The Economist

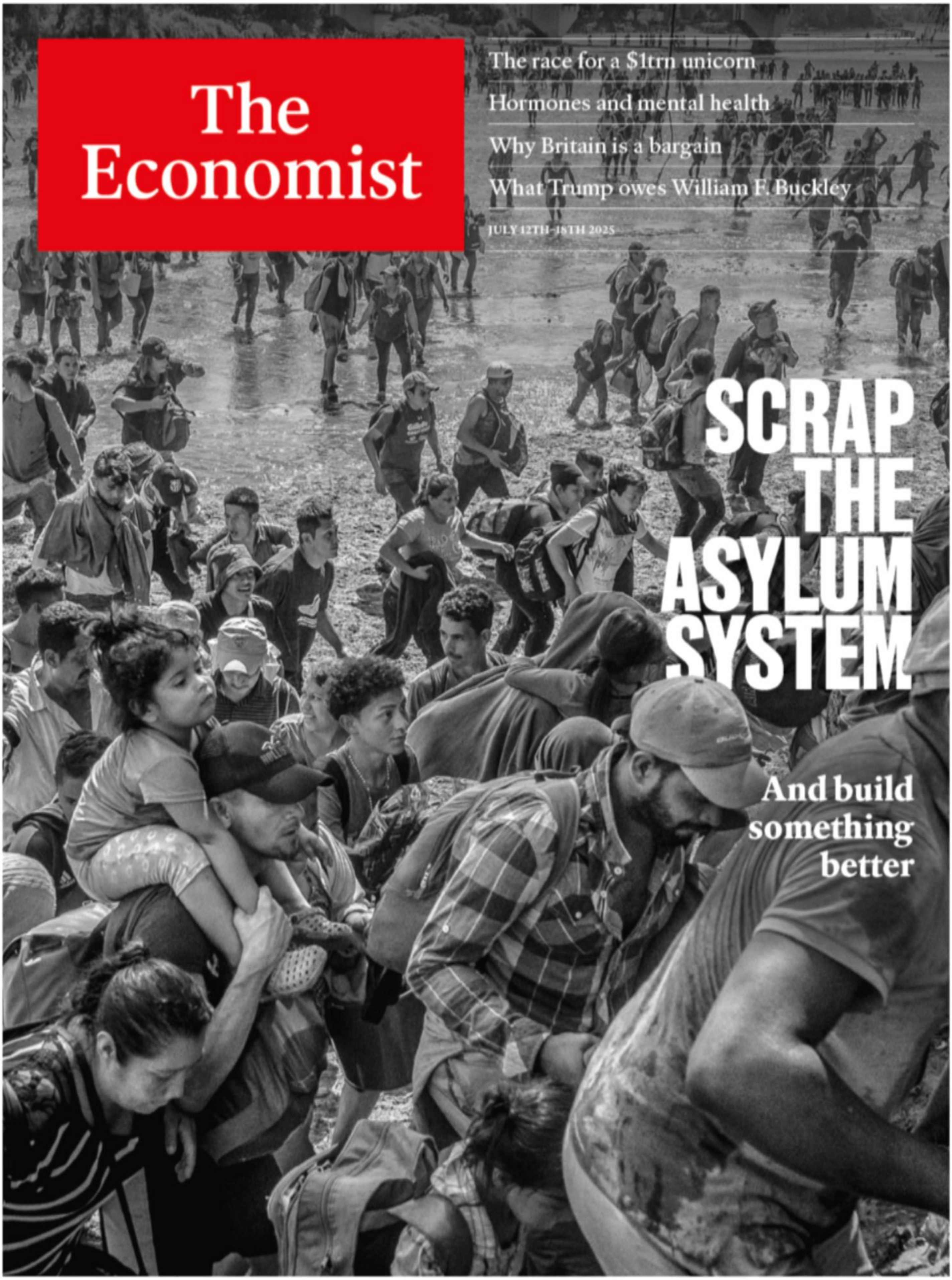
The race for a $1trn unicorn

Hormones and mental health

Why Britain is a bargain

What Trump owes William F. Buckley

JULY 12TH–18TH 2025



SCRAP THE ASYLUM SYSTEM

And build something better

Business

Photograph: Getty Images

Donald Trump pushed back a deadline for countries to reach a trade deal with America from July 9th to August 1st, though he maintained his threat to impose stiff tariffs should those talks fail. Japan and South Korea, for example, would face duties of 25%. The EU, which is hoping to strike a preliminary deal, has so far been excluded from the latest broadside. The president is piling the pressure on countries that have not yet reached a deal. Only Britain and Vietnam have agreed to “frameworks” so far. Canada, China and Mexico are being treated separately.

Chart: The Economist

Mr Trump also announced that he would impose a 50% tariff on copper starting on August 1st in order to encourage domestic production of the metal. The price of copper soared on New York markets, but fell on the London Metal Exchange as traders bet that global demand would drop, leading to a huge 25% premium between New York and London prices.

Linda Yaccarino announced that she is stepping down as chief executive of X, Elon Musk's social-media platform. She held the job for two years. No reason was given for her departure. The day before her announcement it emerged that XAI, which technically owns X, has had to remove posts generated by its Grok chatbot that praised Adolf Hitler.

Australia's central bank surprised markets by keeping its main interest rate on hold at 3.85%. The Reserve Bank of Australia was widely expected to plump for a cut, given that inflation has moderated, but the bank's accompanying statement emphasised its concern about uncertainty in the global economy.

