

The U.S. Remains a City on a Hill

The term U.S. exceptionalism has been with us for a long time. Its original meaning, dating back to the 19th century, was the idea that for several reasons the United States was fundamentally different from the rest of the world. The idea coalesced around the fact that our country was founded on Enlightenment ideals such as liberty, democracy, and individual rights. Furthermore, we had a political system based on a written constitution that provided a safeguard for democracy. John Whitney, a Puritan leader of the time expressed the idea of exceptionalism as “A City upon a Hill,” an apt description.

This broad and idealistic concept of exceptionalism has in recent years been narrowed to a more pragmatic description. It assumes stronger Gross Domestic Product (GDP) growth than other advanced economies, outperformance in stock markets, greater resilience to global shocks, and leadership in technological innovation and corporate earnings. These benchmarks have been particularly reinforced in the period after the Great Financial Crisis when U.S. economic and stock performance have been especially impressive.

To what factors can we attribute the relative superiority of the performance of the U.S? We start with the comparison of GDP to other nations. Over the last 10 years the U.S. real GDP averaged 2.6% annually, while the G7 nations (Canada, France, Germany, Italy, the United Kingdom, Japan, and the U.S.) averaged 1.7%. This is a huge gap that compounds up dramatically. Furthermore, in the recession of 2020, U.S. GDP declined less than other members of the G7 and recovered faster in 2021. GDP, the broadest measure of business activity, provides the context within which companies and individuals can prosper. Therefore, it is no surprise that the U.S. stock market also outdistanced those of other developed nations. Over the same 10-year period U.S. stocks appreciated by 186% compared to 29% in the rest of the world. Once again, a huge gap.

Think about GDP like this: it is the sum of growth in the number of employees, hours worked by those employees, and growth in the productivity of those employees (i.e., growth in output per hour worked). On further analysis, we note that by far the biggest contributor to U.S. superiority is productivity. Its contribution to GDP growth is much larger in our economy than in any of the other advanced nations. And productivity growth is highly correlated with research and development (R&D) spending. We lead the world in this category, spending on R&D at over 3.5% of GDP. Silicon Valley, of course, is the most innovative and powerful technological center in the world, supported by deep and active venture capital markets, the seed money of technological innovation. All these elements support the case for ongoing productivity gains.

Some are questioning if the U.S. can maintain its lead in GDP. We find it difficult to identify reasons to believe that productivity will slow down. To the contrary, with rapidly advancing artificial intelligence (AI), it is more likely

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to accelerate. However, the other factor in GDP growth, growth in the labor force, is of concern. Not only are the demographics of childbirth pointing to slowing overall population growth, but the numbers of new entrants coming from immigration are in rapid decline. In fact, immigration is nearing the zero line.

If GDP growth is to remain vibrant, productivity will be required to pick up the slack from a slowing of growth in the labor force. Considering the bleak outlook for immigration growth (historically a very important factor in the labor market) as well as the uncertainty surrounding trade policies which are considered a threat to overall growth, it may be a safe assumption that U.S. growth going forward will be slower. However, other advantages in this country still suggest faster GDP growth in this country relative to other advanced nations.

Another factor in U.S. exceptionalism is the role of the U.S. dollar. It remains the reserve currency in the world, an enormous advantage for our economy. Something like 60% of the global foreign exchange reserves are held in U.S. dollars, which makes the U.S. central to the global financial system. A strong dollar also attracts foreign capital to this country, in turn bolstering many parts of the economy, not the least of which is technological innovation, something central to the productivity effort.

It is only fair to acknowledge threats to the dollar's hegemony. Poor fiscal decisions by our government leading to an unmanageable debt burden could eventually dissuade foreign investment in our debt. Also, geopolitical policy that diminishes our ties with other nations and undermines cooperation could have the potential to disrupt interest in dollar investment. While these potential threats exist, it is also difficult to identify world players with sufficient strength to contest the dollar's place in the world.

Some shorter-term trends are encouraging speculation that U.S. exceptionalism is over. We doubt it. Despite weakness in the U.S. dollar and superior stock performance in Europe thus far in 2025, we believe the structural elements in our economy that have supported our success over long periods of time will still prevail.

U.S. exceptionalism, whether thought of in its broader original context, or the more restrictive financial and economic context, is essential to the future well being of our country. It is the foundation of increasing standards of living, and it provides fertile soil for success by corporate America. We have always placed immense faith in the strength of our economy and, by inference, in the ability of the corporate community to benefit from its inherent advantages. As we review the aspects of exceptionalism, there may be periods when U.S. economic superiority is challenged, but we cannot identify any global partners that enjoy the advantages we do. This is a bedrock assumption that underlies our confidence that the search for high-quality companies to invest in for the longer term, with a focus primarily on those companies domiciled in the U.S., will prove fruitful.

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