"OK Boomer": on stablecoins, S&P profits, tariffs vs tax cuts and the history of Presidential break-ups

The main section of this Eye on the Market covers stablecoins. Before getting into that, let's start with good news on Q1 S&P profits, a tariff update based on recent judicial decisions, an analysis of tariffs vs tax cuts, two charts on trade and at the end, a brief history of Presidential break-ups given the one that just occurred in DC.

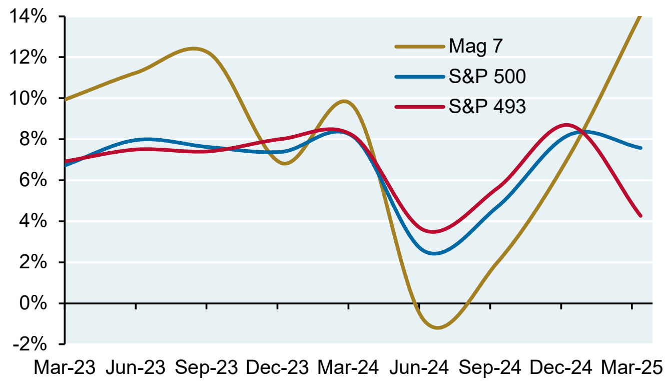
Some good news on S&P 500 Q1 profits

In JP Morgan Equity Research's latest report[1], Dubravko and his team highlight some of the positive surprises from Q1 S&P 500 earnings results:

- An earnings surprise of 7.6% vs 4% for the prior 4 quarters; Q1 2025 EPS revised up to 12% y/y; net income margins of 13.2% were higher than expected (estimates pointed to margin compression in 7 of 11 sectors)
- On company forward guidance, 57% of companies reiterated guidance while 25% raised and just 15% cut. The share of companies cutting guidance in Q1 was the lowest in five years, and only 1% withdrew guidance completely. I take this as a positive given how bad it could have been given the uncertainty around tariffs
- The Mag 7 stocks delivered 28% y/y earnings growth; a basket of AI, data center and electrification stocks has recovered by 50% from April lows
- Stock buybacks were up 24% y/y with announcements of new programs from Apple, Google, Goldman, Wells Fargo and Visa

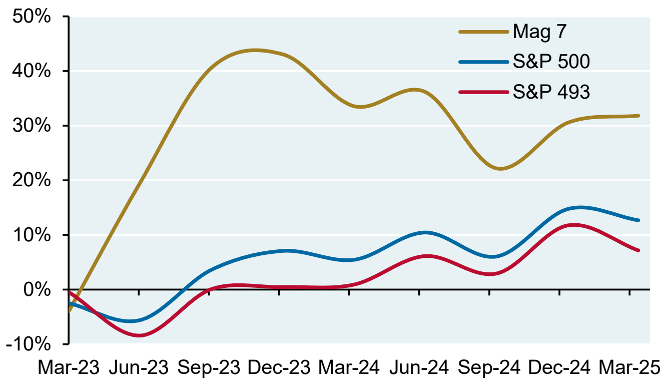
However as highlighted on page 1 of our Trump Tracker, some of this good news could be the result of demand that was pulled forward in advance of tariffs (bottom two charts). Also from the Trump Tracker: as left-tail tariff outcomes became less likely, an important leading indicator (ISM new orders less inventories) rebounded into positive territory in May, and there was a bounce in our CEO optimism/capital spending tracker.

Earnings surprise
Percent



Source: Bloomberg, JPMAM, Q1 2025

Earnings growth
Percent

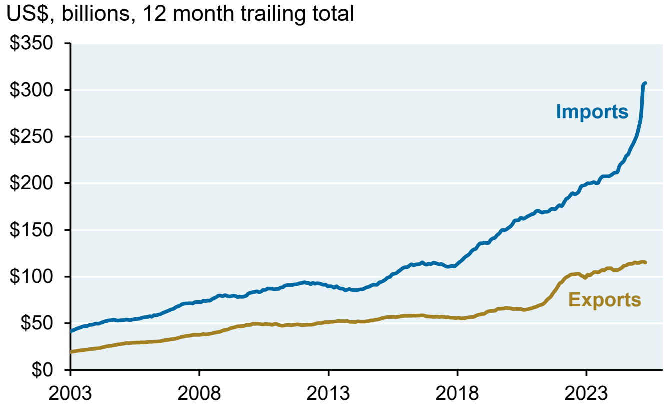


Source: Bloomberg, JPMAM, Q1 2025

Real imports of consumer goods ex autos
Index (Janaury 2023 = 100)