Britain's public finances are in a precarious position, the Office of Budget Responsibility warned in a report. Underlying public debt as a share of the economy is now at its highest level since the early 1960s, it said, and government efforts to tackle debt have had only limited success; it recently backtracked on welfare reform, for example. With the government's borrowing costs in bond markets on the rise, the country's fiscal outlook "remains daunting".

Winners and losers

Nvidia hit $4trn in market value, the first company to do so. With demand for its high-end AI chips showing no signs of waning, the company's share price has risen by 45% since early May. By contrast, Samsung forecast a 56% fall in its second-quarter operating profit, year on year. It blamed America's restrictions on chip sales to China for the drop in profit, though analysts have noted that it is falling behind SK Hynix and Micron in supplying AI chips to the industry, most notably to Nvidia.

CoreWeave, a provider of AI cloud-computing services, agreed to buy Core Scientific, a rival, for $9bn. Nvidia is a big investor in CoreWeave, which buys its graphics processing units and rents them out to tech firms. CoreWeave also has a relationship with Core Scientific by leasing its data centres to increase AI power. CoreWeave's IPO in March raised only a fraction of what it had sought, but its share price has since soared by 300%.

As it contends with disruptions to its supply chain because of tariffs, Apple appointed a new chief operating officer. Sabih Khan takes up the job amid Mr Trump's threats to impose stiff levies on smartphone makers unless they move production to America. Separately, Apple is reportedly seeking to buy the rights to broadcast Formula One racing events in America after the success of "F1". Starring Brad Pitt, the film is Apple's biggest box-office hit.

Shein has filed documents to float shares in Hong Kong, according to press reports, in part as a means to press Britain's financial authority into approving its proposed IPO in London. The London listing of the Chinese e-commerce firm has been held up by scrutiny of its supply chain and related risk to its business from its dealings in Xinjiang, where China has suppressed the Uyghur population.

Shein's IPO would be a boost for the London market, where funds raised from share flotations are at a 30-year low. By contrast the number of firms waiting to list in Hong Kong is at an all-time high. Hong Kong raised more money from IPOs in the first half of the year than either the New York Stock Exchange or Nasdaq.

Foot relief

The American government said passengers at airports would no longer have to remove their shoes as they go through security, ending a two-decade policy that was introduced amid the threat of jihadists concealing bombs in their footwear. Travellers "will be very excited" by not having to expose their feet, said Kristi Noem, the secretary for homeland security. Airport screeners have been told to toe the line on the new policy.

Finance & economics
Struggling with the trade war? Amateur football might help

Jiangsu's party cadres find success with a bizarre idea

Photograph: Getty Images

Suzhou is one of China's most important electronics manufacturing centres. But who cares about that? On June 29th nothing was more important to the city than its team beating nearby Yangzhou in a football match. The fierce rivalry stretches back more than 1,000 years to when the cities competed for pre-eminence along the Grand Canal. For centuries they also sought to outdo each other's sublime gardens. Suzhou, the larger and richer of the two, was victorious during the Song dynasty. It continued its winning streak in 2025, comfortably beating Yangzhou 3-0.

Since the local football league was launched in May, China has been engrossed by matches in Jiangsu province, an eastern coastal region. Stadiums of 40,000 seats regularly sell out. Attendance is sometimes double the average for China's professional Super League. Touts resell tickets for 60 times the original price. At the match in Suzhou, hundreds of people, including your correspondent, had to watch a live stream outside the stadium because they could not obtain a ticket.

As one of China's leading manufacturing provinces, Jiangsu's cities are richer than most. Suzhou has a bigger economy than the Czech Republic; Wuxi, a nearby conurbation, boasts a GDP per person higher than Portugal's. But the region is also one of the first places to feel the pain from China's trade war with America. Some 9% of China's exports to America came from Suzhou alone last year, most in the form of electronics and machinery. Youth unemployment was said to be particularly high in Kunshan, the area of Suzhou that hosted the match on June 29th, even before the trade war got going.

So thank God for football. Officials came up with the idea of a league earlier this year, and have done all they can to promote it. The results look good. Tens of thousands of football fans have been showing up in Jiangsu. Airlines and hotel bookings are up considerably from last year, as are visits to local tourist sites and restaurants. Beer sales on one delivery platform have risen by 90% month on month in Jiangsu since the league launched.

The tournament's success may seem hard to fathom, but it is part of a pattern. China has been struck by a number of budget travel fads that send swarms of young tourists, living on the cheap, to otherwise quiet cities. Examples have included a sudden yen for the kebabs of a chemicals hub and for an oily soup found in a remote north-western city. The trend then usually dies off within a few months.

Will Jiangsu's amateur footballers also lose appeal? A few factors make the league especially marketable. The most important is heated inter-city rivalries (and horticultural feuds). Locals joke that Jiangsu province does not exist. Instead, it is a collection of cities with little in common and plenty of ill-feeling. For example, Nanjing, the provincial capital, is mocked by other cities because its local culture, cuisine and dialect have more in common with neighbouring Anhui province. These types of rivalries are usually played down by officials, who want to project a sense of unity. This time, though, Jiangsu's cadres have fanned the flames, helping the tensions go viral.

