

American Democracy and the Investor's Rutter

Can Economic Strength Outweigh Institutional Weakness?

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Can America's extraordinary economic strengths continue to protect investment returns if the political and institutional foundations supporting them are progressively weakened?

Martin Wolf's discussion with Robert Kagan raises questions extending beyond the future of American democracy (Financial Times, 2026). Timothy Snyder's warnings about democratic self-destruction add another dimension: a dominant power may weaken its own economic and strategic advantages through political choices, the so-called "superpower suicide" (Snyder, 2017).

Yet the United States remains an extraordinary economy. Its technological leadership, entrepreneurial culture, deep financial markets, large domestic market and the dollar's international role provide substantial resilience. These strengths may support attractive investment returns despite political and institutional deterioration. American investments could outperform those elsewhere even as underlying institutional risks increase.

This apparent contradiction illustrates a central proposition of The Emerging Markets Investor's Guide to Country Risk: a country's existing strengths, its future trajectory and the prospects of individual investments are related but are not the same thing (Marney and Waeber, 2026).

1. From political turbulence to structural change

The Investor's Rutter distinguishes between immediate political weather, medium-term winds and longer-term structural currents (Marney and Waeber, 2026). The November 2026 midterm elections are an important political event. Their significance extends beyond party control of Congress: they may reveal the resilience of constitutional checks and balances, institutional independence and democratic self-correction.

Kagan's concerns, as discussed with Wolf, centre on the possibility that institutional weakening is becoming structural rather than episodic (Financial Times, 2026). Snyder's broader argument highlights the danger that democratic societies can themselves erode the safeguards on which they depend (Snyder, 2017). Neither outcome is inevitable. American federalism, courts, civil society and private enterprise retain substantial capacity for adaptation and renewal.

For investors, the distinction is whether these developments are temporary political uncertainty or changes likely to alter business conditions, capital allocation and the reliability of financial obligations.

2. America's exceptional strengths: The essential counterargument

The United States combines technological leadership, entrepreneurial dynamism, sophisticated financial intermediation and an exceptional capacity to attract capital and talent. The dollar's international role confers additional financing advantages. These characteristics are not easily replicated and may sustain strong corporate earnings despite political uncertainty.

Investors also make relative judgments. Rising institutional risks in the United States do not necessarily make alternative markets more attractive. It is entirely plausible that American country risk could increase while American investments continue to deliver superior returns.

The more consequential question is whether institutional deterioration could eventually weaken the economic advantages that currently offset those risks.

3. Making the investment transmission concrete

Identifying institutional deterioration is only the beginning. Investors must determine whether it changes the economics of a particular investment. The following are illustrative scenarios, not forecasts or documented cases.

A. Policy unpredictability: A leveraged US manufacturer

Consider a manufacturer with imported components, export revenues and substantial bank debt. Abrupt tariff changes increase input costs; retaliation weakens export demand; supply-chain adjustments absorb additional inventory and working capital. If the company cannot pass higher costs to customers, EBITDA declines and operating cash flow weakens. Debt-service coverage and covenant headroom narrow.

The practical questions are: What share of costs and revenues is exposed to trade policy? How much cost can be passed through? What working-capital investment is required? Under a plausible downside, when do liquidity or covenant constraints bind? The relevant risk is not tariffs in the abstract, but their effect on cash available for debt service.

B. Institutional credibility: A leveraged infrastructure investment

Consider a US infrastructure business with stable operating revenue but material debt maturing in two years. If concerns about fiscal governance, monetary-policy independence or policy predictability contribute to higher refinancing costs, interest expense rises despite unchanged operating performance. Shorter maturities, lower lender commitments or tighter collateral terms could compound liquidity risk.

The practical questions are: When does debt mature? How much is floating-rate? How sensitive is debt-service coverage to refinancing spreads and shorter tenor? Can cash reserves cover a delayed refinancing? For equity, what do higher discount rates and lower distributions imply for value? The transmission is conditional: deep US capital markets and dollar demand may limit or offset it.

C. International credibility: A European industrial investment

Consider a European manufacturer whose expansion assumes continued US market access and predictable transatlantic relationships. Changes in US trade or security commitments could alter demand, tariffs, supply chains and public spending priorities. A defence supplier may gain orders while an export-oriented manufacturer incurs additional capital expenditure and weaker margins.

The practical questions are: How dependent is revenue on US customers or policy? Can production and sales be redirected? What adjustment costs and working-capital needs arise, and who funds them? The same political development can improve one investment's cash flow and impair another's.

