Year	5-Year
1	10/19/1987	298	225	-24.6%	28%	55%	119%
2	10/20/1987	283	237	-16.2%	24%	47%	108%
3	3/12/2020	2882	2481	-13.9%	62%	63%	144%
4	11/20/2008	859	752	-12.4%	49%	73%	164%
5	**4/4/2025**	**5671**	**5074**	**-10.5%**			
6	11/6/2008	1006	905	-10.0%	21%	48%	119%
7	10/15/2008	1003	908	-9.5%	24%	44%	109%
8	10/7/2008	1099	996	-9.4%	9%	24%	88%
9	3/9/2020	3024	2747	-9.2%	44%	50%	127%
10	10/22/2008	985	897	-9.0%	25%	48%	119%

CREATIVE PLANNING @CharlieBilello

Source: *@CharlieBilello*

Case in point: the S&P 500 dropped 10.5% over a two-day stretch (Thursday–Friday), marking the fifth-largest two-day decline since 1950. What's happened after similar selloffs? Every time, stocks were meaningfully higher 1, 3, and 5 years later.

Part III. Diversification

At Lansing Street Advisors, we remain firm believers in diversification—no matter how painful that conviction was during the Mag 7 rally. No one knows exactly how this chaos will unfold. The economy can't be forecasted or timed with precision. If anything, that truth has only become more obvious in recent months.

So, what do we know?

1. Diversified portfolios win over the long term.

2. U.S. equities consistently outperform inflation. The best companies adapt and thrive—even when we don't know exactly how they'll do it.

3. The market corrects by 10–15% nearly every year.

4. Recessions are typically short, while bull markets are long.

5. Dollar-cost averaging and buying during panic periods have historically added excess returns.

Diversified portfolios finally showed their strength in Q1 2025, after being left in the dust from 2022–2024 by the Mag 7. As I noted in last quarter's letter (and yes, a rare repeat appearance of a chart in these pages), international equity valuations are still at historic lows.

Yes, international stocks are outperforming in 2025—but let's not overstate it. Many are now back in the red for the year. And as a reminder from my last letter: the state of Mississippi has a higher GDP per capita than France, the UK, Italy, and Japan. Does that sound like the end of American exceptionalism?

If international equities are going to sustain a rally, it will likely hinge on the U.S. dollar continuing to weaken. That's a real possibility, especially given Trump's stated preference for a weaker dollar. But make no mistake—the bull case for international stocks is about currency trends, not the decline of America.

Source @Mayhem4Markets

So far in 2025, a broad range of asset classes have outperformed the S&P 500—including international stocks, bonds, U.S. value stocks, private equity, private lending, and commodities. Most importantly, bonds did what they're supposed to do: they went up when stocks went down.

That may seem like a basic function—but it's worth emphasizing. During the last major correction in 2022, both stocks and bonds declined by double digits in the same year—only the second time that's happened in over a century. In contrast, 2025 has offered a much-needed return to normal market behavior for diversified portfolios.

Part IV. What are the Threats to American Exceptionalism?

Let me be clear—I remain bullish on American exceptionalism. I don't believe the last 60 days have erased our economic leadership or national resilience. But that doesn't mean there aren't real, structural threats worth watching. While most people immediately point to tariffs, Trump, debt, or China, these aren't my top concerns. The following three issues, in my view, are far more serious.

1. The Great American Wealth Transfer
We are on the cusp of an unprecedented $85 trillion intergenerational wealth transfer—something

we've never seen in 250 years as a country. While this will certainly support future consumption, it raises two serious concerns:

- Widening wealth inequality, which is already at historical extremes and Trump is claiming he wants to rebuild the American working class through renewed industrialization and America first.

- Risk of political and economic instability, particularly if the benefits of this transfer are unevenly distributed

There's also the risk of cultural and motivational decay. Will this massive inheritance fuel a generation less driven by work ethic and more prone to intellectual complacency? China's "lying flat" movement offers a cautionary tale.

Great Wealth Transfer

Article Talk

From Wikipedia, the free encyclopedia

The Great Wealth Transfer refers to an intergenerational wealth transfer that is underway in the United States, among other nations, with the baby boomer generation leaving significant wealth to their heirs.[1][2] Baby boomers and the silent generation will bequeath a total of $84.4 trillion in assets through to 2045, with $72.6 trillion going directly to heirs.[1][3] The transfer of wealth from baby boomers will account for $53 trillion or 63% of all transfers, while the Silent Generation will hand down $15.8 trillion.[3]

Source Wikipedia

<u>70% of families lose their wealth by the second generation. 90% by the third.</u>

Yes, the statement is largely true. Research shows that a significant portion of family wealth is lost across generations:

1. **Second Generation**: Approximately **70% of families lose their wealth by the second generation**. This decline often results from poor financial planning, lack of communication, and insufficient education about wealth management.
2. **Third Generation:** By the third generation, **90% of families lose their wealth**, a phenomenon often referred to as "shirtsleeves to shirtsleeves in three generations." This phrase highlights how wealth created by one generation is typically depleted by the third due to mismanagement or lack of financial literacy 3 .