Raise a glass

Loose sponsorship rules have also played a part. The Chinese Football Association mandates that sponsors of professional leagues must be legitimate brands with "positive social images". Jiangsu has skirted these rules. Heineken, a Dutch brewer, is a sponsor; so, too, are local barbecue stalls. This gives the league a more authentic feel, especially compared with China's professional league, which has been hit by corruption scandals. Fans in Suzhou say the league is “pure”, meaning they will overlook the amateurish talent.

Henan in central China has kicked off a rival league; Guangdong and Sichuan have plans for their own. All the same, Jiangsu’s wealth and first-mover advantage put it in a strong position. The province has good infrastructure and world-class stadiums in all 13 competing cities. Suzhou may have won the match on June 29th, but the whole region is benefiting.

Don’t invest through the rearview mirror

Markets are supposed to look forward; plenty of investors look back instead

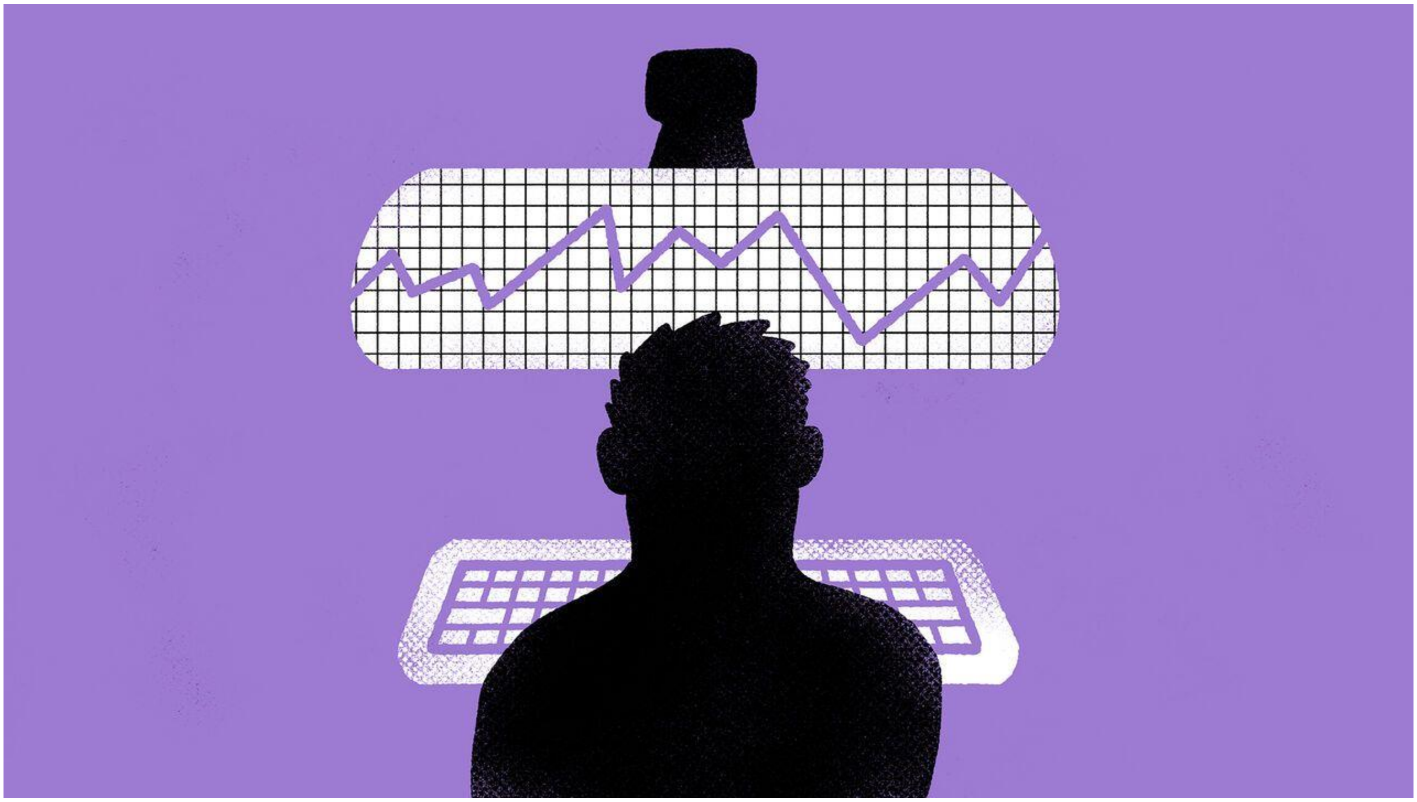


Illustration: Satoshi Kambayashi

In a more predictable world, stocks would be easy to price. A share gives its owner claim to a series of cash flows, such as dividends and earnings. Investors would forecast the future value of each, then discount it to a present value based on prevailing interest rates, the riskiness of the cash flow and their own risk appetite. Add them all up, and that would be the stock's price.

In the actual, radically uncertain world, things are rather more difficult. Few equity analysts, for example, even attempt to forecast earnings more than a few years into the future. But the "discounted cash flow" model is still useful. Divide stock prices by current earnings, and you get an indication of the discount rate the market applies to future cash flows. It turns out that this discount rate has historically been a reasonable, if imperfect, guide to the stockmarket's long-run returns. A low discount rate (or, equivalently, a high price-to-earnings ratio) forecasts low returns, and vice versa. That is valuable information for investors considering, say, how much to save for retirement, or to allocate to stocks compared with other assets.

