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

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- **For the first time in years, we see the possibility of an upside in global growth rather than the opposite.** Stronger data keeps coming from the countries/regions that matter the most economically: the US, the EU, China and Asia. Therefore, (1) the strengthening of the global economic cycle coupled with a synchronized expansion in manufacturing, and (2) an anticipation of fiscal stimulus in the US, should deliver global growth of around 3.5% in 2017. As a result, global inflation will pick up. There are, however, numerous and varied downside risks (ranging from trade to geopolitics) that could cloud this rosy scenario.

- We have a hard time nurturing this optimism beyond a 1-2 y time-horizon because the US economy will not grow as much as the optimists hope - and certainly not at the 3%+ growth rate anticipated by Trump. First, the situation of **full employment masks the salient fact that there are still 20 million Americans left behind**, either (1) looking for work, (2) out of the labour force while they'd prefer to be in it or (3) in-between gigs. Second, GDP/capita growth (a more relevant indicator than GDP alone) is now at 1.1% per year, less than half the 2.3% it achieved at the end of last century. Slower growth not only creates social strains, discontent and polarisation; it also dampens our animal spirits and creates a culture of risk aversion - **it has feedback loop properties.**

- Put another way, sustained **higher economic growth is incompatible with populist policies.** In the face of an ageing population, it cannot be achieved while curbing immigration because long-term potential growth = growth in the labour force + growth in productivity (nil at the moment). Furthermore populist sentiments negatively affect international tourism: a key, albeit underrated source of economic growth and employment (last year, US visitor exports generated almost $200bn, 8.5% of total US exports).

- In rich countries, **inflation is picking up but wage inflation is not**. "Normally" an increase in employment (or even more so full employment like in the US) should lead to an increase in wages. But technology is creating a "new normal". It is now eliminating well-paid jobs (stock-broker, credit analyst, writer and so on) while increasing the number of low paid ones for all those who work and compete in the gig economy. This is progress with a dystopian twist! And is destined to exacerbate the populist wave.

- European populism is on the rise, but the markets overestimate the probability of a Le Pen presidential victory in May 2017. And similarly for other far right / populist parties in upcoming European elections. This for manifold reasons but two stand out: (1) Trump's exhortation that the EU should break up has the effect of bringing the Europeans closer; (2) a substantial majority in the Eurozone favour maintaining the € – the right-wing parties want the opposite. In short: a majority thinks that there may be a lot of things wrong with the EU, but this is nothing when compared to what came before or to what might happen without it. **In 2017 like in 2011 and 2012, betting on a EU collapse will be the wrong wager.**

- We owe an apology to our readers: over the past few months, **EM (emerging markets) have performed far better than we thought they would**. These three phenomena, amongst others, explain why: (1) the conviction that a US recovery "on steroids" coming on top of a decent global recovery is generally good for EM, most of which are commodity-dependent and export-oriented; (2) the belief that Trump's protectionism is rhetorical and will be constrained by reality; (3) the realization that political risk has become as high in developed markets as it is in emerging ones. Now that EM currencies have adjusted at a very significantly lower level (up to 50% in some cases, and with fewer casualties than anticipated), differentiation will prevail, with EM winners and losers.

- **Bill Gates suggests taxing robots in order to slow down the pace of automation** and thus cushion the displacement effect provoked by technology (machines replacing humans). His thinking is echoed by one of our UHNW subscribers who argues that: "we need a bit of socialism to save capitalism" and to prevent a societal backlash. This is why, despite President Trump's attempt to do the opposite, the next few years will see a wave of new taxes and regulations engulfing the world. **Executive pay is next in line.** In the UK for example**,** many policy-makers and executives acknowledge that the disconnect between "blue-chip" CEO's remuneration (which rose by 400% in real terms between 1998 to 2015) and average wages (12% during that period) "puts the social contract at risk".

- The world is getting messier and harder to decipher… so what comes next? Pessimists argue that when international (multi-polarity) and internal (inequalities) tensions rise, **wars and revolutions occur to rebalance the scales** (as shown by history). Optimists point out that **we are in for an age of renewal**, more centred on what truly matters (wellbeing) than on material consumption (GDP). It may be that attitudes are changing. As Tyler Cowen argues in his latest book ("The Complacent Class"), in tomorrow's globalised and techy world, "matchers gain, strivers lose". Matchers focus on their own wellbeing and that of society. By contrast strivers focus on outcompeting others. Cowen finds (relative) comfort in the fact that there are more matchers than strivers among the young generations. If true, **renewal, not revolt, will follow disruption**.

- **Two broad fault lines are fissuring the financial markets**. (1) One between stocks and bonds – the two are now rising in tandem, indicating a divergence in terms of risk sentiments: contrary to the equity market, the bonds market expresses doubts about the Trump's reflation trade. (2) Another between political and market volatility – the former has never been higher while the latter has never been lower. **In both categories, one element will have to give.**

- In the coming weeks, **"must-watch" issues include**: (1) What President Trump does and does not do, particularly in trade, tax cuts, infrastructure spending and deregulation; (2) Whether USD strength will endure; (3) China, still at the epicentre of global economic and financial stress, has credit growth well beyond the level considered safe with bank assets that now amount to 312% of GDP; (4) Divergence within the Eurozone – hidden by reasonable aggregate performance, European forthcoming elections and Russia's efforts to destabilize Western Europe; (5) The vast array of growing geopolitical and societal risks, with a focus on global rising populism - a source of policy unpredictability. **For real-time / in-depth analysis on any of these, please contact us.**