- In the coming months, **political risk will continue to rise while global growth pursues its deceleration at a slow, but inexorable, rate**, reflecting the structural changes engulfing the world economy: ageing, excess savings, insufficient investment, etc. This back and forth between economics and politics fans the flames of populism through a feedback loop: subdued economic growth fuels social discontent and angry politics which in turn exacerbate uncertainty and reinforce weak economic growth.
- The fact that the Walloons' (a francophone region of just 3.5 million people in southern Belgium) parliament nearly torpedoed the EU-Canada trade agreement harbours multiple lessons: (1) At a time of anti-globalisation and rising protectionism, rejecting trade agreements is a vote winner – political obstacles to major liberalising trade deals are on the increase; (2) **it bodes ill for the looming trade negotiation between the EU and the UK**; (3) it illustrates how future, inevitable, moves towards greater European integration will be chaotic and marred by sharp discontinuities.
- **Global gross debt now amounts to USD152tr, or 225% of the world's GDP** (versus 200% in 2002), two thirds of which is held by the private sector. With interest rates so low, the problem of over-indebtedness may not require immediate attention, but besides being the tinder for future financial crises, it represents one further headwind against a robust and sustained global recovery.
- Last month, for the first time ever in its history, Saudi Arabia decided to cut public sector bonuses and allowances to reduce the widening budget deficit (projected this year at USD87bn, or 13% of GDP). Just as these austerity measures were being implemented, it emerged that deputy crown prince Mohammed bin Salman – the "arch-reformer" in charge of radically transforming the country with Vision 2030 – had spent half a billion euros on a 440-foot yacht. **If even the person in charge of reforming the Kingdom fails to walk his own talk, Saudi's predicament**, dictated by demographics (half of the population is under 25) as much as oil prices, **is destined to worsen**, with dramatic global ramifications.
- This year, Africa's GDP will grow by 1.4% - not enough when the population expands at an annual rate of 2.6%. Over the next 25 years, the continent's population will double to 2 billion, and by 2034, Africa will have the world's largest working-age population. As a result, foreign investors often claim that in Africa "the low-hanging fruit is the size of a watermelon" – maybe, but it is not always easy to pick… **This demographic "dividend" risks becoming a curse**. Unless governments invest massively in education and raise productivity to boost real incomes, the conventional wisdom that urbanization powers the economy will be shattered – with many African megacities becoming the symbol of a dystopian future.
- **AI (Artificial Intelligence) is the transformative technology of the 21st century**. Rendered ubiquitous by the convergence of big data, deep learning and sensory technologies, it will soon deliver new products and services, ranging from autonomous cars and smart robots to drones, digital assistants and predictive analytics. It is telling that the industry champions (Google, Microsoft, Facebook, Amazon, etc.) just created a "Partnership on AI to Benefit People and Society". The social and regulatory backlash against AI could take on monumental proportions. The countries that best deal with the myriad of issues raised by the surge of AI and the disruption it entails will outperform by becoming more competitive.
- The recent signing of a bill that could end Airbnb business in NY and the London ruling that Uber drivers are "workers" entitled to the minimum wage and holiday pay show the extent to **which the fortunes of prominent companies are now at the mercy of regulators**. Whether you regard such decisions as legitimate or not, the profitability and market performance of businesses in industries as diverse as the gig economy, the food and beverage industry (taxing obesity will soon be widespread – see below), banks (regulatory fines), energy, mining and others (pollution tax is on the way, and conversely so are tax credits, e.g. for renewables) will be increasingly affected by decisions made by regulators and legislators.
- We return from the 2016 Global Wellness Summit with our conviction, firmer than ever, that **in the coming years wellness** (a proxy for better health) **will be strongly incentivized**. If and when incentives don't work**, it will be made compulsory**. The costs of "un-wellness" are soaring at a time when most health care systems around the world suffer from a combination of (1) ageing populations, (2) funding constraints and (3) rising levels of chronic diseases. Governments can most easily act on the latter, as evidenced by a recent peer-reviewed article published in The Lancet that puts the cost of physical inactivity for the world's healthcare systems at USD53.8bn (in 2013). To date, nudging individuals to take physical activity has had mixed results, so taxing "un-wellness" (like soda taxes to combat obesity) is gaining traction, affecting in the process the share price of the large food and beverage companies.
- In the same vein, **workplace wellness programmes are becoming a strategic priority** in the private sector, with a recent survey reporting that 35% of US employers have come to the conclusion that such programmes are effective at controlling costs. Everybody hopes that technology can reverse the decline in productivity, but salvation may in fact come from wellness! Academic research shows that companies that promote the wellbeing of their employees see individual productivity increasing by up to 12%. It also demonstrates that **employee wellbeing is positively correlated with shareholder returns**.
- In the coming weeks, "must-watch" issues include: (1) the Fed's "hiking" path and its impact on the $ (which still has substantial upside), (2) China's excessive indebtedness - with banks, and shadow banking in particular, representing the major risk; (3) renewed pressure exercised by the USD ascendency on overleveraged EM; (4) whether signs that global deflationary pressures are abating are real and will be sustained; (5) the vast array of market-moving geopolitical and societal risks, with a focus on the consequences of the Trump effect and a possible Trump surprise, rising tensions between Russia and the US and the geopolitics of energy transition (for the first time ever, renewables just surpassed coal in power producing capacity). **For real-time and in-depth analysis on any of these, please contact us.**