It might be surprising that such readily available measures help predict the future. The bigger surprise is that so many investors ignore them altogether. Similar forward-looking measures of expected returns are widely employed by academics and big institutional investors; indeed, they underpin many investment firms' long-term forecasts of capital markets. Yet when it comes to individual investors, this reasoning is often turned on its head. Instead of looking forward, surveys consistently show that, as a group, they look back, expecting returns that are extrapolated from those in the past.

Think of it as investing through the rearview mirror. Such an approach says that if stock prices have soared recently, they will continue to do so. Admittedly, for most of the time since 2009, this has been a better prediction than the supposedly forward-looking ones. American share prices climbed for most of the 2010s, and price-to-earnings ratios with them, but the bull market just kept going. Trimming your stock allocation as valuations rose and the academics' expected returns fell would only have cut your profits. Even after the bear market of 2022, prices began marching up again despite above-average valuations, and then rocketed. No wonder that, this year, retail investors are eager to buy shares whenever the market dips.

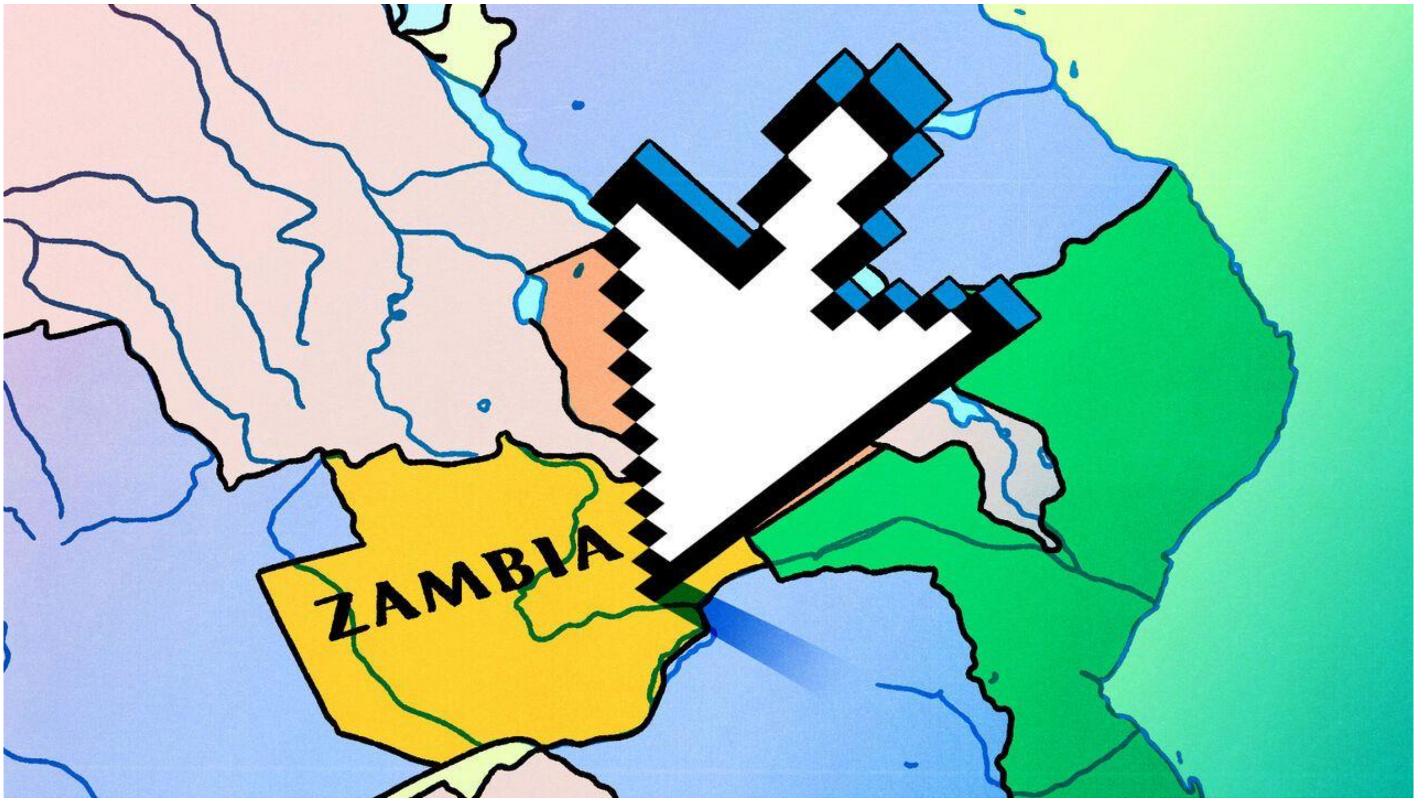
It is not just amateurs who look back rather than ahead. Stock analysts have strong incentives to accurately forecast the earnings growth of the companies they cover. They nevertheless tend to do so by extrapolating from past years, despite the fact that the true correlation between historical and future growth is negative. Theory suggests that the prices of options, a form of derivative contract, should depend on the volatility traders expect in the future. In practice, the volatility implied by foreign-exchange options often tracks the size of past jumps. Analysts at Goldman Sachs, a bank, find that over the past year this has led traders of foreign-exchange options to consistently underestimate future volatility. They have been wrongfooted by changing economic conditions and geopolitical uncertainty.