Source: Census Bureau, JPMAM, April 2025

US pharmaceutical & medicine trade
US$, billions, 12 month trailing total



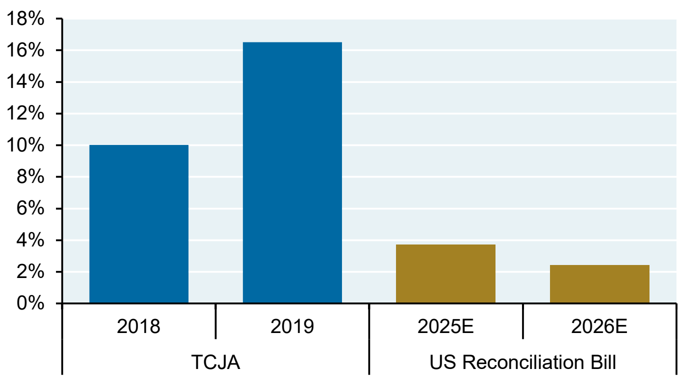
Source: Census Bureau, JPMAM, April 2025

[1] JP Morgan Global Equity Strategy, "*Market Update, Dual Equity Pain Trade, Investor Positioning, Earnings and Tariff Impact*", Dubravko Lakos-Bujas et al, June 5, 2025

Tariff update. On June 10th the US Court of Appeals for the Federal Circuit granted a permanent stay on a lower court's ruling that had struck down IEEPA-based tariffs, allowing the contested tariffs to remain in effect pending appeal with a ruling expected by mid-August. On June 11th China reportedly agreed to resume rare earth exports for 6 months in exchange for the US removing export controls on aviation parts, oil & gas products and continuing to issue Visas to Chinese students. The latest agreement does not alter our estimate of end-game weighted avg tariff rates of 15%-18%, whether the appeals succeed or not. See Trump Tracker for more details.

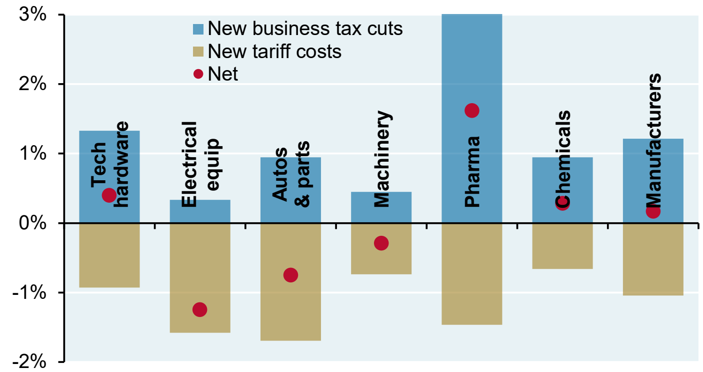
Tariffs vs tax cuts. According to an interesting analysis from Empirical Research, even though new corporate tax cuts in the Reconciliation Bill[2] are much smaller than TCJA corporate tax cuts in 2017, **these new depreciation benefits would still offset most of what Empirical estimates tariff costs to be**[3]. I think the ultimate tariff costs on US manufacturers will exceed Empirical's assumptions once all Section 232/301 investigations are completed but that process could take months.

