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U.S. Investors Have an 'Exorbitant Privilege'

The French certainly have a way with words. Many about food, fashion and art have made their way into English, naturally, but a surprising number of financial terms did, too.

Without them we'd have no arbitrage, entrepreneurs, tranches, financiers or even millionaires. As France faces a possible borrowing crisis and U.S. stocks shrug off a quarter-century high in bond yields, a Frenchman's bon mot helps explain why: exorbitant privilege.

It's a six-decade-old gripe coined by a former French finance minister about the benefit America reaps from having the world's reserve currency. Even after all these years, "le privilège exorbitant" makes U.S. investors and consumers richer and less fearful than those in other developed countries.

Is it being taken for granted, though?

America has had to endure financial crises, stock-market crashes and military setbacks, just like any other country. But the regularity with which the U.S. recovers is remarkable. For many Americans it's an article of faith that the stock market eventually rises over time, that Uncle Sam's liabilities are risk-free and that America's armed forces will never lose a fight for lack of money.

Now, federal borrowing is starting to feel unsustainable, U.S. stocks fetch twice the valuation of other developed markets and the Navy is struggling to protect vital sea lanes from a third-rate adversary.

Market reaction since the onset of the Iran war has been pretty mild. U.S. stocks are hitting records and the dollar is at an 18month high. One reason is that, lacking a viable alternative, the greenback is the world's "least dirty shirt" for trade and investment. Another is a newer U.S. trait specific to an energy crisis—selfsufficiency in oil and natural gas.

America's assets also have extra appeal when its companies dominate the industry du jour. That was the case during the tech bubble and is again today with leading-edge AI models and chip designers.

Global debt jitters are viewed far differently than across the Atlantic. Surging bond yields are seen as a glass-half-full event by many Americans—an investment opportunity as much as an alarm bell. Unlike France, the U.S. has its own printing press and can't default if borrowing costs spiral.

Don't assume future financial setbacks will be fleeting, though. American assets have unique appeal, but not at any price. Stocks in particular have farther to fall compared with those abroad given a yawning valuation gap.

And U.S. bonds aren't really risk-free when the president is openly talking about the benefit of "very rapidly" eroding their real value through inflation. The usual pattern of foreign money flooding into the Treasury market in a crisis isn't some law of nature. Imagine the sort of rush for the exits France is experiencing instead.

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