

# The global economy with Donald Trump in the White House



## Macroeconomic Dynamics

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The election of Donald Trump marked a profound rupture, redefining global economic balances.

Its protectionist policy, inspired by the McKinley era, weakens supply chains and increases international tensions, particularly with China and Europe. This model, from the McKinley period, evokes an era of unequal growth, monopolies and moral withdrawal.

Moreover, thinkers close to Trump, such as Peter Thiel, defend a libertarian vision opposing capitalism and democracy, advocating institutional secession and the emergence of autonomous zones.

This ideology challenges the established order and could lead to a fragmentation of the world, including the United States itself. This calls into question the stability of institutions and trust in American assets.

This document brings together thoughts on these upheavals that should be closely followed, as they shape our future.



## Preface

The world after Donald Trump will no longer be the one we knew until now.

The tensions caused by the White House's new economic policy are too great to return to the previous situation. The risk is that it will create disruptions and shortages. However, to be efficient, the economy must maintain a continuous dynamic. So, what will American companies do if they can no longer import Korean products containing Chinese rare earth elements? They will either do things differently or they will not. In either case, the production processes in which these Korean products were necessary will create discontinuities in the American production process.

In the world that is emerging, but whose contours we do not know, will China and the United States be able to return to peaceful exchanges, will Europe still be able to count on the Americans when Marco Rubio does not come to London to discuss the resolution of the Ukrainian conflict, considering that it is useless and that the Europeans lack solutions to provide. The shape of tomorrow's world is being defined, made of tension, injunctions and perhaps also of a blacklisted democracy.

The shock came from the United States, but there are several versions of the world being discussed there, sometimes without overlapping.

The benchmark for Donald Trump is the late 19th century period under President McKinley (1896-1900). During the three decades at the end of that century, GDP increased sixfold. Industrial production increased dramatically, catching up with the United Kingdom before overtaking it in the 1890s.

It was also, with McKinley, a period of closure with very high customs duties that allowed the emergence of gigantic monopolies led by Rockefeller, Vanderbilt, Morgan and a few others. It was a period associated with a spectacular rise in inequality, since 10% of Americans held 90% of the wealth in 1890.

At that time there was also a desire for a moral order which was reflected in the fight against alcohol consumption and social repression.

Drawing parallels with the current period is excessive, but this so-called "Gilded Age" period is important because, in Donald Trump's imagination, it seems to represent the path toward which we are heading. But while points of convergence may appear, the American economy and society are not comparable, even if we point to the unchallenged power of American technology or the return to a form of moral order in the fight against DEI.

On a more cyclical level, the American economy in the 19th century was in a phase of both expansion and catching up. This is not the case today, since the American economy is the one we want to catch up with. Moreover, economies are more interdependent, and the isolationism of the 19th century does not fit with the globalization that has been taking shape over the past forty years. Furthermore, the dollar was not the reference currency. The United States' global implications were therefore not comparable.

To conclude on this point, at the end of McKinley's mandate, monopolies were dismantled, social rights strengthened and the economy had, once again, opened up to the rest of the world.

However, this return to past history is not the only reference in Donald Trump's entourage.



The writings of Peter Thiel, Curtis Yarvin, and the Heritage Foundation shed a different light on what might be brewing. The initial idea is to question the relationship between capitalism, democracy, and freedom. After the fall of the Berlin Wall, there was an interpretation associating the three dimensions both as a reference and as the ultimate goal for building societies. This association would then be synonymous with prosperity and individual accomplishment in an environment defined by countries whose operating rules emphasize the collective dimension of the nation.

Peter Thiel and some others believe that these terms may appear incompatible.

The libertarian idea is to find a way to escape the constraints of centralized states in order to have the capacity to develop activity and facilitate capital movements that are not conditioned by a centralized state. The type of desired institution can be seen in all the free zones, tax zones, and others that have developed, particularly since the Great Recession of 2008. There are 200 countries in the world and more than 5,000 of these zones, mainly in Asia, Africa, and Latin America.

A related idea is to challenge institutions and break away from the imposed framework. One illustration is to secede from the institutional framework. One example is the use of cryptocurrencies to no longer depend on the framework built around a central bank.

Another dimension is the incompatibility between democracy and capitalism. Capitalism is about constantly making choices about technology, markets, and the location of activity, while democracy is about making these choices dependent on collective decisions. The pooling associated with democracy therefore no longer appears desirable according to this worldview. The libertarian dimension of this approach is important to many people surrounding Donald Trump in the White House. This form is not always compatible with the dream of past prosperity associated with McKinley.

With the idea of secession in mind, the announcement of customs tariffs and the desired negotiation thereafter encourages this type of rupture and split, and situations of fragmentation could appear, because, in a territory, interests are not always shared by all. This is very explicitly the idea that there is about Europe and its cooperative construction and not based on the balance of power.