Business tax cuts for US public companies
New tax benefits as a share of earnings, percent



Source: Empirical Research, June 4, 2025

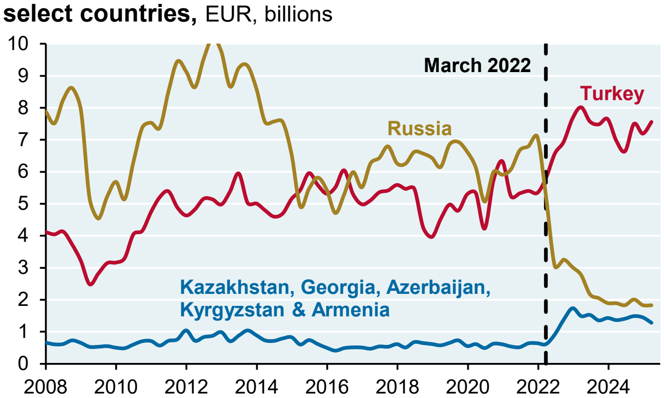
Impact of Reconciliation Bill tax cuts and tariffs on US manufacturers, Impact on 2025 revenues



Source: Empirical Research, June 4, 2025

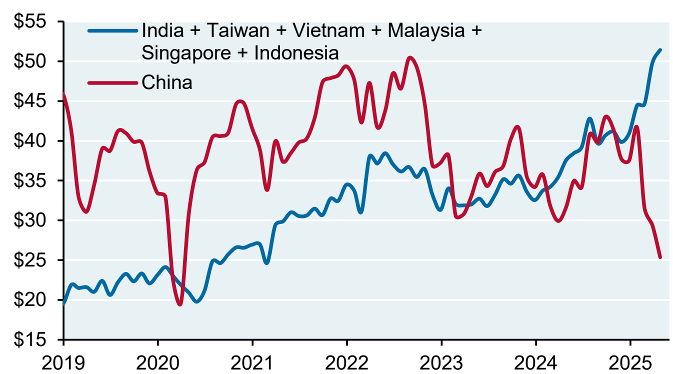
Some charts on trade. Germany isn't fooling anyone: it still exports a lot to Russia, just routed through Turkey and former Soviet republics as transshipments instead. More than 50% of the decline in Germany's exports to Russia have been offset in this fashion since Russia's invasion of Ukraine. Second chart: US importers have reacted to higher tariffs on China by importing instead from the rest of Asia (too soon to tell how much was sourced in these countries vs how much was simply re-routed Chinese goods).

Transshipments to Russia: Germany quarterly exports to select countries, EUR, billions



Source: German Federal Statistical Office, JPMAM, Q1 2025

US imports from China vs other Asian countries
US$, billions



Source: Bloomberg, JPMAM, April 2025

[2] The main source of new corporate tax cuts in the Reconciliation Bill: expanded Section 199A deductions, temporary bonus depreciation for production structures and an increase in Section 179 limitations

[3] **More evidence that most companies pass through tariff costs rather than absorb them**. In a June 4th piece from Liberty Street Economics, the Fed found that almost a third of manufacturers and about 45% of service firms reported fully passing along tariff-related costs, while 45% of manufacturers and a third of service firms said they passed along some but not all of the increase. Only a quarter of both types of firms said they absorbed all tariff-related cost increases and were not raising their prices.

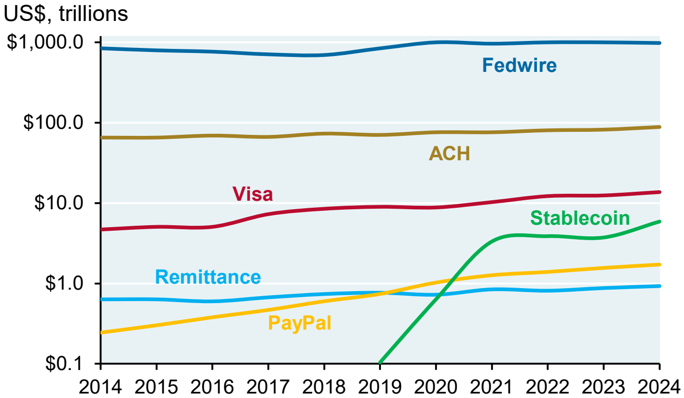
"OK Boomer": My aging brain has questions on stablecoins since I think I have seen this movie before

"OK Boomer" is the standard online comeback to people like me who don't completely understand the rationale and value proposition of certain aspects of crypto. One example: **the $250 billion stablecoin market**. After some background, I will lay out my questions since I believe that I have seen this movie before, just in different form. This is timely given Congressional debate on the GENIUS Act (proposed legislation to establish a federal regulatory framework for stablecoins in the US) and the recent Circle IPO[4].