These trends emphasize the importance of strategic wealth planning, family alignment, and education to preserve intergenerational wealth.

Source: Perplexity.ai

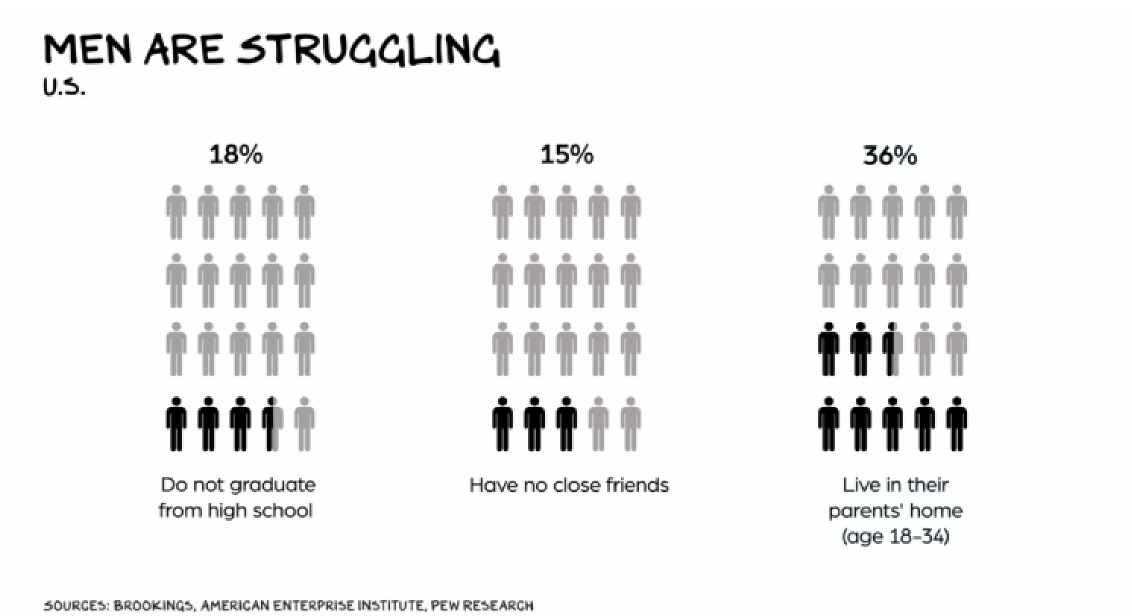
2. The Crisis Among Young American Males

Scott Galloway (Prof G) has covered this topic extensively, and after consuming all his podcasts and reading multiple books on the topic, it will leave you depressed, but I'd rank it among the top three threats to American exceptionalism.

His research is both eye-opening and alarming.

