Flash Economics

N° 18
February 13, 2026

United States: a major crisis will occur

The United States is facing a combination of factors:

- Dangerous economic policies: an attempt by the Trump administration to take control of the Federal Reserve; cuts—limited thanks to the Senate—to the budgets of public research agencies; and the rejection of immigration. In the long run, these economic policies are likely to result in weaker growth and a decline in demand for US government securities and for the dollar;

- An extremely high valuation of the equity market, combined with the rapid expansion of share purchases financed by credit (margin credit). Any negative shock to the economy could therefore trigger a sharp downward correction in stock market indices;

- An extremely large public deficit from 2026 onwards, despite revenue from customs duties, as a result of the tax cuts introduced by the "One Big Beautiful Bill Act".

The risk is clear: a rise in long-term interest rates driven by public deficits and the loss of credibility of the Federal Reserve, alongside weaker growth following cuts in research spending and lower immigration. Together, these developments could trigger a major correction in equity valuations.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

Isabelle Gravet
Research Assistant
isabelle.gravet-ext@ossiam.com

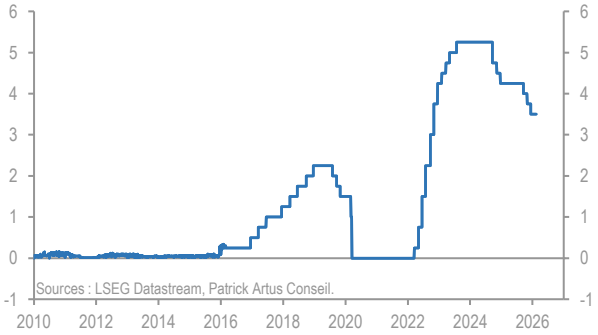
Marketing communication: this document is a marketing presentation. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

First risk: hasardous economic policies

The economic policies pursued by the Trump administration are dangerous for economic and financial stability. In particular:

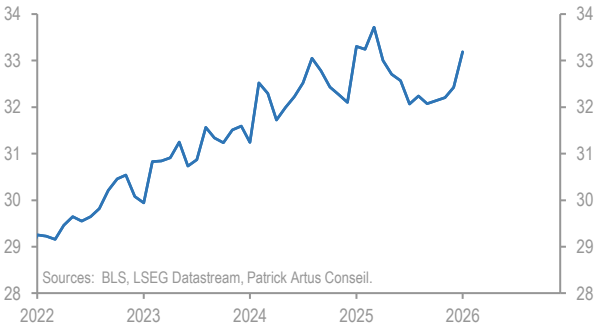
- **The attempt to seize control of the Federal Reserve**, which could **undermine the Fed's credibility**. Donald Trump, who has initiated legal proceedings against Lisa Cook and Jerome Powell, seeks a sharp reduction in short-term interest rates (**Chart 1**). In addition, the Federal Reserve has resumed quantitative easing since December 2025, with purchases of Treasuries;

Chart 1
United States: Federal Funds target rate (low, as %)



- **Cuts to the budgets of federal research agencies**, which have ultimately been less severe than those requested by Donald Trump due to resistance in the Senate (NASA's budget was cut by only 2%, that of the National Science Foundation by 4%, and the National Institute of Health's budget is set to increase in 2026);
- **The rejection of immigration**, which has led to a decline in employment among immigrants (**Chart 2**).

Chart 2
United States: Foreign-born labour force (in millions of persons)



These decisions by the Trump administration are likely, in the long term, **to weaken growth and lead to a decline in demand for US government securities and a fall in the dollar**, due to the risks of a loss of credibility for the Federal Reserve.

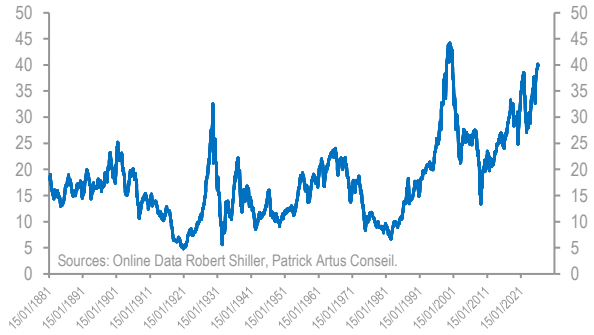
Second risk: extremely high equity market valuations

The US stock market is very expensive, as shown by the S&P's P/E ratio (**Chart 3**) or by Shiller's CAPE applied to the S&P (the CAPE is the ratio of market capitalisation to earnings, smoothed over 10 years and adjusted for inflation; **Chart 4**).