If the idea of tomorrow's world resembles this disintegration, America will not be spared. The deconstruction of American federal institutions by DOGE does not seem incompatible. But, at that point, how much confidence will international investors have in American financial institutions? Because the question is also posed here. Will American assets be able to remain those that everyone trusts on a daily basis and in the event of a crisis? This is a major question at a time when the US Treasury must refinance a large portion of its debt.

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This document brings together my various writings on Donald Trump's arrival at the White House, his economic policy choices, their impact on international trade, and on the world being built with its technological challenges. We must follow these developments because they are disruptive and will contribute to our future.

There are about sixty posts written mainly since the November 5th election. I've categorized them by theme and chronologically within each one. I've kept rewriting to a minimum, even though a few weeks later the temptation was strong to make adjustments in light of what had happened. I've limited myself to questions of form.



# Some introductory thoughts





## Being a macroeconomist today

To be an economist, one must be a theorist, a statistician, a historian, and an intellectual. One must draw on the world that is in order to build the world that is to come.

A lot is asked of economists because economics, by construction, is a synthesis of all these elements. We must be able to determine the framework in which we are situated and to know the point at which we are at a given moment. We must also be able to account for the future evolution of the world based on the constraints it will have to face. This part is particularly necessary today where, after some forty years of globalization, the balance of power is changing, climate constraints are increasing and technology is disrupting established positions.

I raise this question after reading the debate on the state of the macroeconomy organized by "Le Grand Continent." Olivier Blanchard and Barry Eichengreen assess the situation under the direction of Gillian Tett of the Financial Times.

Olivier Blanchard has been a well-known and respected macroeconomist for many years. He was the IMF's chief economist during the 2008 crisis. Barry Eichengreen is a brilliant economist specializing in capital movements and exchange rates.

These two authors have shaped macroeconomics in the way it is thought and taught. I read this debate with enthusiasm, being a long-time reader of both authors, particularly Blanchard.

Yet this discussion doesn't shed light on the questions we might have. Blanchard says he's optimistic because of a solid body of knowledge and an ability to make the right adjustments to new ideas and the changing world.

"I don't think we need a paradigm shift. We need evolution, not revolution."

We have a solid body of knowledge, but we find ourselves faced with a Phillips curve that no longer works, or unable to give the right advice in the face of stagnating productivity in Europe, while technology is changing the game.

Macroeconomics is faced with the need for a dual approach. How can we converge toward carbon neutrality? In other words, how can we define and calibrate a trajectory that converges toward a point in the future? How can we construct this framework, and what body of evidence should we rely on? Growth or decline?

The second consideration concerns how the economy can function if we largely do without fossil fuels. The world's development has been driven by the intensive use of coal, then oil and gas. Can the economy exist without these energies?

These are questions and elements of answers that we can hope for from such brilliant economists.

Source: Geopolitical Studies Group Gillian Tett Olivier Blanchard Barry Eichengreen Link <https://bit.ly/4akkFHJ>



## Being a Macroeconomist Today – Part 1

The debate about what a macroeconomist should be today continues. Tomorrow's macroeconomics will be shaped by the need to converge toward carbon neutrality. This is the only reasonable hypothesis that indicates the world will no longer emit carbon in order to stop fueling the greenhouse effect and fuel global warming.

Doing nothing is also an option, but then, with the temperature rising to 3 degrees above the pre-industrial average, the consequences for the population, agricultural production and the rest would be difficult to sustain.

Let us focus on neutrality because the road ahead is still very long and very chaotic.

Several remarks

- 1- The philosophy of the economy is changing. It is no longer driven by trade and enrichment, but by the awareness that resources are finite.
- 2- The world was organized around fossil fuels; we will have to get rid of them and learn to operate with a less efficient energy system. The stakes are high because the consumption of fossil fuels, oil, gas, and coal, will have to be reduced by 70 to 80%.
- 3- Nuclear energy will be insufficient to compensate. It represents 5% of primary energy consumption. Renewable energies will have to be used.
- 4- While fossil fuel operators are well-known and established, this is not yet the case for many raw materials. This will result in a race to exploit them and a renewal of the geopolitics of raw materials.

By establishing these elements, we quickly enter into a non-cooperative logic and a balance of power. We move away from the logic of exchange and into the appropriation of resources. This then contradicts the convergence towards a point in the future, the achievement of which should reflect cooperative behavior. For the economist, this is a form of impossible schema.

This suggests that there will be no smooth, seamless transition. This is why the carbon tax is a necessary but insufficient tool. The carbon tax assumes that it will be sufficiently restrictive to permanently alter behavior, particularly in the consumption of fossil fuels, but that powerful redistributive mechanisms will limit its impact on overall demand. This will not be enough.

If there are breaks, they can come from different sources

- 1- Consequences of the new geopolitics of raw materials
- 2- Less cooperative behavior from states in a world perceived as finite. The state is finally becoming strategic even though it knows it is less effective.
- 3- Production processes reflect a form of coordination between the different stages of production. This mechanism will be altered, in particular due to the two previous points.

