



Rare Earths Blowup: Prelude to a Final Deal?

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Trump's threat to impose 100% tariffs roiled markets Friday, and clearly, if implemented, would send stocks much lower. But this may also be the last salvo before a final deal is worked out. Note the effective date: November 1. Two to three weeks from now. This is very unlike other tariff threats, which were immediate or effective within a few days. This indicates that Trump is fishing for a final deal, using the tariff as a bargaining chip. Let me also say it is outrageous that we have let China refine more than 90% of the rare earths. This is a far greater threat than OPEC ever was. We need to mine and to store a strategic reserve for rare earths.

Back in Washington, there is a growing risk that sentiment could sour if the shutdown standoff lingers. Real-time betting odds now see only a 52% chance of resolution by month end (this is Oct 12) and that uncertainty filters into consumer plans and hiring intentions. A prolonged impasse, paired with talk of layoffs and rising prices, could nudge consumers into a self-imposed "strike," the kind of psychology that slows spending even without a hard economic shock. The counterweight remains AI spending. AI capex is coming in strong and steady, and it continues to anchor growth even as other cyclical impulses cool.

On policy, I expect the Fed to deliver a cut at the October 29 meeting and to keep the door open for follow-through. Of course, the state of the government shutdown and China tariffs will play an outsized role here. Chair Powell hates to blindside markets, and pricing has moved decisively toward easing. Without a full slate of federal data during the shutdown, he would need an unusually strong reason to defy that pricing. There is now news that the September CPI will be released 9 days late, on the 24th. I expect the numbers to be favorable. The Fed should ease—the ECB and Bank of England policy rates sit about 70 basis points below their 10-year yields, while the Bank of Japan's policy rate is roughly 130 basis points below the JGB. We are the outlier—our 10-year hovers around the policy rate. That configuration is inconsistent with a restrictive stance we don't need. The funds rate should migrate toward the mid-3s over the easing cycle, and the market is inching in that direction.

Tariffs remain a swing factor not just for market sentiment but for Q4 consumption. The "effective rate" (excluding the recent China threats) is running lower than the headlines. A recent analysis pegged August's realized tariff take at about 9.3% when you compare total receipts to import value. Some of that relief comes from source switching; some comes from loopholes. That's not trivial, but it's well short of a shock that would derail spending on its own. The one seasonal wildcard is China-sourced holiday goods, where flows are concentrated. Even without these new tariffs I'm watching that closely, but my base case is manageable drag rather than a cliff.

Credit chatter has turned louder after a few messy situations in private markets—the kind of "poof, where did the money go?" episodes that suggest underwriting got too loose as capital flooded into private credit. Fraud can't be ruled out in isolated cases. What keeps me calm for now: high-yield spreads in the marketable space have not meaningfully blown out. If those spreads were widening sharply versus Treasuries, I'd be more worried. Today, it looks like idiosyncratic stories after a rush of capital into private credit. That's ultimately healthy and supports the case for public markets, where disclosure is stronger and pricing is continuous.

Gold's surge toward \$4,000 reflects steady central bank buying and momentum flows more than a wholesale repudiation of the dollar. Before Friday's chaos, Bitcoin had been surprisingly stable this year. Large leveraged traders that get liquidated in volatility sell-offs remain one source of risk to this asset. But the Friday tradeoff confirms that bitcoin is not yet a "hedge" asset, as it moved down far more than the market as a whole. Gold, on the other hand, hardly moved.

As a hedge, owning some “store-of-value” exposure can make sense; I’d size gold or a mix of gold and major crypto around the low single digits and cap near 10% for most investors, recognizing that over long horizons equities, the primary engine of wealth creation should remain ‘stocks for the long run.’

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