MONTHLY BAROMETER
PRESCIENT & SUCCINCT ANALYSIS OF WHAT'S OUT THERE

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- More and more, decision-makers and market participants are coming to the realization that **ultra-low interest rates reflect profound structural issues** – most notably global ageing, falling productivity rates and rising inequalities – **as much as central banks' extraordinarily accommodative policies**. Going forward, this means that the trend of ever-rising bond and equity prices provoked by the market dependency on monetary policy won't be sustained. As investors acknowledge that **central banks' acquisition of assets boost asset prices without boosting activity in the real economy**, the dream combination of (1) high returns and (2) low volatility will come to an end.

- During The Monthly Barometer's annual gathering that just took place, the words **"paradigm shift"** came up over and over again. The world is indeed in a state of flux – changing radically, ubiquitously and very fast. Accordingly, decision-makers have to rethink the way they do things. For example, with respect to the point above, they have to recognize that **central banks will not significantly tighten up because they can't**: the current policies cannot be reversed without inflicting terminal damage to the global economy. This means that the ball is now in the governments' court: expansionary fiscal policies (for countries that can afford them) and massive infrastructure investment are in the offing.

- As the effectiveness of unconventional monetary policies dwindles, **the fear that "Japanification" will engulf the Western world is growing**, exacerbated by the following observations: almost four years after Abe's nomination as PM and an extremely aggressive monetary stance, the inflation target remains out of reach, the economy is smaller, consumer spending hasn't taken off, government debt has risen from 238% to 248% of GDP, and the BoJ has a rising credibility problem. But there is a BUT. When measured in GDP per worker terms, Japan has had the highest economic growth of all G7 countries over the past 15 years, and its GDP per capita has grown at the same rate as the US. The lesson is this: **it's hard for an economy to grow rapidly when the population shrinks**. Unless robots and AI start replacing vanishing workers, Japan's fate awaits all other ageing countries.

- At the recent G20 meeting, Christine Lagarde warned about **growth being "too low for too long for too few"** while Malcolm Turnbull, the Australian PM and a former Goldman Sachs banker, exhorted government officials to "civilise capitalism". In a context where an insurrection against the elites and the liberal order is brewing, rising inequalities have now become a global and acute policy concern, suggesting that redistributive measures will come to the forefront. Globally, wealthy individuals must prepare for the fact that **they will pay more taxes and that governments will become more intrusive.**

- A new book – "Men Without Work" – sheds much light on the underlying currents affecting the US economic outlook and rising populism. According to its author (Nick Eberstadt: a scholar at AEI – a conservative think-tank), **despite the low overall unemployment rate, one in six American men is out of work**, a toxic situation that technological innovation is likely to worsen. At this trend rate, it might well be that 1 man in 4 will be out of work by 2050 – a situation with devastating social and economic consequences. It remains to be seen whether the current improvement (3.5 million Americans rose above the poverty line last year) will be sustained. Policy solutions are not obvious, but businesses and investors in the US ought to prepare to shoulder more social programmes and provide wider safety nets.

- Brexit (continued…). The GBP depreciated further after a survey conducted by KPMG concluded that 75% of British CEOs of companies with revenues in excess of GBP100m are considering relocating their headquarters. The figure may be inflated by "contagion" fears, but it is nonetheless reflective of the climate of radical uncertainty that the UK exit from the EU has created. **If risk is the bread and butter of investors and business leaders, uncertainty is their archenemy**!

- The hacking of 500+ million Yahoo users is so far the largest breach on record. **Cyber attacks continue to grow in number and scale despite the fact that most breaches are preventable**. As one expert put it: "The woeful state of cyber security is, simply, a market failure". It is therefore our conviction that **in the coming years regulators will "force" companies around the world to become cyber-compliant**. This theme is so compelling that The Monthly Barometer has just invested in it alongside some private investors. To get a sense of what it is and understand how it works, go to https://www.thecyberhighway.com

- Climate change is another "hard-to-quantify" risk to which investors and business executives should pay attention. In the wake of a recent study estimating the "climate value at risk" (climate VaR) of global financial assets at USD2.5tr, Blackrock (the world's largest asset manager) has just issued a warning that **the impact of climate change is under-appreciated and under-priced**. As extreme weather events progressively become the norm, companies should prepare for the fact that a combination of (1) physical effects, (2) technological changes, and (3) regulatory and social backlashes provoked by climate change will affect their valuations. **The companies that pollute the most will lose value.**

- The main signal from the Apple ruling is that **fiscal optimization schemes will come to an end sooner rather than later, and everywhere**. It doesn't matter whether Apple was technically and legally truthful (it most surely was) because the perception among a large majority is this: **the company failed in its business responsibilities by not being a "good citizen".** Going forward, purpose, values and culture will play an increasing role in the conduct of business.

- In the coming weeks, "must-watch" issues include: (1) the Fed's "hiking" path, (2) how China deals with excessive indebtedness, and the policy - political tensions this creates; (3) renewed pressure on overleveraged EM (is the recent rally a sign a complacency? Do portfolio investors discount the growing political and economic risks that affect EM? With some exceptions, progress with structural reforms remains non-existent); (4) the vast array of market-moving geopolitical and societal risks, with a focus on a possible Trump surprise. **For real-time and in-depth analysis on any of these, please contact us.**