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

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- **Lowflation is back**. Core inflation is softer than expected, notably in the US and Europe, but also in other countries like China. The resultant flattening bond yields (before this week's sell-off) are complicating the task of the Fed and other central banks as they contemplate a rise in interest rates. Their conundrum is exacerbated by the recent decline in oil and commodity prices, which exerts a drag on headline inflation. Low inflation reflects structural headwinds to growth**:** despite the end of ultra-loose monetary policies**, low interest rates are here to stay.**
- In just a few short months, the tide has turned with unexpected velocity: **gloominess now characterises the UK and optimism continental Europe,** where the momentum for further integration is growing. National moods and the stories behind them matter a great deal because both positive and negative narratives are contagious and often become self-fulfilling prophecies. Will European optimism endure? It's too early to tell but consumers keep spending while business investment is picking up. **Italy may dampen the mood:** it is the most fragile Eurozone economy and the only European country where Euro-scepticism is alive and kicking. But whatever happens in Italy, the Eurozone will not disintegrate.
- Meanwhile, **the UK is sleepwalking towards an uncertain and chaotic Brexit**. The Tories' electoral humiliation means that PM May has lost both her majority and her authority. Hence, it is hard to imagine a favourable scenario in which the government and Parliament would agree on a desired path and complete the myriad of necessary agreements with the EU within the required timeframe. This messy, uncertain, political drama will play out against a backdrop of falling real wages and decelerating GDP growth. Contrary to the past, the benefits of a depreciating currency are now offset by higher priced imported components in the global supply chain. In today's world, movements in exchange rates have a declining impact on trade, meaning that **the UK economy won't benefit from a lower GBP**.
- If we had to illustrate the powerful effect of a prominent economic narrative, AI (Artificial Intelligence) offers a perfect example. The media is awash with analyses explaining how **rapid progress in AI** - for the moment only a "spread-sheet on steroids" that devours big data - **will cause a decimation of jobs on a scale unanticipated just a few months ago**. Whether this will be true or not is irrelevant: the narrative makes radiologists, lawyers, bank tellers, traders, truck drivers, factory workers and many others anxious about the future of their jobs and therefore reluctant to consume and invest as before. The AI narrative alone (even before any quantifiable impact on employment) is already having a negative impact on global GDP growth.
- **The IMF has just downgraded its forecast for the US economy**: from 2.3% to 2.1% this year, and from 2.5% to 2.1% next year. Trump's policy uncertainty aside, the US economy is victim of a curious dissonance: it benefits from a high level of employment but has a low level of income (i.e. a high share of working-age people on less than half the median income). Put otherwise: it suffers from a lack of inclusiveness. In addition, **full employment does not provide wage pressure anymore**, a phenomenon partially linked to the point made above about AI that is now prompting central bankers to ponder whether **a "robocalypse" era might be upon us.**
- The recent statement of Jeff Immelt (General Electric's departing CEO) that he agrees "with the first five minutes of a Bernie Sanders speech" marks a critical inflection point that hasn't attracted the attention it merits. First, many prominent CEOs and UHNW families in private share his opinion. Second, it shows that **the wings of laissez-faire capitalism are about to be clipped**. Global business leaders will increasingly extol the virtues of investing in the community and caring for the disadvantaged. This is partly an act of self-interest: if more attention is not paid to discontent and the planet's various ills, **our societies run a very real risk of exploding.**
- The investment implication of this is that **private and institutional investors will commit more to sustainability themes**, whatever they may be: climate change, sustainable consumption, etc. More than 60% of the world's 300 largest companies already disclose their commitment to the UN Sustainable Development Goals (SDG), with a majority having a positive track record in "sustainable behaviour". This theme can only gain traction, favouring European companies that are on average ahead of the pack in this particular race.
- For Amazon, the acquisition of Whole Foods is a means to two ends: (1) sell groceries online while using its scale and efficiency to lower prices; (2) access food warehouses that will then be used by restaurants, farmers and so on – squeezing retailers further by expanding Amazon's empire and its "mail-order way of life". **It's no coincidence that Amazon bought into "wellness":** organic food is expanding in the US (and most of the world) at double-digit rates. This acquisition will make healthy food accessible to more Americans.
- The spat between Saudi Arabia and Qatar is one further sign that **the world is getting less predictable and less secure**. The simple "us" versus "them" diktat that used to dominate international affairs has given way to a complex set of interwoven interests organized around pivot states that refuse to take sides in order to keep their multiple options open. Qatar's involvement with Iran is one example. India's closeness to both the US and Russia another, like Singapore' subtle balancing act between the US and China. In addition, power brokers like China and Russia do the same, leaving countries such as Iran and Saudi Arabia unsure about their intentions. **This fluid "reordering" of the rules increases confusion and the risk of policy miscalculations.**
- Over the next few weeks and months, **"must-watch" issues include**: (1) The normalization of monetary policy – mini-taper tantrums may agitate the financial markets, (2) The effect of Trump's travails on policy and reforms and their impact on decelerating US growth; (3) China's corporate debt – the major systemic risk to the global economy; (4) The USD gyrations and the wide-ranging impact of its current weakness on the global economy, from commodity prices to EM debt; (5) The vast array of growing geopolitical and societal risks, with a focus on the Korean peninsula and Venezuela. On the upside: whether the current European momentum is sustained. For real-time / in-depth analysis on any of these, please contact us!