That points to the real problem with rearview-mirror investing: it is all very well until something smacks into the windscreen. Betting on a surging bull market continuing looked clever in the late 1990s, before the dotcom bubble burst, and again in 2021, before the following year's crash. Both times, forward-looking measures would have noted exceptionally high valuations, forecast low returns and rightly cautioned against outsize investments in stocks. As animal spirits roared, such pessimism would have struck many investors as the very worst kind of downer—right up until the plunge began.

The rearview-mirror mindset, writes Antti Ilmanen of AQR Capital Management, a hedge fund, is most pronounced when such investors have recently "got it right". It is most misleading when their success has come from rising valuations, since this is a trend that can readily go into reverse. And it is most dangerous when "the times they are a-changing". For American stocks in particular, all three conditions are in place today. Those who have spent recent years investing through the rearview mirror have scored a victory over the ivory tower and some of the world's grandest financial institutions. But it is probably time to start inspecting the road ahead.

Want to be a good explorer? Study economics

The battle to reduce risk has shaped centuries of ventures



Photograph: Alberto Miranda

Deep in Zambia's Copperbelt province, explorers from Kobold Metals are testing the ground for a new mine shaft. Although the arc of copper running through central Africa was first mapped by Victorian explorers and was mined by a colonial British firm, the search for deposits has been only occasionally fruitful in the years since. Kobold's discovery is the biggest in a century. Born in California and backed by Bill Gates, the company uses everything from ancient maps to artificial intelligence in order to learn about what lies beneath the ground. Perhaps its biggest idea, though, is an economic model, pioneered at Stanford University, that helps process vast reams of information. It guides where Kobold drills, the most important decision for any miner.

The idea of a purely scientific explorer, financed by maverick philanthropists, is appealing. In reality, ever since the Renaissance the vast majority of ventures have been financed by companies and governments with an eye on profit. As with more typical projects, investors want to estimate, and then reduce, risk—in much the same manner as the risk-management department of a modern bank. Sailing to foreign lands, trekking to new wildernesses and excavating underground reserves is extraordinarily expensive. It is also fraught with uncertainty. Companies such as Kobold are just the latest to do battle with the unknown.

At best, early financiers were able to support those who returned with evidence of success, even if flimsy. Unfortunately, one batch of treasures offered little certainty of finding a second or third. Aside from the ever-present threat of disease and storms, few explorers understood the resources they sought to extract. Riverbeds moved, populations migrated, rockfaces crumbled.

In the 17th century financiers began to share risk more often. Even the most challenging ventures could purchase insurance through Lloyd's Coffee House, an insurer that later became known as Lloyd's of London, or on Amsterdam's financial markets. Firms set up for the purpose of exploration, such as Hudson's Bay Company and the East India Company, could not hedge against undefined and unknowable risks; they could, however, sell contracts that passed some of them on to others. By 1616 the Dutch East India Company was insuring its ships by selling sophisticated policies in which the buyer promised to contribute a share of the voyage's cost should it meet an unfortunate end.

Governments and financiers also set out to map the world. The deluge of information this produced changed their investment decisions, allowing them to pick the most promising topographies for investigation. In the 1760s, for instance, American and British investors noticed iron-rich rocks on maps of the Andes drawn by Spanish conquistadors, spurring several expeditions.

Over time, maps, surveys and rock samples transformed exploration. The additional information was used to produce geological models—often the result of algorithms borrowed from statistical economics—that provided best guesses as to the location of economically viable mineral ores, thus representing predictions about maximum pay-offs. Mining companies did not spend their time attempting to estimate and reduce risk. Instead, they simply drilled in such places and hoped for the best.

Most modern resource exploration still suffers from very low success rates. Although at least 80% of the world's valuable resources show no sign of existence above ground, some 85% of operating mines were dug as a result of surface observations. Much of what lies beneath the ground remains a mystery.

Kobold wants to return the focus to risk, by using new algorithms and data to reduce uncertainty. This includes quantifying how much geologists do not know—producing somewhat surreal numbers that indicate how likely a rock is to be somewhere. The idea, pioneered by Jef Caers, a geologist at Stanford who also designs economic models, comes from game theory. Faced with two options that hold an equal probability of success, the choice between them is arbitrary. When more information becomes available, it becomes less so. Yet you need to be convinced that the additional information is relevant, and that obtaining it costs less than just taking an arbitrary gamble.

