November 2017

- **The global economic outlook remains sunny**, with growth stronger than expected in most parts of the world. This benign state of affairs could be misleading because **"averages" don't mean anything anymore**. Aggregate data about income or consumption are no longer a true reflection of 'average' living conditions, as inequalities become skewed between top and bottom. In the US, for example, the average household in the top 40% earns four times more than in the bottom 60%. This results in two economies within one, running at different speeds (high for the well-off and slow for the 'others'). National statistics tend to distort this phenomenon that **nonetheless negatively impacts aggregate demand**.

- To make sense of the point above, take the example of the labour market. In many developed economies, data paints a rosy impression, with unemployment at historically low levels. Yet, delving into the detail reveals a reality far from rose-tinged: people have a job, but at the 'fat' low-end of the income curve, they are overleveraged, dissatisfied, stressed, powerless and resentful. They have had **no growth in real income for years** and are tangled in an inextricable mix of economic, social and emotional problems. It's been given a name: the **"shit-life syndrome" -** the main reason why **global growth is slowing and populism increasing**.

- A flattening US yield curve (it was, earlier this month, at its flattest point in 10 years) is a warning sign. It could be seen as relatively benign – a reflection of receding inflation risks and the prospect of interest rates kept lower for longer, but equally as a **signal that the current economic expansion is approaching its end**. Watch this space!

- The recent sell-off in Chinese stocks relates to the huge elephant in the room: **China's unsustainable over-indebtedness** (last May, its total debt surpassed 304% of GDP). Some believe that the authorities will prove capable of deleveraging the economy without derailing it – others don't. To take it from the ultimate 'insider' - Zhou Xiaochuan, the central bank governor, there are risks accumulating in the financial system that are "**hidden, complex, sudden, contagious and hazardous".** Optimists must remember that China's GDP doesn't account for wasted investment. If this were properly written down, as Michael Pettis has argued, Chinese GDP growth would drop to as little as 3% (less than half of the reported 6.8%).

- **The Eurozone is in the midst of an economic boom,** performing even better than was expected a few months ago (2.2% instead of 1.4%). Despite the drag of an appreciating currency, new data shows that jobs growth and manufacturing orders just reached 17-y highs. Robust PMI and confidence surveys suggest that, barring an exogenous accident, **growth will remain strong next year**. This will underpin the renewed confidence in the "old" continent and the outperformance of European stocks.

- Last year, it was Panama – this year it's Paradise. According to some reliable estimates, **more than $7.6tr are deposited or hidden in tax havens around the world,** including some 8% of all household financial wealth: a loss in annual global tax revenues of about $190bn. **The fundamental question is not about morality, but fairness** – that most potent of human instincts. As only the wealthiest individuals and powerful global companies can afford to invest in vehicles that lawfully minimize taxes, the sense of inequity is bound to rise. **The fight against these tax havens**, that fan the flames of inequality while serving no useful economic purpose, **will intensify**, supported by technology that now makes it (almost) impossible to hide anything anywhere.

- The jury is still out as to whether Mohammed bin Salman's (MbS) assertiveness and consolidation of power will succeed in modernizing Saudi Arabia and stabilize the Middle East or not. Some see it as a power grab, others as a "Spring Revolution" from above. However, one thing is obvious: the Crown Prince risks over-extending himself by waging a "war" on three fronts. (1) Economically, the Vision 2030 will be fiendishly difficult to implement. (2) Geopolitically, the current regional strategy is stalling (in Yemen, Qatar and Lebanon). (3) Politically, the arrest of hundreds of princes, officials and business leaders is risky. In short: **Saudi Arabia is entering uncharted waters with unknown consequences**.

- Digital technology is engulfing the world, but the fantasy that it would make everything better is fading. A few years ago, we took it for granted that digital books and e-learning would wipe out printed books and face-to-face education. Wrong! Both are now making a strong comeback while their digital counterparts are receding. Similarly, the bricks and mortar presence of local shops and stores is expanding despite e-commerce. **The future for investors is not a binary choice between digital and analog, but about striking the right balance between the two**. Opportunities abound for themes that favour human interaction - an antidote to the easy manipulation of digital and crucial to our physical and mental wellbeing.

- There is increasing evidence that **the crisis of attention caused by our digital devices is negatively impacting the economy** (and the quality of our social interactions). More than half of our working hours are spent thinking about something other than the task we are supposedly engaged upon, while cyber-slacking (using the internet during working hours for personal purposes) probably amounts to at least 1 or 2 hours a day. The digital economy is afflicted by distraction. This results in a penury of attention that weighs heavily on productivity and wellbeing. In the years to come, **the ability to cultivate attention will become a key intangible business asset.**

- Over the next few weeks and months, **"must-watch" issues include**: (1) Whether the spread between short and long-term US bond yields drops further; (2) Negative surprises from the US and China (credit crunch); (3) 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; (4) Bubbles in the markets (most prominently Bitcoin); (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. And remember: being right is less important than being thought provoking!** (That said, over the past ten years, our macro calls have been correct more than 80% of the time).