



# *FedFin Client Report*

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Monday, September 9, 2024

## **FedFin Assessment: Could the U.S. Float a Sovereign Wealth Fund?**

**Client Report: SWF8**

### **Executive Summary**

The *Wall Street Journal* [last night](#) followed prior press reports that Donald Trump is considering some sort of sovereign wealth fund and that the Biden Administration now says it was also doing so well before Mr. Trump broached the idea. FedFin stays out of the politics surrounding this issue, but here lays out the structure of a possible U.S. sovereign wealth fund (SWF) and its financial-market implications. Despite the existence of almost two dozen state-level SWFs and the sharp uptake in U.S. industrial policy, we think neither a new Trump nor Harris Administration could bring forth a U.S. sovereign wealth fund without treading so hard on U.S. financial- and fiscal-policy norms as to make any such proposal most improbable. That said, SWFs as currently contemplated could compete directly with private financial institutions and the bond market.

### **Analysis**

The Trump proposal, sketched out in brief remarks [last week](#), suggests a sovereign wealth fund would promote U.S. competitiveness against China or fund other national priorities; the off-the-record representations from the Biden Administration target national-security innovations, other advanced technology, rare minerals and, apparently, other targets where risks are high and long-term investment is necessary. The Biden construct has long been the basis for proposals to fund some form of national infrastructure bank ([see Client Report \*\*INFRASTRUCTURE7\*\*](#)), but Republicans have long opposed any such construct as akin to the GSEs and thus prone to taxpayer risk and political credit allocation. They were also staunchly opposed to various green-bank proposals as well as to provisions in the recent infrastructure and semiconductor legislation along with targeted investment authorized for green energy and sustainable infrastructure in the Inflation Reduction Act. The GOP might be more amenable to some form of SWF from Mr. Trump, but it was not willing to advance a national infrastructure bank during his first term. Democrats are clearly ready to make big investment bets, but will face stiff odds to repeating prior legislative successes not only from the GOP, but also from Democrats increasingly concerned about the deficit.

Without much detail, it is impossible to know yet what might actually be proposed and if it is more plausible. Mr. Trump has also promised would offset very large tax cuts. White House discussions suggests that the new fund might use seed capital – how much from where? – to

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invest directly in U.S. equity and bond markets and use the profits thereby to fund desired investments. Foreign sovereign wealth funds do invest in national financial markets, but this is usually the case in nations with no such cultural and political aversion to government financial-market participation along with funding derived not from taxpayers, but from national corporations investing in energy production at considerable profit that nations feel needs to be prudently invested, not just used to fund national expenditure.

According to the *Journal*, a key Trump adviser has also suggested that the SWF could be formed from the Social Security Administration's resources, now all invested in U.S. Treasury obligations. This reminds us of Bush Administration plans to "privatize" social security, plans that sparked a political uproar reaffirming a long-time political adage that touching social security is the "third rail" of American politics.

These problems might be overcome if an SWF is very small, its capitalization is not be deficit busting and it does not tread on longstanding U.S. policy against sovereign investment in private financial markets. However, then an SWF would of course be hard-pressed to do much of anything to achieve the ambitious goals outlined for it by both Mr. Trump and Biden spokespeople.