

## Five lessons from 2025

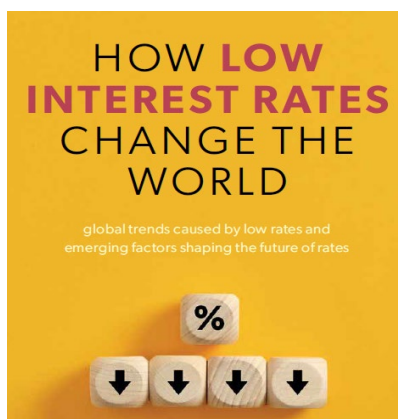
By Jesper Rangvid

*2025 is drawing to a close, including here on Rangvid's Blog. This post reflects on five lessons from the year:*

- 1. Interest rates can change the world.*
- 2. An impulsive US president can be very costly.*
- 3. An AI bubble is – probably – alive and kicking.*
- 4. Inflation developments continue to mirror those of the 1970s.*
- 5. An ageing country does not need to be fiscally unsustainable.*

### Lesson 1. Interest rates can change the world

My book *'How Low Interest Rates Change the World'* was published in the spring, with its Danish edition following in the autumn and a Chinese version to appear.



The book begins with two basic observations:

1. Lower interest rates encourage debt accumulation, rising house and stock prices – which in turn foster greater wealth inequality – and increased financial risk-taking.
2. The fall in interest rates from 1980 to 2020 was historic: it was the largest decline over any 40-year period in the past 700 years, and rates reached their lowest level ever before the pandemic in 2020.

The aim of the book is to bring these two observations together.

When interest rates influence indebtedness, asset prices, inequality, and risk-taking, changes as large and persistent as those from 1980 to 2020 reshape the world. The book argues and demonstrates that falling interest rates have helped create a far more indebted global economy than existed in the early 1980s, pushed house and equity prices ever higher, contributed to greater inequality, and increased financial risk-taking. These are, arguably, crucial points for anyone seeking to understand the world we live in.

The book also discusses why interest rates fell over this forty-year period, helping readers understand what determines interest rates in general, as well as possible future interest-rate scenarios.

Because of its topic, accessible writing style, and fact-based approach, the book has been well received, particularly among the Danish audience (the price of the international edition is very high; I promise to pay closer attention to pricing when publishing my next book). I have been featured widely across Danish media – on national radio and television, in most newspapers, and in podcasts. Also, I have presented and

discussed the book at exciting events. It has been overwhelming, but I am, of course, very grateful for the positive response. The book's release has been a major thing for me in 2025.

I wrote summaries of the book here ([link](#)) and its Danish version here ([link](#)), and relevant links are collected here ([link](#)) and, in Danish, here ([link](#)).

## Lesson 2. A rambling, impulsive president can be very costly

US President Trump's tariff policy has been inconsistent, impulsive, and – as a result – surprisingly ill-designed to begin with. As an example, Trump uses US trade deficits in goods when defending tariffs. I pointed out that the US has a surplus on its trade in services, which any sensible policy would take into account ([link](#)).

However, such facts do bother a populist, so Trump was in high spirits when presenting sweeping tariff initiatives on the so-called “Liberation Day” – which I insist on calling “Ruinination Day” – on 2 April 2025. Everyone else felt considerably less upbeat, as reflected in the stock market's dramatic reaction: Stock-market wealth worth USD 6 trillion was wiped out over three days. I described this here: [link](#).

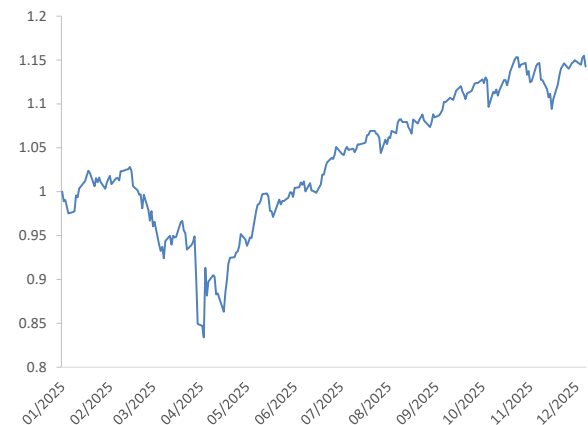
When yields on Treasuries also responded, Trump became nervous – understandably so. One week after Ruination Day, we saw the first TACO – *Trump Always Chickens Out*: tariffs were reduced for all countries except China. Later, they were lowered for China as well. Markets cheered.

Figure 1 shows how the S&P 500 has behaved since the beginning of the year. The

extreme turbulence in April is obvious. Since then, markets have been surging.

