

Eagle Global Opportunity Growth Fund Quarterly Report



The American economy has been facing, for several years now, three serious and complex imbalances: the public deficit, deindustrialisation and the trade deficit. Each administration, whether Democratic or Republican, has attempted to remedy these with limited success, as the task is arduous and certain measures unpopular. The Trump administration wishes to simplify the problem and resolve everything with the same formula: protectionism and import surcharges. Tax receipts will increase, imported products, being more expensive, will reduce the trade deficit, and industry will return to the USA to avoid import surcharges. All to be resolved in a single day.

In June 1930, a few months after the financial debacle of October 1929, the recently elected Republican government of Herbert Hoover enacted the protectionist Hawley-Smoot Act, named after two senators from the same party. This law imposed tariffs of over 50% on more than 20,000 articles imported into the USA, triggering a trade war with the rest of the world. The increased cost of imported products coupled with the consequences of the October 1929 stock market crash proved disastrous, plunging America into the Great Depression.

It is widely agreed that between 1929 and 1932, global wealth fell by more than 17% and that of the USA by more than 25%. An economic disaster that has remained etched in memories – though evidently not in everyone's.

Some historians find in the economic and social chaos generated by President Herbert Hoover's decision in 1930 the birth of right-wing and left-wing populist movements that led humanity towards the Second World War. We believe one need not yet descend into the bunkers, although President Trump's decision will certainly generate strong economic and political turbulence in the coming months. Let us keep our safety belts fastened.

As in 1930, America will suffer more than the rest of the world. We anticipate a drop in domestic demand, rising inflation and a very probable recession in the coming quarters. Financial markets will be volatile, and American investors and consumers will lose part of their savings and purchasing power.

Whilst the American trade balance may improve in the short term, we do not believe in the reindustrialisation of America, nor in increased tax receipts. The public deficit may even worsen in our scenario.

Let us wager that the deterioration of economic aggregates will help President Trump and his team to avoid attempting to replicate the situation of 1929-1932. We believe that negotiations will take place after a few weeks of crisis. One must not forget the very probable social unrest and internal pressures coming from his party and his electorate.

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A new paradigm, as we were saying at the beginning of the year. New alliances, new power dynamics. Pacifism and environmentalism are in crisis. Poor countries will be sidelined. Armament is no longer taboo. Wokism was a mere fashion.

Let us wager that after coming close to a new major crisis, Europe awakens, China recovers its wisdom, a weary Russia forgets its USSR past, and Israel makes peace with itself.

We are not making changes to our asset allocation, whilst awaiting greater visibility. One must weather the storm and trust in the common sense and pragmatism of our leaders. We should have evolved in a century.

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