

*What America needs: zero tariffs, a robust dollar, deregulation and reduced tax rates.*



INSIDE VIEW

## The Economy Is in a Pickle

Harvard is educating us all—on what's ailing Wall Street and the U.S. economy. Facing the freeze of \$2.2 billion in federal grants, Harvard is selling \$750 million in bonds, for a total of \$1.2 billion this fiscal year. But with a \$53 billion endowment, why incur debt?

Liquidity. Harvard, like too many universities, followed Yale's lead and piled its endowment into long-term private equity—now 39% of its portfolio. Another 32% is in hedge funds. Returns are critical as nearly 40% of Harvard's operating budget comes from endowment distributions. When times are good, the university sees great returns. When times are rough, like now, there is little liquidity. As for Yale, it may sell up to \$6 billion of its private-equity holdings. A fire sale?

It gets worse. Private equity has its own liquidity problems and isn't providing capital back to investors. PE firms are sitting on 29,000 unsold companies worth some \$3.6 trillion. These are deals that made sense when interest rates were low. Now private equity firms can't sell or don't want to sell at a loss.

Meanwhile, private-equity firms have been raising oo-dles of funds for private credit—nonbank lending and structured finance that doesn't trade publicly. The top private credit firms, Apollo, Blackstone, Ares, KKR and Guggenheim, have \$1.7 trillion in private debt under management. It's a lucrative business that has boomed in the past five years.

Beware. Private credit often lends money at a premium yield to B-rated loans. That means riskier loans, not pristine borrowers by any stretch of the imagination. And that premium has been rising in 2025—a sign that private credit is taking on more risk.

What worries me is that, as with derivatives during the 2008 financial crisis, we have no idea how private credit will do in a downturn. It's starting to get funky. Default rates rose in February, before the tariff tantrums. A weakening economy could send default rates flying. Liquidity could get worse. No wonder the stocks of KKR, Blackstone, Apollo and the Carlyle Group are down roughly 20% to 25% this year.

Plus, all isn't right on Wall Street. The window for initial public offerings is more or less closed. Retail investors now trade crypto elsewhere. Wall Street's focus shifted over the past few decades to private equity. Huge clients. Lots of debt issuance plus mergers- and- acquisitions work. Payday city, but maybe that's now in question.

If things get rough, the Federal Reserve will cut interest rates and buy Treasury bonds via quantitative easing, right? Not so fast. Even with rates steady, the dollar has dropped 9% since Donald Trump took office. The administration prefers a weaker dollar, on the mistaken belief that it would boost exports. Meanwhile, imports—especially intermediary parts used to manufacture exports—are more expensive.

That, along with tariffs, will likely drive inflation higher. Cutting interest rates could further weaken the dollar rather than pump the stock market as many expect.

America is stuck in a tight box. Foreigners, especially in China, are already cutting back on purchases of our Treasury bonds—owning only 23% of our bonds vs. 34% in 2014. A weak dollar and upward inflation could easily send 10-year Treasury rates higher. Maybe 5%? And fiscal deficits mean lots of bonds for the Treasury to issue—it announced \$514 billion worth this



quarter—and fewer buyers. Another Harvard-like liquidity issue? Even the Fed's monetizing our debt could send the dollar down further. Not good.

We're in an economic pickle, and it's self-induced. Home sales were down 5.9% in March. Consumer sentiment is chasing 10-year lows. Capital spending plans are way down. Cargo shipments from China to the U.S. are down by about a third. Truckers don't get hired to haul empty containers. Retailers may lay off workers as store shelves empty. Apollo Global Management predicts all this by late May and a summer recession. Then look out below for corporate earnings. Increased private credit loan defaults could drive stagflation, the worst of all worlds.

A potential scenario: The economy nose-dives, inflation rises, profits plummet, private credit implodes, interest rates fall, the dollar drops further, liquidity dries up, and dicey markets lead to more struggling times. How do we avoid this messy doom loop? It doesn't take a degree from Harvard to figure it out. Zero tariffs. A Treasury secretary who promotes a strong dollar. Cut marginal tax rates to stimulate investment. And a push for deregulation (instead of tariffs) with real laws instead of executive orders. Either way, the next few months could be ugly. How we emerge will define this era.

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