**Figure 1.** S&P 500 during 2025, normalised to '1' on 1 January 2025. Daily data.

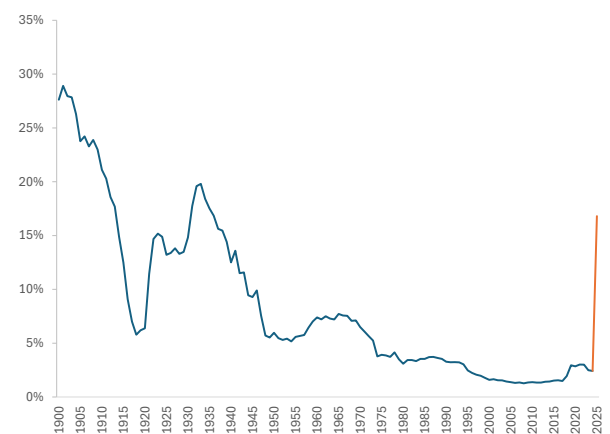
Source: FRED of St. Louis Fed and J.Rangvid.



Even if Trump's tariff policies have been less erratic since June, one should not forget their impact. Figure 2 compares the current level of tariffs, now at 16.8% according to Yale Budget Lab, to historical developments.

**Figure 2.** US average effective tariff rate. Customs duty revenue as a percentage of goods imports. 1900 – 2025.

Source: The Budget Lab at Yale and J. Rangvid.



Probably, Figure 2 is this year's runner-up for the most important graph of the year. It shows that Trump has raised tariffs to their highest level since the 1930s, thereby

symbolising how the world's largest economy is stepping back from globalisation. It marks a clear break from the past century of increasing international integration.

While higher tariffs raise the cost of living for American businesses and households in the short run, the long-term consequences are likely to be more severe. Globalisation over the last hundred years has helped the US and many other countries prosper. Trump's policies signal a new direction. If they remain in place for years, they will reduce US long-term growth and prosperity prospects. It is a sad development.

### **Lesson 3. The AI bubble is – probably – alive and kicking**

Everyone is talking about an AI-driven bubble in the US stock market – and with good reason. I weighed in myself ([link](#)).

Several factors point towards the existence of such a bubble. As with previous episodes, the US market appears overvalued; there is widespread discussion of a bubble; US households are heavily invested in equities; AI-related investment is driving economic growth; and more people are beginning to ask where the tangible benefits are for corporations making large AI investments.

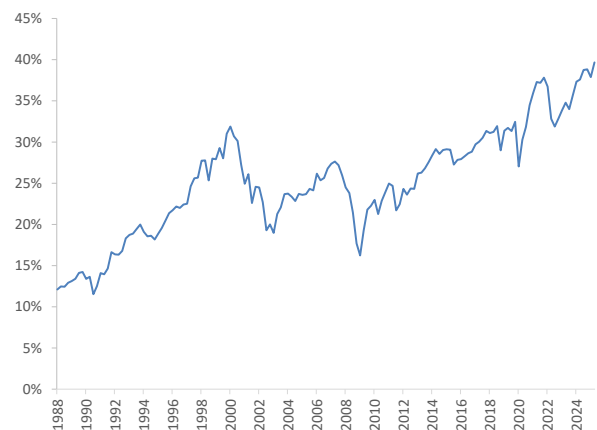
It is true that the market was even more overvalued during the dot-com bubble in 2000. But, on the other hand, today's market is far more concentrated, with a small group of companies – all of them exposed to a single theme: AI – now accounting for more than one-third of the S&P 500.

I not only described the potential bubble forming, but also speculated about the consequences should it burst ([link](#)).

Given that US households hold USD 51 trillion in the stock market, a 50% decline – similar to the collapse after the dot-com bubble – would wipe out USD 26 trillion of household wealth. That is an extraordinary amount of money.

Moreover, because households have never been more exposed to equities, as shown in Figure 3, a 50% fall in the stock market would, on its own, trigger a recession. “On its own” here refers to the direct impact of falling share prices on household consumption. In addition, various indirect effects would amplify the downturn.

*Figure 3. US households' holdings of corporate equity as a fraction of households' total financial wealth. Source: FRED of St. Louis Fed and J.Rangvid.*



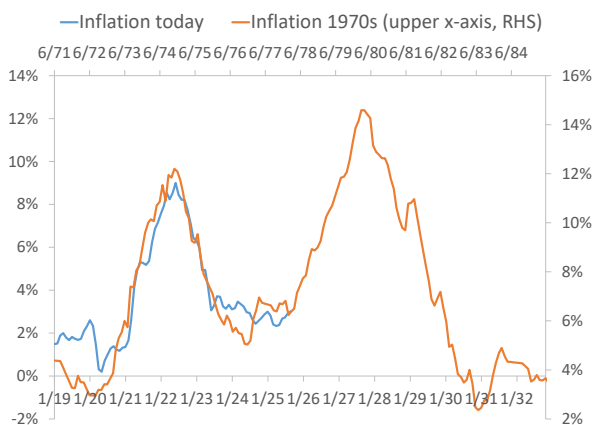
### **Lesson 4. Inflation developments continue to mirror those of the 1970s**

Inflation in the United States remains too high, at around 3%, and has proven difficult to bring down in a sustained manner. A similar pattern was observed in the 1970s.

Indeed, current inflation dynamics continue to mirror those of that decade.