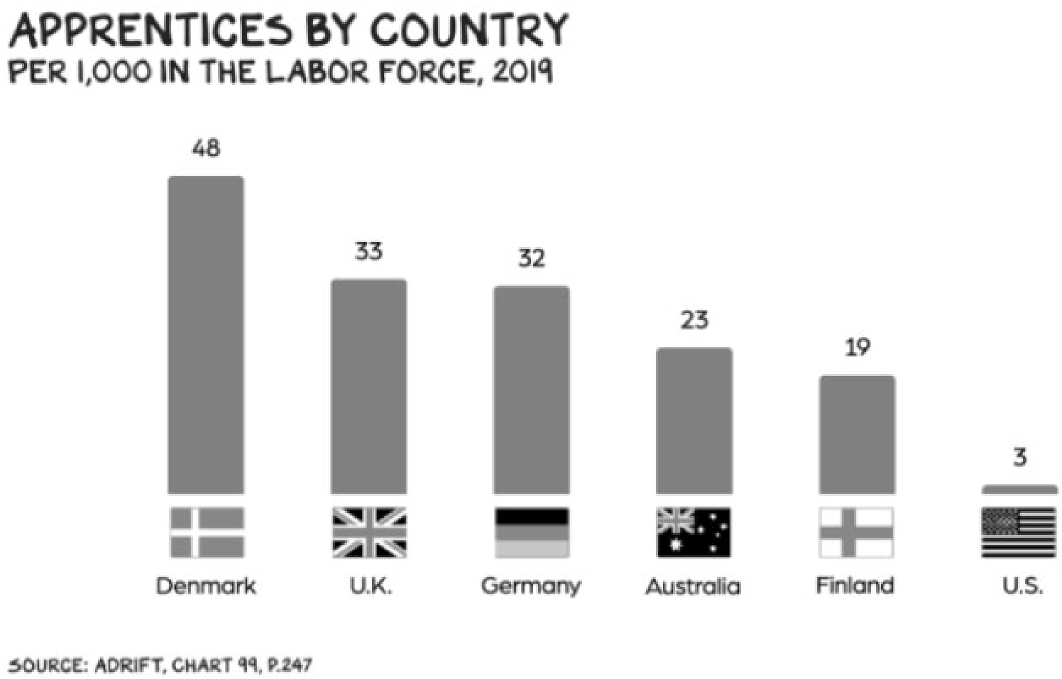
Crisis

Boys start school less prepared than girls, and they're less likely to graduate from high school and attend or graduate from college. One in seven men reports having no friends, and three of every four deaths of despair in America — suicides and drug overdoses — are men. I've written about this at length here, and about how it relates to declining birth rates here.



Source: Boys to Men Article

- In five years, we'll have **two women in college for every one man**
- There are already **1 million more women than men in graduate programs**
- **Only 23%** of young males are eligible for military service without a waiver, even less show a propensity to enlist: Military Readiness Data – U.S. Department of Defense
- We're facing widespread **labor shortages** in police, fire, construction, and skilled trades



This is a societal and economic time bomb.

As mentioned in the introduction, the nonstop availability of trading apps, online gambling, crypto speculation, and explicit content has created a toxic environment for many young American men. Traditional forms of learning—books, newspapers, thoughtful debate—have been replaced by algorithm-driven social media feeds that either reinforce existing beliefs or amplify feelings of inadequacy. It's a deeply troubling dynamic, and frankly, a cultural mess.

From WSJ Joseph Bottum-*"College students can't read. Not a whole book, not with attention all the way through. Or so we've been told repeatedly over the past year. Articles in the Atlantic, the Chronicle of Higher Education and Psychology Today have reported the end of book-reading on campus—and so the end of what college was once imagined to provide: the art, history and philosophy that give the mind the mental furniture it will need in adulthood. "Most of our students are functionally illiterate," one widely noticed professor put it, "unable to read and comprehend adult novels."*

Scott Galloway is one of the few public intellectuals willing to talk openly about it.
— Explore more: Prof G Media

3. Demographics

If you want to understand a country's long-term growth trajectory, look at its population trends. Demographics have immense predictive power. Without population growth, sustained economic growth becomes incredibly difficult.