Background. Stablecoins had a rough start: more than twenty stablecoins collapsed between 2016 and 2022, and each of the world's leading stablecoins lost the peg to its reference value on multiple occasions between 2019 and 2023[5]. And in April 2025, First Digital's FDUSD (the world's third largest stablecoin at the time) lost its peg to the US$ for a few days after a crypto executive claimed it was insolvent; its value dropped as low as $0.87 at which point FDUSD redeemed $1 billion in stablecoins. That said, stablecoin price volatility has quieted down since the collapse of algorithmic stablecoins Terra/Luna and the temporary de-pegging of Tether and USDC when FTX/Alameda failed. In April 2025, Tether's USDT and Circle's USDC accounted for 88% of global stablecoin market cap and 93% of stablecoin transactions volumes.

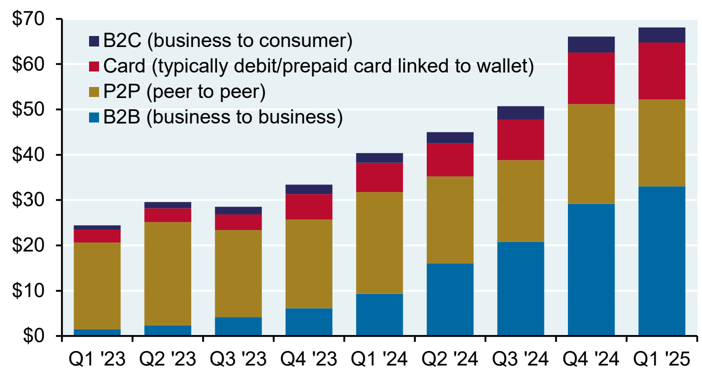
There's a chart making the rounds (left) in the investments world showing that stablecoin volumes have reached several trillion dollars per year, but this is **misleading**; ~99% of that figure refers to volumes of crypto cash held in crypto accounts ("the poker chips in the crypto casino", as former SEC Chair Gensler described it). According to Artemis Analytics, just ~$70 billion of stablecoin volumes in 2025 were used for the traditional commerce and payment rail functions shown on the right. Similarly, Chainalysis reports little change over the last year in the payment component of their stablecoin use case index.

Annual transaction volume
US$, trillions



Source: Visa Onchain Analytics, Castle Island Ventures, 2024

Stablecoin payments by type, annualized run rate
US$, billions



Source: Artemis Analytics, February 2025

[4] **Some very strange data on Circle**: while the company earned $1.7 billion in interest income on their reserve assets in 2024, they paid $1 billion (!!) out as distribution fees to third party platforms, and as payments to Binance to maintain a portion of its Treasury reserves in Circle's USDC. Furthermore, Circle has a partnership with BlackRock in which 85% of Circle's USDC reserves are deposited in a BlackRock 2a7 40 Act fund in exchange for promoting USDC and not launching its own stablecoin. Source: Lee Reiners, Duke Financial Economics Center

[5] "***The Looming Threat of Uninsured Nonbank Stablecoins***", Arthur Wilmarth Jr (George Washington Law School), Delaware Corporate Law Journal, May 2025. According to Wilmarth, the shortcomings of the GENIUS Act include "(i) perilously weak reserve requirements for stablecoins; (ii) excessively lenient capital, liquidity, and risk management standards for stablecoin issuers; (iii) severely deficient chartering criteria and inadequate supervisory and enforcement powers over stablecoin issuers; (iv) meager protections for consumers harmed by stablecoin issuers; (v) an ineffective bankruptcy process for dealing with failed stablecoin issuers; (vi) the absence of federal deposit insurance or other federally-funded sources of support for troubled stablecoin issuers, greatly increasing the likelihood of government bailouts; and (vii) regulatory loopholes that would allow crypto firms and exchanges to offer and sell stablecoins in the US issued by poorly-supervised foreign issuers"

A stylized version of me at a stablecoin IPO launch

With that background, here are my "OK Boomer" questions on stablecoins. Throughout history, non-FDIC insured short-term dollar denominated debt redeemable at par on demand has been prone to runs, whether in money market funds, repo or uninsured deposits. Why would lightly regulated stablecoins be any different?

