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

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- The start of the Trump era is both a tipping point and a monumental paradigm shift. His "two simple rules: buy American and hire American" are the functional equivalent of a declaration of economic war, to which some countries - most notably China - might well retaliate. **The coming months will be characterized by a blizzard of unpredictability engulfing opinion and decision-makers**. Unexpected developments and unintended consequences will be the order of the day, with serious miscalculations and poly-crises all too possible. In such a context, **the countries or regions that will do best are those with strong domestic demand**, like the Eurozone.

- **President Trump's decision to withdraw from the Trans-Pacific Partnership** (TPP) **will ultimately benefit China**, both from an economic and geopolitical perspective. Economically, it restricts US exports to Asia. Geopolitically, it brings the US "pivot" to Asia - a strategy designed to solidify US presence on the continent and contain China - to an end.

- If the myriad of concerns raised at this year's Davos were distilled to just one, it would be **"distrust".** A survey published at the WEF Annual Meeting concludes that we are witnessing **a "global implosion" in people's trust in almost all institutions**. Because trust is (1) the fuel that propels the engine of economic growth and (2) the glue that binds societies together, when it breaks down, the resultant sentiments of fear and resentment provoke (1) lower economic welfare by putting a spoke into the wheels of growth, and (2) higher polarization. **Trust matters so much because it is both the most valued and the most intangible form of social capital**. Countries, like Switzerland, that possess a high level of social trust are consistently better at delivering more inclusive economic growth.

- We regularly address the issue of the "productivity paradox": despite all the excitement about technology and innovation, falling productivity rates persist in reducing the world's long-term potential growth. Why isn't the 4th industrial revolution translating into higher productivity? It still could, but to date **most innovation** (mobile phones, internet, apps and so on) **enhances our leisure time rather than our business efficiency**. By doing so, it may perversely exercise a counter-productive effect: our "always-on culture" and our addiction to digital distract us and raise our stress levels, in turn negatively impacting our productivity.

- In the short term, markets are on the cusp of faster economic growth in the US and rising inflation / interest rates globally. **This state of affairs cannot be expected to last long-term.** Why? (1) The structural forces that underpin the global disinflation /deflation trends (technology, inequality, demographics, etc.) will but increase in intensity and (2) the initial excitement among most US executives about Trump's pro-business policies (deregulation, tax cuts, fiscal stimulus) may fade away as soon as the sugar-rush evaporates. **A sustained uptrend is most unlikely.**

- The broad market consensus among banks and analysts is that 2017 will be relatively benign: not much will change, with mature markets hobbling along and emerging markets picking up some momentum. We beg to differ. The good news is already priced in, meaning that **the likelihood of a benign outlook is entirely contingent upon a vast array of potential hitches and hiccoughs NOT occurring**. A global environment ripe for policy shocks caused by economic and policy frictions makes this unlikely. In 2017, expect a load of downside risks that the models of those riding the "Trump trades" have not yet incorporated.

- The effect that the **USD strength has on some vulnerable EM currencies is just about to translate into higher political risk**. In countries like Mexico, Egypt, Turkey or Nigeria, the acute currency depreciation against the USD is having a dramatic impact on domestic prices, with inflation (CPI) rising sharply. When food prices soar, governments become deeply unpopular; protests ensue and can snowball.

- Despite the impressive UK GDP performance (it grew by 2% last year), the most appropriate gauge to assess how the economy will evolve and Brexit will unfold is the currency market: the GBP's strength, weakness and volatility. At the moment **it signals a relatively hard break from the EU**. Businesses and investors in the UK, and to a lesser extent in Europe, should prepare for a chaotic 2017.

- **In 2017 and beyond, the likelihood of a "Luddite" uprising is set to increase.** AI (Artificial Intelligence) evokes excitement and fear in equal measure. The latter because it is technology - not migration - that accounts for job losses and the resulting angst in high-income countries. In the US, roughly 80% of the jobs that have disappeared over the past few years were lost to technology, not to offshoring. This means that no trade policies of any kind will ever be able to significantly restore manufacturing employment, in the US or elsewhere. **The bogeyman is not the migrant or open border, but the "robot"…**

- We hear a lot about the 1% but the concept remains fuzzy. Recent data analysis gives it greater definition. Anyone with net assets in excess of $744,400 (that is: 48 million people worldwide) belongs to the "club" of the richest 1%, which collectively owns 51% of the world's aggregate wealth, as much as the remaining 7.3 billion put together... Irrespective of how the money was made and anyone's contribution to value creation, **the 1% face the pitchfork**. "If policy-makers don't get it now, I don't know when they will, pointed out Christine Lagarde (the IMF Managing Director) in Davos. It means this: issues of redistribution and measures destined to promote social justice and to assuage the rising sentiment of unfairness will dominate the policy agenda in 2017.

- In the coming weeks, **"must-watch" issues include**: (1) What President Trump does and does not do. So far his actions match his rhetoric - unpredictability is the key word; (2) Whether USD strength will endure and the extent to which it will affect countries (in particular overleveraged EM) and companies; (3) How US – China relations evolve: an escalation of US-Sino trade tensions is one of this year's most significant macro-risks; (4) China, that remains at the epicentre of global economic and financial stress, and whose corporate debt woes continue to grow; (5) Divergence within the Eurozone – hidden by reasonable aggregate performance; (6) The vast array of growing geopolitical and societal risks, with a focus on global rising populism - a source of policy unpredictability. In 2017, risks of miscalculations will abound (particularly in the south China Sea). **For real-time / in-depth analysis on any of these, please contact us.**