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PRESCIENT & SUCCINCT ANALYSIS OF WHAT'S OUT THERE

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- The IMF has just increased GDP forecasts for all advanced economies – with the exception of Spain and the UK. **When everything is going well, it's time to think about what might go wrong**. Medium and long-term challenges abound, ranging from spiralling levels of global debt (in the G20, non-financial sector debt amounts to $135tr – 235% of global GDP) and unfunded liabilities to the impact of technologies on our future. One thing is certain: **when the next crisis strikes, traditional policy tools like interest rates' cuts will be found lacking** – ineffective in a low-interest rate world.
- The 19th Party Congress has sealed the status of Xi-Jinping – the most powerful Chinese ruler since Mao Zedong. This also symbolically marks the irreversible ascent of China, **now occurring indisputably at a time of Western decline**. This challenges head-on the sacrosanct principle that countries democratise as they get richer. Whether Xi will succeed in delivering a digitally driven and economically efficient form of authoritarianism remains a moot question, but **AI may clinch it by enabling a "market-based, plan-driven" model**. As China ascends geopolitically, how long will it take before the renmimbi follows and the dollar reserve status begins to wane?
- **Tech development and innovation are at the core of Chinese policy**. To overcome the middle-income trap and to boost productivity, China aims to become world leader in AI (artificial intelligence) by 2030 and triple its production of industrial robots over the next three years. This means that **the tech future may well be made in China, with a disturbing societal twist**. The authorities are developing a "social credit system" that will become mandatory in 2020 and will rank citizens in terms of their "trustworthiness", aiming to build a "culture of sincerity". The world of The Circle and Black Mirror (respectively a novel and a series that depict a dystopian tech world) is not far-off… Our data-mined and branded online lives risk becoming a multifarious popularity contest.
- The recent elections in Germany, Austria and the Czech Republic are proof that **populism is alive and well**. In Europe and in the rest of the world, it continues to be fuelled by a sentiment of inequity among many and the growing divergence between globalization's winners and losers. **Governments will try to defeat populism by implementing more redistributive policies**, in most cases by taxing property (an immovable asset) more.
- The latest round of negotiations between the UK and the EU has ground to a virtual halt, largely caused by the UK cabinet's inability to reach a consensus over the form of Brexit it wants. As a result, **the probability of a 'hard Brexit' is mounting**, but both a 'late Brexit' (beyond March 2019) and a 'no Brexit' are also conceivable. Whatever the outcome, the endgame is a continued squeeze on the British consumer, whose nominal wage is set to rise less than inflation.
- To a large extent, prospects in the labour markets explain why aggregate demand will remain tepid in the foreseeable future. **Over the next ten years, employment gains will be the fastest in the lowest-paying occupations** and mainly related to ageing: personal care aides, registered nurses, home health aides, cleaners and waiters. This phenomenon will deepen inequality. It suggests that, from an investment perspective, **any solution that gets the cost of healthcare under control will be a winner**.
- The referendums in Catalonia and Kurdistan are a potent reminder that **separatism and nationalism are on the rise**. As the ambition to secede thrives on (1) a historic experience of autonomy, and (2) economic success or self-reliance, the most likely candidates for self-determination are predominantly in Europe. However, **none of them have a chance of succeeding**: all face heavy opposition in their respective countries and have no international support. Devolution will occur and will diffuse the separatist risk. **From a market perspective, separatism is just noise**.
- Because of the promise of billions in investment and 50k+ jobs, 238 cities – including some from Mexico and Canada – want to host Amazon's second headquarters. **This bidding war could end with a backlash and reputational damage for Amazon**. The 237 losers will resent the fact that one of the world's highest valued listed company tried to take advantage of their taxpayers by asking for financial incentives. The winner may come to resent the fact that Amazon makes their city less affordable and more unequal. **For big techs, the only hedge susceptible to alleviate the coming regulatory backlash is a pledge to refuse tax incentives and to invest in the community** by building public goods such as social housing and schools.
- According to the Lancet Commission on pollution and health, **pollution in all its forms** (air, water, soil) **now kills almost 10m people per year** (9m in 2015, or 16% of all deaths worldwide), with an economic cost estimated at $4.3tr or 6% of global GDP (it measures the welfare loss, meaning that the real cost is higher). The cost-benefit analysis of controlling pollution is now so obvious that **policy-makers will start confronting vested interests to curb pollution**, particularly for vehicles and power plants. China is the best example of that. Other countries will follow, with devastating consequences on the valuation of polluting companies.
- The Weinstein revelations have triggered a global outpouring of stories through the hashtag #MeToo of endemic sexual harassment. While this will not rebalance the rights between men and women, it marks an inflection point and is drawing attention to countless studies showing that **greater gender equality gives companies** (and countries) **an edge in terms of financial and economic performance.**
- Over the next few weeks and months, **"must-watch" issues include**: (1) Negative surprises in the two countries from which they are most likely to come: the US (political dysfunction and the fallout of the Mueller investigation) and China (credit crunch); (2) Trump's tax reform plan – if it succeeds in one form or another, the fiscal deficit will balloon, leading to higher yields and USD appreciation; (3) NAFTA's possible collapse, and its negative impact on companies' supply chain, particularly in the US; (4) Whether political risk in Europe will affect sentiment and performance – we think not; (5) The vast array of environmental, geopolitical and societal risks – all interlocked and most potent in EM. **For real-time / in-depth analysis on any of these, please contact us!**