[1] Is the primary value proposition for creators of off-chain, offshore collateralized stablecoins like Tether the ability to hold less than 100% in T-bills and other cash equivalents to amplify yield (currently Tether holds 5% in Bitcoin, 5% in precious metals and 9% in secured loans and other investments)? If so, if such an entity does not have access to a large backup bank facility or a central bank discount window, how is this different from the SIVs that existed before the financial crisis, or US banks that existed before the creation of the FDIC in 1933?

[2] According to the GENIUS Act, US stablecoin issuers would need to hold 100% of their collateral in cash, T-Bills and other cash equivalents (which can include repos with uninsured counterparties). If so, US stablecoin issuers would earn the spread on these assets vs whatever yield is paid to stablecoin holders. Will the GENIUS Act ultimately include a prohibition on stablecoin issuers paying a yield? And would that even matter if the Act's yield prohibition only applied to stablecoin issuers and not prevent affiliates of issuers, crypto exchanges, DeFi blockchains or other crypto trading venues from paying rewards and yields to holders of stablecoins who keep stablecoins at those venues? Some stablecoin yields observed this year: PayPal 3.7%, Coinbase 4.1% on some balances, Kraken 5.5% and Binance up to 11%.

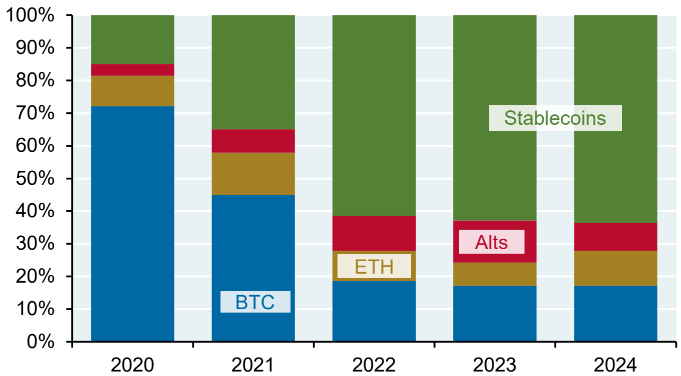
[3] What will the frequency of stablecoin collateral disclosure requirements be in the US and who will enforce this and audit the issuers? How are monthly disclosures of use to stablecoin holders when the equivalent of a "run" can take place in hours rather than days or weeks? A few years ago, Tether fired their auditor and have since only provided "attestations" which are not the same thing. Circle on the other hand publishes composition of their reserves on a weekly basis.

[4] Why are stablecoin holders below a certain threshold not entitled to par value redemption rights to the issuer, and would instead need to get liquidity from crypto exchanges (something Circle repeatedly mentioned in its S-1 filing)? In other words: **such holders have no interest in or right to access the issuer's reserve**. Isn't that inconsistent with something purporting to be a retail payment instrument? What kind of liquidity constraints and transaction costs will smaller holders face?

[5] What does stablecoin offer that existing regulated channels do not, other than for entities engaged in illegal activity or people in countries with volatile currencies and exchange controls? Existing channels for legitimate commerce include the Automated Clearing House, wire transfers, card networks and correspondent banking relationships; the launch of FedNow in 2023 which enables instant payments, delivering funds to households and businesses in seconds; and Clearing House real-time payments and various private firms that offer instant ACH transfers. For cross-border flows, note that there are still substantial off-ramp costs in many EM countries to first convert into local US$ and then from local US$ into local fiat. In such cases, stablecoins can be more expensive than Western Union and other options, a view recently reiterated by the CEO of Airwallex.

