▪ This month marked the 10th anniversary of the Great financial crisis. What is its legacy? (1) **The whole world is over-indebted**, with total global debt (public, household and corporate) / GDP higher than ever. This is by far the greatest economic concern. (2) Despite turbo-charged stimulus policies, growth has remained sluggish and inflation below target – the only exception being countries with large and growing fiscal deficits (like the US and China). (3) Inequalities have risen and the social contract is broken. As history shows, such prolonged and profound crises always have the same effect, ranging from the minor (like the loss of civility) to the major (like the eruption of populism).

▪ **An important tipping point**: as of this month, just over 50% of the world's population live in households with enough discretionary expenditure to be considered "rich" or "middle class". **This is good news for business, but more complicated for policymakers.**

▪ **The trade war between the US and China is escalating and will endure**. The Trump administration takes it for granted that it's hurting the Chinese more than the US (the US trade deficit with China should ensure that tariffs reduce US imports from China more than US exports to China). But maybe not. What economists call *trade diversion* **gives China some flexibility to switch partners by diversifying away from the US,** which is *de facto* waging a unilateral trade war against everyone (South Korea being so far the only exception).

▪ **In the US and the UK** - two countries at quasi-full employment - **real wages are finally picking up**. Total pay growth rose in Britain to 2.6% in the three months to July (Y-o-Y), with similar figures in the US. It's good but not great, because wage growth remains weak by historic standards. Stagnant productivity and underemployment (the fall in labour force participation suggests that many people have given up looking for work) are part of the explanation, but more fundamental causes are: (1) the rise in the gig economy and its paltry incomes; (2) workers' weaker bargaining power.

▪ **There are increasing fears that Brexit will see the UK disappear into a black hole**. One British politician just went as far as warning that the country is "now on the verge of willingly entering into a legal and political no man's land." A no-deal, unresolved, Brexit in which the UK quits the EU with a plethora of negotiations still left to do is not only conceivable but increasingly probable. It would lead to economic chaos and a contingent property crash in the UK.

▪ The recent Swedish elections raise the question whether the surge in populism across Europe (and much of the world) can be contained? How did the far right perform so well in a prosperous country often portrayed as having found the right balance between economic efficiency and social equity? It boils down to *folkhemmet*! With no equivalent in other languages, it literally means "people's home", evoking a sense of nostalgia for past order, belonging and relative "prosperity" now perceived to be lost. **It's impossible to tell if and where the populist wave currently engulfing the world will end**. Its success is anchored in the narrative about migrants, but its roots are more profound and complex:

anxiety about the future, resentment about inequalities and unfairness.

▪ After manufacturing, it's services**: there is now ample evidence that the low-wage portion of the service economy is about to be displaced by technology.** Jobs like cashiers, front-desk and concierge are being automated cheaply with Alexa or other equivalent devices. Occupations like cooking and cleaning are also in the firing line, with the cost of investing in robot-cleaners or robot-cookers decreasing sharply. As in the airline industry, the future of the service economy looks like this: **humans will serve (at a low cost) high-end customers, while automated systems will be deployed for the rest of us.**

▪ For a totally different perspective on AI and a narrative at the other end of the spectrum, look no further than Japan. There, like in most of Asia, **robots are seen as an opportunity, not a threat**. In an environment characterized by a combination of declining population and ageing, only technology can allow an ever smaller labour force to produce enough goods and services. In contrast to many emerging economies where population growth + tech could overwhelm job creation, **Japan is a country where robots will not destroy jobs, but will spur economic activity.**

▪ The debate about whether "green growth" will succeed in decoupling GDP growth from the total use of natural resources (that has been raging for years) is now settled by academic research. Every single reputable study shows that, even after accounting for rapid technological innovation and new taxes (like a global carbon tax), there are physical limits to how efficiently we can use resources. This means that **governments will progressively conclude that they must impose hard caps on resource use to avert an ecological catastrophe**. For many, this is hard to fathom, but **this is coming and China will show the way**.

▪ If growth can't be truly green, what are the broad consequences for investors? (1) Any industry or company seen as being particularly damaging to ecology will suffer; (2) **Any profitable business perceived as minimizing ecologically bad outcomes, while maximising socially good ones, will prosper;** (3) Militant environmentalism will radicalize, wreaking havoc on businesses that are not on their guard. The recent example of meat producers and supermarkets being targeted by vegan militants is proof of that.

▪ The President of Armenia, Armen Sarkissian, made the point that **politics has become quantum**. Today's world is much too uncertain and complex to allow for linear inferences + a lot depends on the position of the observer. In this context, social media helps shape parallel "realities". To get a sense of the implications, look no further than Brazil. Its society is now divided into decentralized online communities that will most likely affect the outcome of the election, leading to the victory of Bolsonaro - a far right populist.

▪ Top **"must-watch" issues**: (1) How the US-China trade war will evolve; (2) Will the rising USD cause more pain in EM; (3) Whether Italy's budget will trigger a doom loop of rising borrowing costs affecting European banks' sovereign bond investments; (4) The vast array of geopolitical risks.