D. Rent-seeking and political favouritism: When access matters more than competitiveness

Political favouritism offers a further, potentially more structural, transmission channel. Consider two US businesses competing for government-supported infrastructure contracts. Both have comparable commercial capabilities, but one benefits from privileged political access. If contract awards, regulatory exemptions or financing support increasingly depend on political relationships, their investment prospects may diverge for reasons unrelated to productivity or competitiveness.

The favoured company may enjoy higher revenues, margins and financing access; its competitor may lose contracts and face weaker cash generation. Yet politically conferred advantages can be fragile. A change in administration, priorities or alliances may reverse them, exposing lenders to refinancing and repayment risks and equity investors to abrupt valuation adjustments.

The investor should establish how much revenue and enterprise value depend on discretionary public decisions, whether advantages survive political change, and what happens to cash flow if contracts, exemptions or subsidies are withdrawn. At the country level, sustained diversion of capital towards political access rather than productive investment could gradually erode competition, innovation and growth.

This is a risk hypothesis, not a finding that systemic rent-seeking has increased. Lobbying, regulatory capture and preferential treatment have long existed in the United States. The question is whether their scale, character and institutional constraints are changing—particularly whether established influence is giving way to more personalised and discretionary patronage. Answering that question requires documented decisions and evidence, not inference from political rhetoric.

4. From identifying risks to making investment decisions

The transmission sequence is: political and institutional trajectory → policy, confidence and economic conditions → sector exposure → company revenue, costs and financing needs → debt-service capacity, valuations and realised returns (adapted from Marney and Waeber, 2026).

Four judgments turn this into an investment decision. First, identify plausible developments material to the investment horizon, rather than treating every political controversy as a stress event. Second, establish exposure through customers, suppliers, pricing power, operating flexibility and balance-sheet structure. Third, translate downside assumptions into revenue, EBITDA, working capital, free cash flow, liquidity, covenant headroom and refinancing needs. Fourth, adjust the transaction where warranted: tenor, amortisation, pricing, security, covenants and liquidity protections for debt; entry valuation, capital reserves, distributions and exit assumptions for equity. Where public discretion is material, this assessment should also test political dependence, reversibility of preferential treatment and the enforceability of contractual rights.

Probability and impact must be distinguished. A relatively likely but manageable tariff adjustment may matter less than a lower-probability disruption coinciding with a major refinancing. The aim is not political prediction but disciplined assessment of whether risks are adequately reflected in the investment.

5. Economic resilience is not necessarily institutional resilience

America's economic advantages may continue to sustain attractive returns despite political turbulence. But they are not wholly independent of governance. Predictable policymaking supports capital formation; the rule of law supports contractual confidence; openness to talent helps innovation; institutional credibility underpins market confidence; international relationships affect trade and investment opportunities.

The more plausible risk may be gradual erosion rather than sudden collapse. Snyder's account of how democracies can undermine their own safeguards is relevant to this possibility, although it does not establish that such an economic outcome will occur in the United States (Snyder, 2017). America's adaptability and capacity for institutional renewal remain powerful counterweights. Increased political rent-seeking would be one possible mechanism: some businesses could benefit in the short term even as distorted competition and capital allocation weaken longer-term productive capacity.

6. Conclusion: From country trajectory to investment judgment

Wolf and Kagan focus on the future of American democracy (Financial Times, 2026). Snyder warns about self-inflicted institutional damage (Snyder, 2017). The Investor's Rutter asks a related but more specific question: how could changes in America's institutional trajectory affect the cash flows, financing conditions and realised returns of investments (Marney and Waeber, 2026)?

The answer will vary across sectors, businesses and instruments. The task is to distinguish current economic strength from future trajectory, identify material transmission channels, assess likelihood and timing, and incorporate the consequences into valuations and transaction structures.

America may remain one of the world's most attractive investment destinations even as its institutional risks increase. Understanding how both propositions can be true—and identifying investments for which that balance may change—is precisely the challenge the Investor's Rutter is designed to address. The danger may not be that institutional deterioration immediately undermines investment returns, but that it increasingly determines who earns those returns, on what basis, and for how long.

References

Financial Times (2026) 'Martin Wolf on the US midterms — Is American democracy safe?', podcast discussion with Robert Kagan, 17 October.

Marney, R. and Waeber, P. (2026) *The Emerging Markets Investor's Guide to Country Risk – Systematic Risk and the Threat to Investment Performance*. Palgrave Macmillan.

Snyder, T. (2026) 'America's Superpower Suicide', *Project Syndicate*, 14 May. Available at: <https://www.project-syndicate.org/commentary/trump-committing-superpower-suicide-america-by-timothy-snyder-2026-05> (Accessed: 21 October 2026)