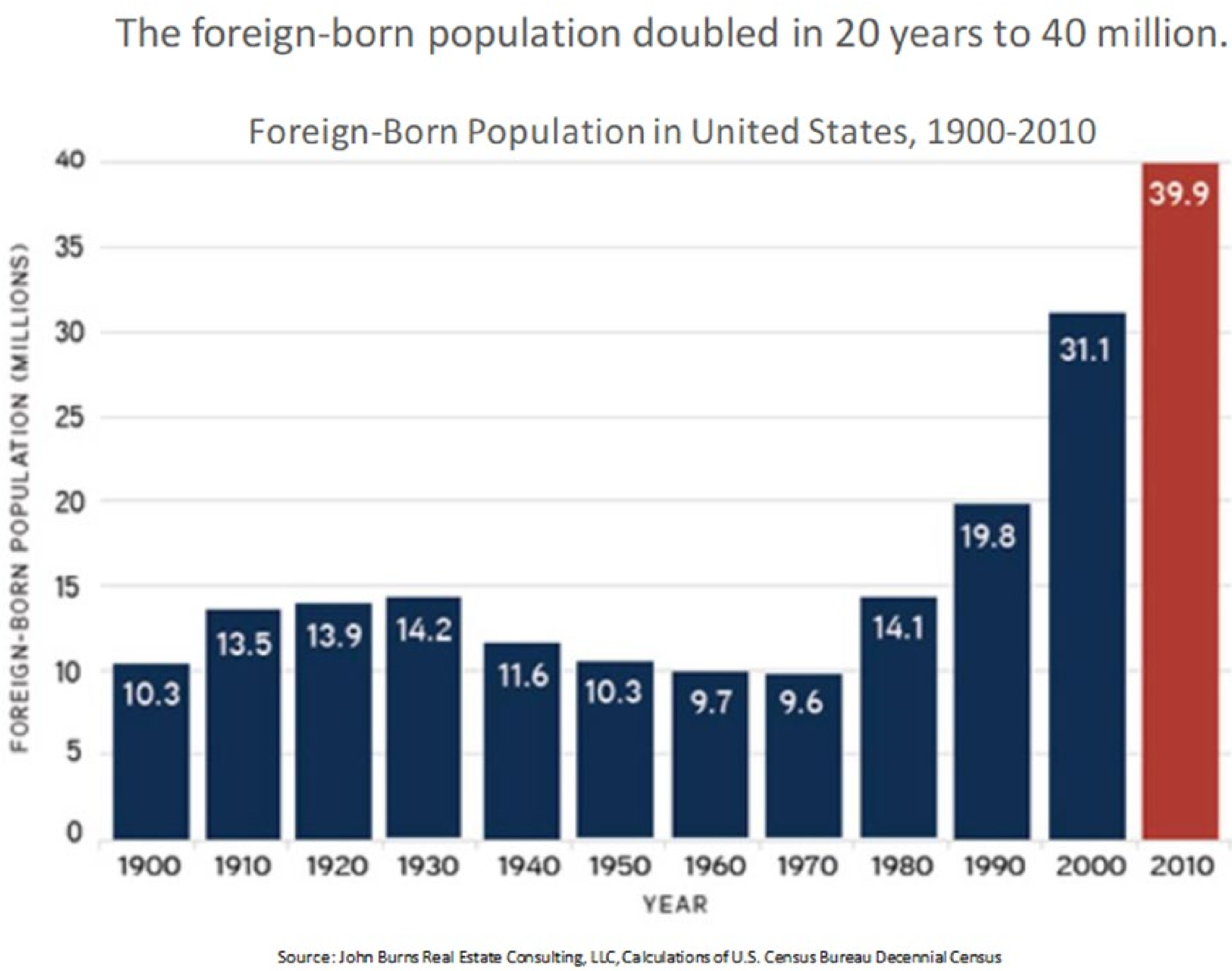
In my Q3 2024 letter, I covered the demographic collapse of China and Russia. Japan, South Korea, and much of Europe are in similar decline.

The U.S. has one key advantage: **legal immigration**—but only if it's managed well.
Legal Immigration Stats:

- 25% of U.S. doctors are immigrants
- 25–30% of construction workers are immigrants
- 25% of entrepreneurs are immigrants
- Incarceration rate of legal immigrants is **74% lower** than native-born Americans

Source: Perplexity AI

America's economic edge is rooted in its identity as a nation of immigrants. We boomed post-2008 alongside population growth fueled by immigration. If we mismanage this advantage, we risk joining the rest of the world in demographic decline—and that would pose a far greater challenge to American exceptionalism than any headline about tariffs or TikTok.



Source: JBREC

Conclusion

It's long overdue for asset classes outside of large-cap U.S. growth stocks to have their moment. International equities, for example, are trading at a significant discount relative to their U.S. counterparts. That said, continued outperformance in non-U.S. assets depends heavily on two factors: a weaker U.S. dollar and the American economy avoiding recession. Tariffs or no tariffs, the global economy can't decouple from the U.S. overnight.

So let's pump the brakes on the "end of American exceptionalism" narrative. It may make for an engaging academic debate, but in the real world, betting against the U.S. economy has been a losing proposition. Can we have a recession? Of course. But it's worth noting that we haven't experienced a "traditional" recession in over 30 years—just major shocks like the internet bubble, 9/11, the global financial crisis, and Covid.

And each time, American companies adjusted. How? I have no idea—but they always do. The downturns are getting shorter. The bull markets are lasting longer. Resilience, reinvention, and resourcefulness continue to define the American economy.

As I wrote at the start of the year, 2025 promised to be "one hell of an interesting year." We're only three months in, and so far, it's delivered. I woke up this morning to an executive order aimed at "making American showers great again"—a literal effort to stop "wimpy showers."

In the end, the real threats to American exceptionalism aren't what you see on your news feed—they're structural:

- Managing the largest wealth transfer in our nation's history
- Addressing the growing crisis among young American men
- And maintaining our competitive edge through legal immigration

Yes, America may be playing the Wayward Son role at the moment. But as for the end of American exceptionalism? I'd say: "Don't you cry no more."

Carry on My Wayward Son

Song by Kansas

Carry on my wayward son
For there'll be peace when you are done
Lay your weary head to rest
Don't you cry no more

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