Rock and a hard place

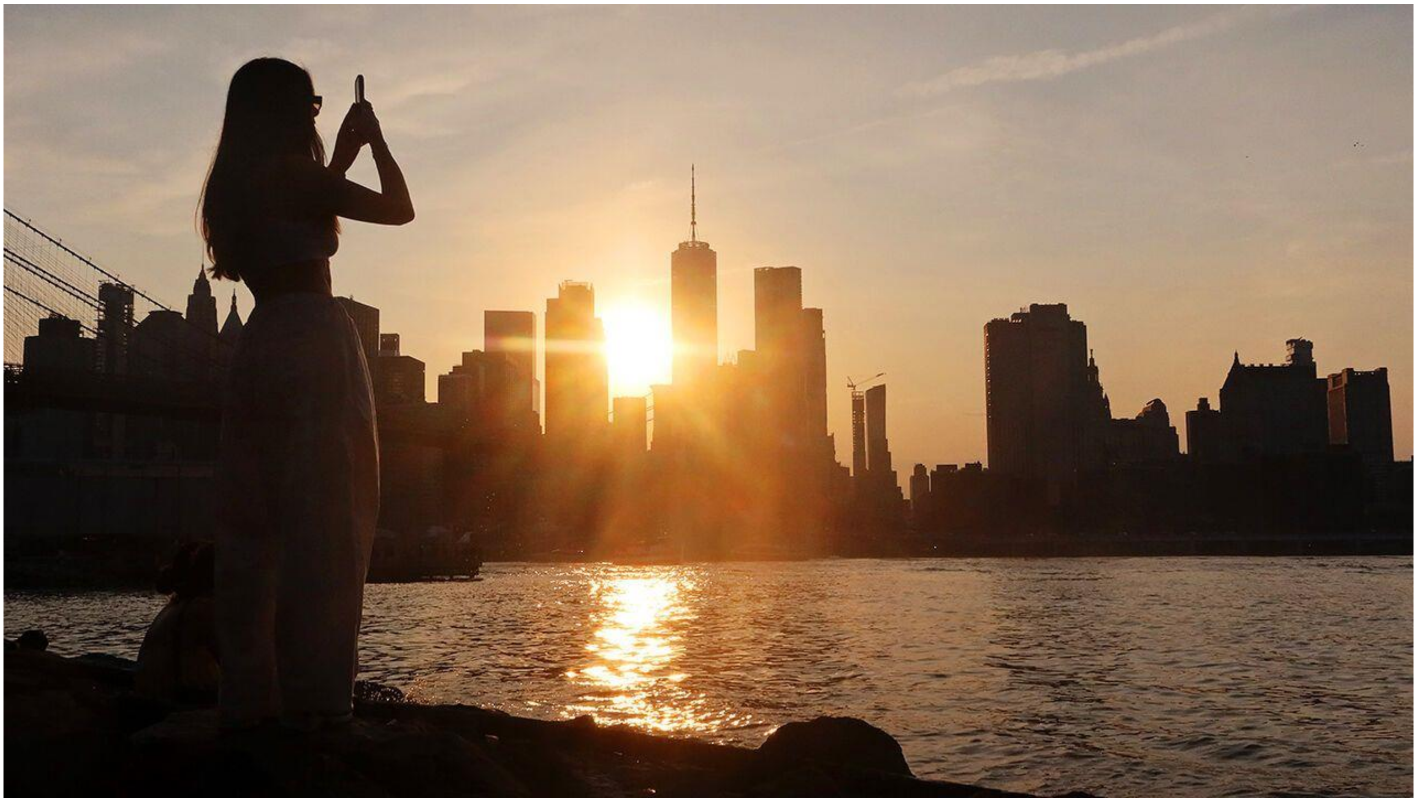
Suppose, for a minute, that you find yourself in charge of a directional drill with two prospective sites to excavate. How do you pick between them? A regular mining firm would make a bet on the rock core's geology, and drill where it thinks valuable minerals are most likely to be found. Kobold holds several ideas about what could be going on beneath the surface at once. Its algorithms then create thousands of scenarios for each idea; any one could reflect the real rock core. The algorithms resemble those used by banks to ascertain the credit risk of countries.

How much is unknown about an area, and where is the uncertainty concentrated? Kobold can now answer both questions, along with the probability of finding a mineral in a particular place. The firm's geologists then drill the hole that reduces the unknowns most drastically, rather than at the site where it expects to find the biggest prize. The idea is that, in time, it will come to know enough to pinpoint resources. As that will probably take fewer moves than a rival making a series of guesses about where the richest mineral seam lies, Kobold's pay-off will be bigger.

After drilling just a few dozen holes, Kobold has discovered millions of tonnes of copper in Zambia, outperforming local rivals. "If you could see inside the black box of everything under the Earth's surface," says Kurt House, the company's chief executive, "you would be a perfect explorer." Long dead Victorian gentlemen, who spent their lives seeking out mysterious and unknowable places, might disagree. Their financiers, however, would not.

How America's economy is dodging disaster

It is astonishingly dynamic, even under the weight of tariffs



Still burningPhotograph: Getty Images

Economic doom beckoned after President Donald Trump announced his "Liberation Day" tariffs on April 2nd. Stocks crashed; forecasters predicted a recession within the year. Three months on, the mood is more relaxed. Prices in shops are not noticeably higher, unemployment is flat and the S&P 500 index of big American firms is resurgent, back at all-time highs. Although Mr Trump has sent letters threatening a whole host of countries with swingeing tariffs if they do not reach an agreement on trade with America by August 1st, nobody is too worried.

What gives? Was the president right in thinking that tariffs were a smart way to squeeze money from foreigners? Were the doom-mongers overdoing it?

