- **Trade tensions in general and the escalating trade war between the US and China in particular are transforming economic tailwinds into headwinds**, notably in the two countries key to global growth. US buoyant GDP figures won't last beyond 2020 (see why in the 4th bullet point) while Chinese growth is already decelerating against the backdrop of its ticking debt time bomb. In the coming months, Trump will up the pressure on China. Despite their trade surplus with the US putting them at a disadvantage, the Chinese won't cave in. While China has more to lose from a tit-for-tat, it can also retaliate in a variety of ways, starting with non-tariff punishments that it has already started to apply.

- Trump policies can be interpreted as either: (1) reckless and unpredictable – emanating from a leader "unfit for power" who sees the world as a real estate play "where the goal is to beat your opponent, step on his throat and humiliate him"; or (2) intelligent and coherent – the work of a master tactician and skilful strategist attempting to remake the global order in a way that benefits the US at a time of relative decline. Whichever explanation is correct, the end game for investors is similar**: Trump will favour bilateral negotiations by weakening alliances and multilateral organisations**, worsening the deep retrenchment engulfing the world. The global consequences for long-term investors: (1) **an increasingly politicized business environment** in which foreign interests are discriminated against; (2) large global companies will be at a disadvantage – the more intricate their supply chain, the more costly trade tariffs and regulations become.

- The US truce on trade with Europe is the clearest sign yet that what ultimately "obsesses" Trump is China. **The US President sees himself as the last opportunity his country has to keep China's ascendancy in check**; he'll therefore do all he can to limit its technological, economic and strategic expansion. Xi, for his part, is determined to reassert China's primacy on the international stage. The Thucydides' trap (the rivalry between the US – the incumbent - and China - the rising power), and the myriads of consequences that it entails, will shape the global geo-economic landscape for years to come.

- The US economy continues to do well (+4.1% annualized GDP in Q2) but flows of direct investment (FDI: an excellent leading indicator) point to difficulties ahead. Recent data shows that **investments in the US are becoming less attractive relative to those in the rest of the world**. So far this year, net inward investment into the US by multinationals – both foreign and American – has fallen to almost zero. In Q1 2018, despite tax cuts that should have boosted it, FDI declined by respectively 37% compared to Q1 2017 and 65% compared to Q1 2016. **Long-term direct investors in the US economy are voting with their feet**. Their apprehension will suppress US long-term income growth and lower the number of well-paid jobs available.

- For the last decade in all rich countries, the curse of low wage growth has fed the mounting populist rebellion and concurrent backlash against technology. **There is now one exception: the Eurozone**, where hourly wages rose by 2% in Q1 of this year. Explanations as to why falling unemployment eventually led to higher wages in Europe but not elsewhere are manifold and inconclusive (could it be the bargaining power of workers?). This good news is twofold: it mitigates (to an extent) rising political risk and helps the ECB reach its 2% inflation target.

- A truncated or even no-Brexit deal next March has become a distinct possibility, forcing Britain, and to a lesser extent the EU, to prepare for potential paralysis. Prime Minister May's "half-in, half-out" compromise proposed at Chequers fails to diminish the discontent of either the Leavers or the Remainers. Furthermore, it is unlikely to be ratified by Parliament. **No plausible scenario exists under which the UK won't end up as a poorer and less influential country**. Ironically, Brexit's most positive legacy is that support for the EU (across Europe) is now at its highest level since 1983.

- Two months ago we wrote that increasing productivity would eventually come, albeit with a lag. A brilliant new paper tempers our optimism for the mid-term by shedding new light on the productivity paradox. Lord Turner (its author) turns the puzzle upside down by explaining that **the combination of frantic innovation and low productivity is precisely what we should expect**. The reason? The impact of innovation on total productivity growth depends on who derives the income from tech disruption and how this extra income is being deployed. If it goes into areas that are difficult to automate (arts, personal services, education, etc.), rapid technological progress can then coexist with slow productivity growth.

- Extreme weather occurrences (in the form of heat waves) are currently engulfing much of the world. **2018 is likely to surpass the globe's five hottest years on record** (in rank: 2016, 2015, 2017, 2014 and 2010). Temperatures that have become a 1 in 10 occurrence would have been considered 50 years ago as a 1 in 1000, yet many people still believe climate change is a distant problem that won't affect them. **The fact that it's raising the cost of capital should dispel this illusion**. Those countries more vulnerable to climate change are already paying a premium to borrow, with the poorest most at risk: they've already paid USD40bn in additional interest payments on sovereign debt because of climate change risks, and are forecast to pay an additional USD168bn over the next 10 years

- The plunge of Facebook and Twitter (down by almost 20% each in a day) crystallizes the potential **fragility of some companies in the tech sector and the coming divergence** between those that do social media and others that provide tangible services (like shopping for Amazon). For the former, the downside risks in terms of regulatory backlash – including the extreme scenario of a ban on targeted advertising in some jurisdictions – are mounting at a time when mistrust of tech and disillusion about its utopian visions are also on the up. This is just the beginning. Watch this space!