The concerning aspect is that inflation began to accelerate again in the late 1970s. Today, we appear to be at precisely the point in the inflation cycle at which inflation re-accelerated during that period. I therefore continue to closely monitor my go-to inflation chart, Figure 4 here, which compares the U.S. experience in the 1970s with current developments.

**Figure 4.** *US inflation (annual percentage change in CPI) from Jan. 2019 to Aug. 2025 (lower x-axis and left-hand y-axis) and from June 1971 to Dec. 1984 (upper x-axis and right-hand y-axis). Source: FRED of St. Louis Fed and J.Rangvid.*



As I wrote when I last time debated the figure in October ([link](#)): *“The trajectory of inflation during the post-pandemic surge has been strikingly similar to that of the first inflation wave in the 1970s. We now find ourselves at a fascinating turning point: it was at precisely this stage that inflation began to rise again back then. Will history repeat itself?”*

Of course, I do not expect inflation to reach 14%, as it did in the late 1970s. And, yes, simple correlation is not causation, meaning that a repeat is by no means guaranteed

simply because it happened in the 1970s. But if inflation rises again, please rise, everyone, and shout: *“I told you so.”*

### **Lesson 5. An ageing country does not need to be fiscally unsustainable**

We live in an ageing world: life expectancies are rising all over the world while the number of newborns is falling.

Increased longevity is one of humanity’s greatest achievements. As life expectancy rises, so too does the number of healthy years, allowing people to remain healthy for longer. These gains, however, also carry economic consequences. Left unaddressed, they will place a heavy burden on government budgets, as tax revenues decline when fewer people are working, because fewer people are born, and costs increase when more people are in retirement. The good news is that there is a solution to this: raise the retirement age as life expectancy rises.

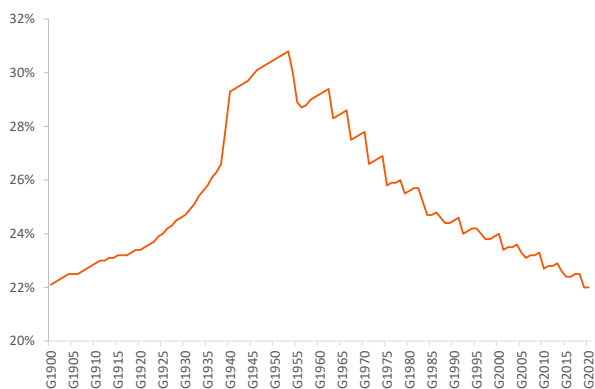
Denmark follows such a policy. In May, the Danish parliament decided to raise the retirement age to 70 from 2040. The decision attracted international media attention and prompted headlines such as “Denmark raises the retirement age to the highest in the world.”

I wrote two pieces. In the first, I explained why Denmark is increasing the retirement age and the benefits of this approach. Essentially, this analysis ([link](#)) is a tribute to Danish retirement policy, which consistently ranks among the “best in the world” in international comparisons. Later, I discussed some of the challenges we face in Denmark regarding our retirement system: [link](#).

One issue I raised is that the Danish system might be considered intergenerationally unfair, in the sense that future generations will need to work a larger share of their adult lives than current generations. This is illustrated in Figure 5, which shows the proportion of adult life that different generations in Denmark can expect to spend in retirement.

**Figure 5.** *Proportion of adult life spent in retirement for different generations in Denmark. ‘G1900’ means the generation born in 1900, for example.*

Source: Pensionskommissionen and J.Rangvid.



Generations born in the 1950s, who are now in retirement, can expect to spend around a third of their adult lives retired. In contrast, under current policies, those born in 2020 can expect to spend only about a fifth of their adult lives in retirement. In effect, to finance Denmark’s strong economy today, we are asking our children to work more than we did ourselves.

Raising the retirement age therefore helps secure a robust fiscal outlook, as I explained is the case in Denmark ([link](#)). Many countries can learn from this. The bleak fiscal outlook in France and the United States, for example, is closely linked to the lack of adequate policies addressing the consequences of an aging population. However, increasing the

retirement age *indefinitely* could generate excessive revenues for the government and be less fair to younger generations – an issue worth debating in the Danish context and to learn from for other countries when they reform their pension systems.

### Conclusion

2025 has been a crazy year. We had a lot tariff-induced uncertainty, with US tariffs being raised and lowered seemingly by the hour, ultimately ending the year at their highest level in a century – a marked departure from globalisation and the many benefits it has brought. We saw stock markets tumble when the tariff chaos peaked in the spring, followed by a remarkably strong rebound. However, the surge has been driven largely by a small group of stocks, leading to an increasingly concentrated market. This, in turn, has heightened the risk of a AI-bubble that may yet burst.

There is thus plenty in the pipeline to make 2026 another exceptionally exciting year. So stay tuned to Rangvid’s Blog, where I will gladly continue to share fact-based analyses of developments in financial markets and the wider economy.

Wishing you all a happy new year, and I look forward to staying in touch in the year ahead.