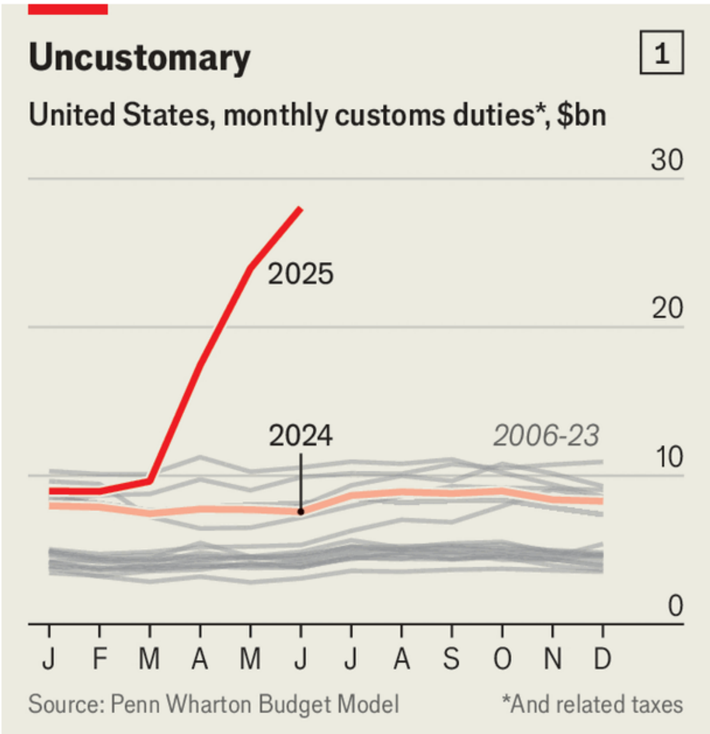


Chart: The Economist

For the moment, businesses, households and financial markets are locked in an elaborate game of wait-and-see. Companies stocked up heavily early in the year in anticipation of tariffs. Indeed, they did so by enough to drag measured GDP growth into the red in the first quarter, as a surge of imports distorted the numbers.

These stockpiles will be run down. In many cases, they have already been depleted, meaning that businesses are turning once again to imports. Last month customs duties were more than three times as high as the average in recent years (see chart 1). Companies that bring in goods from abroad now face an unpalatable choice: either they can eat the tariffs and accept lower profits, or they can pass on the additional costs to their customers.

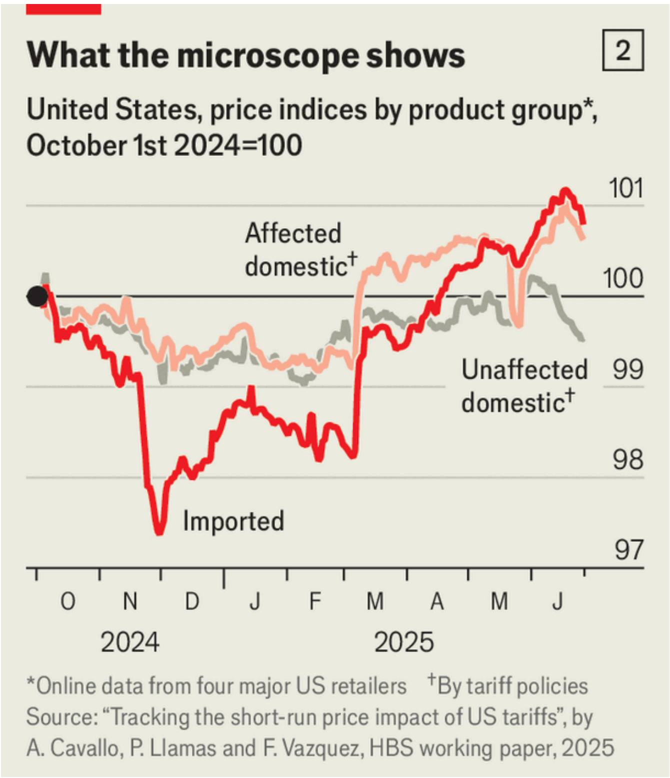


Chart: The Economist

So far, they have mostly chosen the first option. Bosses are attempting to wait out the president. Why alienate customers with higher prices if Mr Trump may change his mind and render the exercise pointless? Even in the latest consumer-price data, which still shows inflation a little above the Federal Reserve's target of 2%, it is difficult to spot a tariff impact.

In fact, doing so requires something of an economic microscope. Zooming in on the prices of affected categories at a handful of large retailers, Alberto Cavallo of Harvard Business School and co-authors do discern some slight price rises in both imported goods and their domestically produced competitors (see chart 2). However, such prices have risen by only a percent or two—a far smaller increase than that seen in tariffs. America's effective tariff rate was at 10% in June, its highest in eight decades. Mr Trump's threats, as are due to come into effect on August 1st, would mean a significant step up.

Chart: The Economist

Oddly, though, tariffs may be pushing down prices via another mechanism—by taking a toll on the economy. The Liberation Day drama crushed consumer confidence, possibly softening demand. Until recently, this has been evident only in "soft" data (surveys and the like). Now signs of it are starting to appear in "hard" data, too. A recent release showed that household spending fell month-on-month in May. Employment figures for June were strong, but bolstered by government hiring, especially of teachers. Those for the private sector were lower than expected.

A running estimate of GDP, produced by the Fed's Atlanta branch, suggests that its core components (private investment and consumption) have fallen from an annualised growth rate of 2-3% at the start of the second quarter to 1% now (see chart 3). Goldman Sachs, a bank, has compared the latest data to previous "event driven" shocks that led to recessions, and found that today's slowdown is roughly in line with the historical norm.

Brexit redux

Whether this is the start of something more serious depends, in large part, on quite how punchy the president feels on August 1st. Without another deadline extension or similar, a further slowdown seems likely. Moreover, as Britain discovered after leaving the European Union—the most recent case of a rich country imposing large trade barriers on itself—elevated uncertainty can by itself be sufficient to suppress business investment for quite some time. And America is now an extremely uncertain country (see chart 4).

