

▪ **The global economy's upbeat tempo as 2018 opened has slowed to a downbeat tone as the year has drawn to a close.**

Global growth is losing momentum in a synchronised fashion, with industrial production and trade slowing almost everywhere, amidst falling business confidence. Politics is back with a vengeance: protectionism and the implementation of tariffs constitute a major source of uncertainty that deters investment decisions. Any possible economic upside is limited - **looking forward from an economic, geopolitical and political standpoint, the good times are on hold.**

▪ **Two major economic uncertainties will dominate 2019.**

(1) The rapidity and the extent to which the US outperformance will come to an end as the effect of the stimulus (fiscal spending + tax cuts) fades. (2) China's ability to deal with the conundrum of stimulating the economy while getting the debt under control. Doing so without causing the economy to slow in a politically / socially disruptive way is fiendishly complex.

▪ During the year, the debate has been raging between those who see the world's glass half full versus those who see it half empty. The optimists trying to promote a fact-based worldview are right: almost all the indicators confirm that **the world is 'better' than it's ever been**, and certainly not nearly as dangerous as we think/feel. **But the facts miss the point:** (1) as our human condition improves, our expectations increase, and (2) we humans do not form opinions based on facts, but on sentiments. The prevailing gloominess stems from: (1) stagnating real incomes for a vast majority (in the rich world), with no hope of an improvement in their lives; (2) deep, existential, concerns about the environment – by far the greatest casualty of human progress.

▪ **The French Yellow Vests' eruption was sparked by a tiny gasoline tax and fuelled by social media** – Facebook made it possible and then coalesced the movement. The leaderless, classless, revolt is not specific to French society, but rather the manifestation of a deep malaise engulfing much of the Western world. It's about people from the lower middle class who have difficulties making ends meet. As one of the protesters said in Paris: "Macron speaks about the end of the world (i.e. climate change) when we speak about the end of the month". The uprising, directed against the "rich" and the elite, has spread to other European countries. **Fast-forward 2019, it could re-emerge anywhere**, including in other continents.

▪ But... **Europe's situation is not as bad as some pundits would have us believe.** We are not in denial about the critical issues facing Europe (from badly needed structural reforms to immigration), but for years, both the markets and the experts have overstated its political risk. Take populism. Yes: it is all over the continent, but its rise and its form is not as dramatic as most think. In Italy, the populist right-wing *Lega* in power is now moving back to the centre ground and willing to reform the EU from within after support for the currency union rose to 61%. Elsewhere, mainstream parties are adopting parts of the anti-establishment agenda (particularly on immigration) to assuage discontent. For hope, look at Greece: despite having just gone through a horrendous depression, it is now in a **phase of post-populist politics** in which power alternates between moderate left and right.

▪ In many countries, labour markets have improved – to such an extent that some are near full employment. Yet **something is substantially broken when it comes to work.** Beyond the good macro headlines, a more granular analysis reveals deep-rooted problems. In the US for example (displaying one of the world's lowest unemployment rates), a majority of workers have not received a real wage increase in years, and more than 30% of the working-age population is not part of the labour force. In addition, the education system – "degree-obsessed" to the detriment of skills education – is ill suited to tomorrow's job market. In the coming years, **issues around redistribution** of the "economic pie" (labour versus capital) **and the "dignity of work"** (a recurrent theme of the Yellow Vests: a job that is both meaningful and sufficient to look after a family) **will dominate the policy agenda.**

▪ As segue to the point above, an increasing number of opinion-makers and academics (including from the right) are coming to the conclusion **that capitalism, as we know it, is broken – perhaps beyond repair.** This is echoed by the younger generation: today more Americans between 18 and 29 are positive about socialism (51% versus 68% in 2010) than capitalism (45%). What happens next? The detail is difficult to discern, but the direction of the trend is clear: as the critical issue of inclusivity comes to the fore, **the whole world is about to enter an era of greater state intervention.**

▪ In 2019, **central bank independence will become increasingly imperilled.** The reasons are twofold. (1) The process of QT (quantitative tightening) reversing the effects of QE (quantitative easing) will upset anyone owning stocks. It puts markets and central banks at odds, prompting calls to rein in monetary policy independence. (2) The anti-establishment global zeitgeist makes greater political interference in the technocratic tribe of central bankers inevitable. **The greater the interference, the greater the nervousness in the markets.** The danger is more acute in emerging markets that tend to have weaker institutions and are likely to experience capital flight.

▪ **A 2018 will be remembered as the year when the tide turned against tech.** In November, the 5 largest US tech stocks lost an aggregate value of more than USD 1 trillion. Despite some ludicrous valuations, the backlash was fuelled by a spate of revelations about the abuse of market power, the collection of personal data, the pervasive digital manipulation, and even the accusation of "brain hacking". It is now proven that social media in general and Facebook in particular are "monsters of misinformation" that can (and have been) deployed for disinformation campaigns (by countries like Russia). As such, **they corrupt elections and undermine liberal democracies.** In 2019 public animosity towards big tech is likely to intensify and greater regulation will ensue.

▪ In Q1 2019, top **"must-watch" issues include:** (1) global trade tensions - with a focus on US-China – and their collateral effects, (2) the risk of the UK sleepwalking towards a no-deal Brexit, (3) the vast array of geopolitical risks – the largest one being that of miscalculation.