[6] How much stablecoin demand is driven by entities seeking unregulated anonymity since their core purpose is offshore gambling, money laundering, extortion, drug trafficking or sanctions evasion[6]? There are examples of criminal enterprises depositing proceeds in stablecoins to avoid prosecution[7], and as shown in the next chart, stablecoins now dominate on-chain crime.

On-chain crime has shifted to stablecoins
Share of illicit transaction volume, percent



Source: "The 2025 Crypto Crime Report", Chainalysis, February 2025

Stablecoins: weapon of choice

- In 2023, stablecoins were used in ~60% of all illicit crypto transactions and 80% of all crypto transactions conducted by sanctioned regimes and terrorist groups
- Government officials identified Tether's USDT as the stablecoin of choice for individuals and organizations engaged in money laundering, financing of terrorist groups, ransomware, cyberfraud, trafficking of drugs-sex-weapons, illegal gambling and tax evasion
- If you're interested in stablecoin-related crime, check out Planet Money's May 23 podcast with Zeke Faux, a Bloomberg reporter who went to Cambodia to investigate pig-butchering scams

[7] Why are GENIUS Act capital, liquidity, custody and risk management standards for stablecoin issuers much less demanding than the same requirements for FDIC-insured banks? And why does the Act provide State stablecoin issuers with a general exemption from Federal supervision, examination, and enforcement?

[8] Will retail buyers understand that bankruptcy provisions may limit recovery to the uninsured stablecoin's value at time of failure, rather than $1?

[9] What are systemic risks to the financial system from stablecoins since their reserves can be highly concentrated at specific financial institutions? Example: Circle held 8% of its USDC reserves at Silicon Valley Bank as uninsured deposits, and its value plummeted to 88 cents on the dollar until the FDIC bailed out all uninsured SIVB depositors (something I disagreed with at the time[8])

[10] If large tech companies issue their own uninsured stablecoins, would that end-run the Bank Holding Company Act of 1956 which separates banking and commerce? GENIUS Act loopholes would reportedly allow a single entity to own more than the $10 billion limit (see Wilmarth, Section IV-A). By authorizing the OCC to charter uninsured national banks that issue stablecoins, the Act could give those stablecoin issuers potential access to Fed discount window advances, Fed master accounts and related Fed payment services/guarantees.

[11] In case of a stablecoin "run on the bank", would the Fed and Treasury in the heat of the moment provide emergency support as they did for money market funds, repos and commercial paper in 2008 and 2020?

[12] Why does the Act include loopholes allowing foreign stablecoin issuers like Tether to have their stablecoins sold in US markets? Powers granted to the Treasury Secretary include the ability to issue safe harbors, waive reserve requirements, allow secondary trading, etc. Are these loopholes in any way related to Tether's business relationship with the Secretary of Commerce and his former firm (See Wilmarth, Section VI-G)?

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[6] Crypto mixers, cross-chain swaps and other cloaking devices can make crypto assets effectively untraceable

[7] "*Pig-Butchering Scams Net More Than $75 Billion, Study Finds; criminals converted most of proceeds into stablecoin Tether*", Bloomberg, February 29, 2024

[8] From 1992-2007, the FDIC imposed losses in 65% of all resolutions and in 2008, despite a deposit insurance limit increase from $100k to $250k and a temporary guarantee program for uninsured noninterest-bearing accounts, losses were still imposed at 28% of resolutions. Given this long history, it is not clear why the FDIC opted not to impose any losses at all on the massive pool of uninsured SIVB depositors whose average uninsured account balances were over $4 million [Eye on the Market, March 10, 2023]

[13] What are the possible macroeconomic consequences of stablecoins if a recent BIS paper is correct in estimating asymmetric impacts on T-bill rates[9]? The authors concluded that stablecoin outflows raise 3-month Treasury yields by 2x-3x times as much as stablecoin inflows lower them

[14] What explains the Administration's commitment to the GENIUS Act? How is its crypto agenda affected by crypto PACs which accounted for nearly half of all donations in 2024 elections, by the launch of a stablecoin by World Liberty Financial, and by Abu Dhabi's decision to use WLF's stablecoin to invest $2 billion in Binance[10]? Or does the Administration see stablecoins as a means to attract more offshore demand for US$/T-bills at a time of rising budget deficits, policies reducing the appeal of US assets (proposed Section 899 taxes on entities from countries with unfair foreign taxes) and large US reliance on foreign capital?