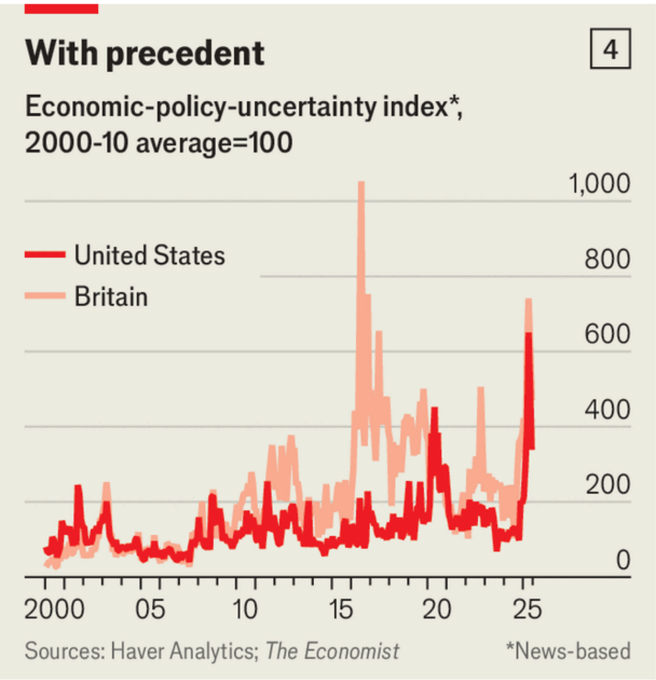


Chart: The Economist

All the same, a more significant slowdown does not necessarily mean a recession. Tariffs are colliding with an American economy that is, by any historical or international standard, extraordinarily dynamic. It has been growing at a consistent 2-3% a year since 2022. As a consequence, America is one of the few rich countries that might be able to shoulder even a sizeable hit to its growth without falling into recession. The additional stimulus in Mr Trump's "Big, Beautiful Bill" is also front-loaded, meaning that it will provide a boost this year and next, which could help obscure the impact of tariffs (even if it also creates an inflationary mess for the Fed to handle). All this suggests a future in which economists endlessly debate the actual impact of the tariffs, while the American public barely notices them, despite having been left poorer. Not a triumph for Mr Trump—but not a disaster either.

Japan has been hit by investing fever

Will old folk catch the bug?

Photograph: Getty Images

It is not difficult to spot the change. Bookshops now dedicate entire sections to financial guides. Trains are plastered with advertisements for investing seminars. Financial influencers command enormous online audiences with tutorials on how to build a portfolio or open a brokerage account. As Ponchiyo, a 31-year-old YouTuber with almost 500,000 subscribers, puts it: "People are realising it is wasteful to leave money sitting in savings."

At the end of 2023, cash and bank deposits of ¥1,128trn ($7.6trn) counted for over half of Japanese household assets, compared with less than a third in Britain and an eighth in America. Then, in January 2024, the government overhauled its NISA scheme, a tax-free investing option modelled on Britain's ISAs. The scheme has proved much more successful than ministers anticipated. Investors have opened 5m new accounts. And earlier this year, assets in NISAs reached ¥59trn, having hit the government's target three years ahead of schedule. Japan is at a "turning point", as Kishida Fumio, a former prime minister, put it at a recent conference. The shift is "a test of whether it can leave behind its deflationary past and embrace growth".

After Japan's asset-price bubble burst in the early 1990s, years of deflation and stagnation left savers wary of risk. Today, though, economic developments are creating additional incentives to invest. Japan's core inflation has reached 3.7%, the highest in the G7, which erodes the value of idle cash, especially given the country's relatively low interest rates. Meanwhile, Japan's fast-ageing population has raised concerns about the durability of the pension system. "Investing used to be seen as something for people chasing big returns," says Suzuki Mariko, who runs Kinyu Joshi ("Finance Girls"), a group for young women. "Now many people feel they have no choice but to consider it, even just to protect what they already have."

The boom has also coincided with progress in Japan Inc. Tokyo's stock exchange has accelerated its corporate-governance reforms as part of a broader official effort. In 2023 it instructed listed companies to "implement management that is conscious of cost of capital and stock price". Many have responded by buying back shares, raising dividends and focusing on profitable activities; indeed, dividend payouts and share buy-backs have both reached record highs. Cross-shareholdings—used to cement corporate alliances and insulate management, often at the expense of minority shareholders—have fallen from more than 50% of publicly listed shares in the early 1990s to just 12%.

Next up: old people. Those aged 60 and over hold nearly 60% of Japan's household assets. The government is considering a new scheme called "Platinum NISA", which would allow those over 65 to invest tax-free in monthly dividend funds, currently excluded from NISAs, making it easier for pensioners to draw down assets. "Many seniors used to think NISA was just for young people to build their assets over a long period," says Shiraishi Hayate of SBI Money Plaza, which runs investment seminars for retirees. "Now they are realising it can work for them."

Not everyone is happy, however. As in Britain, critics, including local asset managers and commentators, complain that much of the money invested through NISAs is going abroad. Estimates suggest that around half of total investments go into foreign stocks, as do as many as 80-90% of those made through mutual funds. The default purchase for beginners is either America's S&P 500 index or the Orukan, shorthand for "All Country", a tracker of global stocks. As annoying as this may be for policymakers, neophyte Japanese investors are demonstrating wisdom beyond their years: it is never wise to be too exposed to your home market.

The Economist: *https://www.economist.com*