Chart 3
S&P 500 P/E ratio



Chart 4
CAPE / Shiller PE Ratio



The high valuation is also due to the **extensive use of margin credit** to purchase shares (**Chart 5**).

Chart 5
United States: Margin loans outstanding (bn USD)



This type of financing for share purchases increases the risk of financial instability, as a decline in the stock market would force households to sell part of their equity portfolios to meet margin calls.

Third risk: extremely high public deficit

Over the 2025 calendar year, the US public deficit amounted to 5.9% of GDP, **and it is expected to exceed 7% of GDP in 2026** (**Chart 6**), due to the tax cuts provided for in the "One Big Beautiful Bill Act", the announced increase in military spending under Donald Trump, and the proposed distribution of an additional $2,000 in income to every American household.

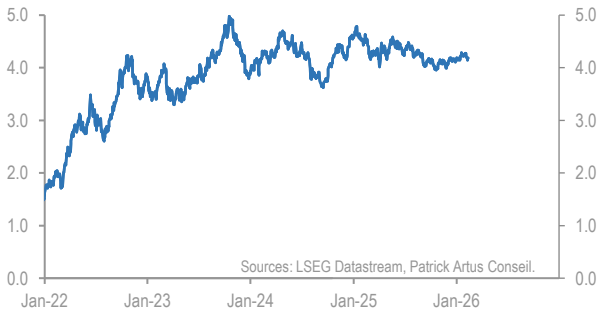
Chart 6
United States: Fiscal deficit (as % of nominal GDP)



If the Supreme Court were to overturn the tariffs—which currently generate $250 billion in a full year—the US public deficit would balloon in 2026. The risk is that financing the US public deficit could become more difficult, also owing to competition from Japanese government securities, which are becoming more attractive following rising long-term interest rates in Japan, and from European

government securities, given the very high need for public spending in Europe. This greater difficulty in financing the US deficit would lead to a rise in long-term interest rates in the United States (Chart 7).

Chart 7
United States: Interest rate on 10-year government bonds
(as %)



Summary: the risk of a highly unfavourable chain of events in the United States

The following might therefore be observed in the US:

- **A rise in long-term interest rates, driven by increasing public deficits**, a loss of credibility for the Federal Reserve, and a decline in purchases of US debt by non-residents;
- **A slowdown in economic activity, due to reduced immigration, cuts in public research spending, and higher long-term interest rates**;
- **A significant drop in equity valuations, resulting from the slowdown in activity and the rise in long-term interest rates**, which would in turn further depress activity because of the wealth effects linked to equity ownership.

The consensus expectation of continued strong growth and a rising stock market in the United States therefore appears quite dubious.

Disclaimer

Ossiam, a subsidiary of Natixis Investment Managers, is a French asset manager authorized by the Autorité des Marchés Financiers (Agreement No. GP-10000016). Although information contained herein is from sources believed to be reliable, Ossiam makes no representation or warranty regarding the accuracy of any information of which it is not the source. The information presented in this document is based on market data at a given moment and may change from time to time. This material has been prepared solely for informational purposes only and it is not intended to be and should not be considered as an offer, or a solicitation of an offer, or an invitation or a personal recommendation to buy or sell participating shares in any Ossiam Fund, or any security or financial instrument, or to participate in any investment strategy, directly or indirectly. It is intended for use only by those recipients to whom it is made directly available by Ossiam. Ossiam will not treat recipients of this material as its clients by virtue of their receiving this material. All performance information set forth herein is based on historical data and, in some cases, hypothetical data, and may reflect certain assumptions with respect to fees, expenses, taxes, capital charges, allocations and other factors that affect the computation of the returns. Past performance does not predict future returns. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Ossiam assume no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from, an investment in any security or financial instrument described herein or in any other security, or from the implementation of any investment strategy. This information contained herein is not intended for distribution to, or use by, any person or entity in any country or jurisdiction where to do so would be contrary to law or regulation or which would subject Ossiam to any registration requirements in these jurisdictions. This material may not be distributed, published, or reproduced, in whole or in part.