In any case, the crypto summer has arrived. Trump-appointed SEC Chair Clayton prosecuted 70+ crypto cases from 2017-2020, and Gensler then increased that to 125. But as of June 2025, the crypto enforcement units at the DoJ and SEC have effectively been shuttered with all active investigations, litigation and appeals terminated [Source: John Reed Stark testimony before the SEC Crypto Task Force, March 2025]. According to the "Stand with Crypto" alliance launched by Coinbase, there are now 300 pro-crypto members of the Senate and the House. Wyoming is even considering a launch of its own stablecoin this summer. On November 6 2024, Coinbase CEO Brian Armstrong tweeted "Welcome to America's most pro-crypto Congress ever" while Ripple's CEO declared that the "War on Crypto is Over" at a post-inaugural Crypto Ball. No disagreement there…

A quick comment on financial asset tokenization

The selling points of a blockchain are **immutability** (once it's done, it's done), **public transparency** and the **ability to operate without requiring trusted intermediaries**. But when used for securities clearing, trading and bookkeeping, these features need to be altered: the process must allow for error correction and fraud reversal[11]; public ledgers must be private to ensure confidentiality; and centralized, permissioned controls must be in place.

Once these changes are made, tokenization for some B2B instruments could reduce the need for collateral, for credit lines extended by banks and for capital held by intermediaries. A new intraday blockchain-based repo settlement system launched by JP Morgan's Kinexys group is a move in this direction[12]. Kinexys also settles some payments for corporate clients using the same kind of permissioned, proprietary blockchain. Daily volumes are just $2 billion compared to $10 trillion in traditional payments the firm handles daily; it remains to be seen just how much demand there will be for a blockchain-based B2B payments system.

To be clear, I don't think this kind of activity enhances the value proposition for crypto coins, stablecoin issuers, crypto exchanges or other crypto assets; it's simply a blockchain-based mousetrap that a bank pays its engineers to build, with any value due to competitive advantage mostly accruing to shareholders of banks that build it.

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[9] "*Stablecoins and safe asset prices*", Ahmed and Aldasoro, BIS Working Paper 1270, May 2025

[10] "*Trump-Tied Stablecoin Used for MGX's $2 Billion Binance Deal*", Bloomberg, May 1, 2025

[11] It was notable that the ETH community decided **NOT** to undo the Bybit hack, the largest theft in the crypto industry's history in which North Korean hackers stole $1.4 billion of crypto assets

[12] https://www.jpmorgan.com/kinexys/documents/Kinexys-Digital-Financing_case_study.pdf

"You were my brother, Anakin": Presidential break-ups do happen

As we explained in the "Chicken Hawks" EoTM, the House bill would expand the deficit by ~$3 trillion vs the CBO baseline and by more if certain tax cut provisions became permanent. I understand why Dogespierre is frustrated since his cost cutting efforts are a fraction of that amount, but his true rewards may lie elsewhere: as explained in the May 1 EoTM, many DOGE spending cuts are hampering agencies that were in the process of regulating him (EPA, CFPB, DOL, USDA, FEC, DOI, DOD and SEC). I thought it was also notable that the Federal government is now scrambling to rehire some federal employees dismissed by DOGE after its initiatives wiped out entire offices, in some cases imperiling services such as weather forecasting and drug approvals.

On the reconciliation bill, Rand Paul (R-KY) has stated that he will probably vote against the bill. Ron Johnson (R-WI) is reportedly on the fence, although there's a chance that concessions can be made to satisfy him. Trump can withstand three GOP Senate defections and still have Vance cast the tie-breaking vote. It will probably be a nail-biter until the end.

As for the highly public Trump-Dogespierre break-up, Presidential ruptures with cabinet members and other senior advisors do happen…

Thomas Jefferson vs George Washington

- The conflict began even before Washington's Presidency. When Jefferson was in France and received a copy of the Constitution that Washington enthusiastically ratified, Jefferson wrote to John Adams "I must confess that there are things in it that stagger all my disposition to subscribe to it". In other words, he felt that the power vested in the Presidency was too great relative to Congress
- While he was Secretary of State for Washington, Jefferson helped establish and fund a partisan press to attack Washington's own administration. Jefferson funneled confidential information from cabinet discussions to his ally James Madison and drafted anonymous resolutions for House Republicans to censure Treasury Secretary Alexander Hamilton. Madison's 18 anonymous essays in the National Gazette were highly critical of the Washington Administration
- The French Ambassador to the US encouraged Americans to support revolutionary France, commissioned privateers in American ports to seize British ships and announced a plan to persuade Kentucky to seize Spanish-held Florida and New Orleans in order to create an independent nation loyal to France. Jefferson made only perfunctory objections to this idea and Washington was furious
- Jefferson sought to convince Washington that Hamilton was plotting to transform America into a version of a pro-British monarchy. Washington accused Jefferson of having a low opinion of his intelligence and declared he was the last man who would tolerate the emergence of an American king. With their lifelong relationship damaged, Jefferson resigned as secretary of state in December 1793
- Washington's famous Farewell Address can be read as a strong critique of Jefferson when Washington warned against excessively favoring or disliking foreign nations
- After retiring to Monticello, Jefferson helped organize the new Jeffersonian-Republican Party which in 1796 ran against Washington's Federalist Party. Jefferson's followers preached opposition to and even revolution against Washington's government

Andrew Jackson vs his entire cabinet

- Jackson encouraged his Secretary of War John Eaton to marry Margaret O'Neill. She was outspoken for her time and had also worked as a bartender, which shocked the sensibilities of other cabinet members
- Floride Calhoun, the wife of VP John Calhoun, convinced the wives of other cabinet members to shun the Eatons socially and publicly
- Jackson asked for the resignations of all anti-Eaton Cabinet members. Postmaster General William T. Barry was the only Cabinet member to stay
- VP Calhoun eventually resigned in part over this dispute, the only VP to resign in office other than Agnew

Andrew Johnson vs Edwin Stanton

- Andrew Johnson succeeded Lincoln after the latter's assassination
- Johnson immediately began to feud with Secretary of War Edwin Stanton over post-Civil War policies. Stanton backed Lincoln's Reconstruction Plan while Johnson sought to ease sanctions on former Confederate soldiers and politicians
- Johnson fired Stanton but was then threatened with impeachment by House Republicans for violating the Tenure of Office Act which protected Stanton
- The Senate acquitted Johnson by one vote and Stanton resigned

Other pre-WWII examples:

- Theodore Roosevelt appointed William Taft as Secretary of War and as his hand-picked successor but their relationship soured and they campaigned against each other in the 1912 election.
- William Jennings Bryan resigned as Secretary of State in protest over Wilson's handling of the sinking of the Lusitania and his opposition to America's entry into WWI
- Postmaster General James Farley publicly rebuked FDR for seeking a third term and breaking the two-term precedent

Richard Nixon vs John Dean

- At the end of the long Watergate saga, White House Counsel John Dean testified against Nixon in Congress: "I began by telling the president that there was a cancer growing on the presidency and that if the cancer was not removed that the president himself would be killed by it"
- Another part of Dean's testimony: shortly before the sentencing of the seven Watergate defendants, Nixon asked Dean how much the defendants would have to be paid to ensure their continued silence in addition to $460,000 that had already been paid. Dean told Nixon the additional cost would be about $1 million and the President replied there would be no problem in paying that amount
- Lesser-known fact: before the Watergate break-in, Dean intervened to scuttle a different plan to firebomb the Brookings Institution (!!) where certain incriminating papers were held

Michael Cembalest
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Sources for the section above include: The Atlantic, November 1 2012; "*The Great Divide: The Conflict Between Washington and Jefferson That Defined A Nation*", Thomas Fleming, 2015; "*Chronology of the US Presidency*", Matthew Manweller, 2012; Washington Post, January 26, 2021; The Guardian, June 5, 2022; Washington Post, June 6, 2025

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