To be continued tomorrow in "Being a Macroeconomist Today Part 2"...



## The big questions of 2025

### **Donald Trump's arrival at the White House is surrounded by great uncertainty and some concern.**

What about customs tariffs (hard or soft)?

This is the major risk with the arrival of Donald Trump at the White House on January 20.

Lots of announcements, but will they be effective, or is this a way to shift toward bilateralism and move away from the multilateralism hated by Republicans? In any case, for two months, it was a way to occupy space.

If tariffs are implemented, the impact on global activity will be negative, firstly through a drag on demand and then due to retaliatory effects. Xi has been very clear on this issue. For Americans, the risk is a higher cost, according to the Peterson Institute, which would be, on average, \$2,600 per household.

Entering into a logic of bilateralism means entering into a logic of power relations of the type: either you have a tariff at X% or you recognize American power and a bilateral agreement is negotiated rather in favor of the Americans. This is the logic that seems most likely to me, even if there are announcements in the days following the arrival of the president-elect in Washington.

### **What about territorial sovereignty (Canada, Panama and Greenland)?**

The biggest enemy of the US according to Trump is China. Anything that can help America in this task will be used.

Canada and Greenland are resources for reducing US dependence on raw materials and energy. These resources will be all the more exploitable as global warming favors the exploration and exploitation of resources, particularly in Greenland. The Panama Canal is heavily used by Chinese ships. Reclaiming it for the United States would put a strain on Chinese trade.

The Monroe Doctrine was a warning to European powers against interfering in potential US territories. In the FT on the weekend of January 11, he spoke of the Donroe Doctrine, where China would replace Europe.

### **What about deregulation (sustainability standards, banks, bitcoin, etc.)?**

This will be a major challenge. The first point to watch will be banking regulations, which Trump wants to ease. The resignation of the head of banking regulation on the Fed board is surely a signal. He wanted to increase the adjustment of bank capital to align with the Basel 3 model, which has been implemented since January 1st, in which risks are associated with capital requirements. One of the new administration's objectives could be to move away from the framework, perceived as too restrictive and too binding, of Basel 3 due to the capital requirements perceived as too stringent.

The macro-prudential and micro-prudential framework was strengthened after the 2008 crisis to reduce the risk of a systemic crisis and therefore of contagion within the banking sector and the rest of the economy.

Americans would thus emerge from the post-subprime crisis period. Reducing the capital compensation for risks taken by the banking sector means accepting greater volatility and the risk of a banking and financial crisis.

Bitcoin should become increasingly attractive as an investment. It's worth remembering that over 90% of the use of Bitcoin-type cryptocurrencies is linked to speculative trading (FDIC investigation). The replacement of the SEC chief is a step in this direction.

The most surprising thing, aside from Bitcoin's intrinsic use, is the appeal of using an asset that competes with the perceived risk-free asset of the global financial system. Furthermore, the amounts associated with it, which are based on nothing, could pose a systemic risk to the American financial system and the rest of the world in the event of a major problem in the management of the currency.

The third point is climate. The US will withdraw from the Paris Agreement next year. This will be faster than during Donald Trump's first term. It took the US four years to withdraw. Furthermore, American banks are withdrawing from the Net Zero Banking Alliance, which, like tech companies, is rallying to the options set out by Donald Trump.

But it will surely be more complicated because the states are not on the same wavelength.

### **Will the Fed retain its independence?**

Trump, because he was elected by the people, considers himself more legitimate to decide monetary policy than the unelected FOMC. Moreover, he believes, due to his professional experience, that he knows better than central bankers what to do, particularly regarding interest rates. This issue will be extremely acute because tariff policy will have an inflationary impact, and the Fed will then have to take a position.

Trump will want to find a way to influence Fed policy, either by changing the composition of the FOMC board members or by taking other actions.

The board's changes will be limited. There will only be one departure from the FOMC during his term, so there will be no change in the committee's views. Powell is chairman until May 2026 but a board member until January 2028.

The risk is the establishment of a shadow cabinet that would discuss all the measures taken by the FOMC for the discredit. This will be all the more striking as inflation is likely to resume with the tariff measures if they are implemented.



## The big questions of 2025

### What can we expect from China in 2025?

#### What is the situation of the Chinese economy? Is deflation looming?

Since early autumn, the government and the central bank have been intervening to rebalance growth by strengthening domestic demand. The main imbalance stems from the real estate market, which has been stalled for two or three years. This will be a long but necessary process.

The shift in perception by Chinese authorities stems from the need for robust domestic demand to stabilize economic growth. It also means becoming less dependent on international trade at a time when the geopolitical balance is shifting, particularly under the impetus of the United States.

In any case, Chinese growth will be weaker than it was, simply because the development of services generates fewer productivity gains than industry.

China is not in disarray, but it is experiencing strong adjustment needs after letting the real estate market drift and after having bet everything on industry (35% of global manufacturing production comes from China).

The authorities hope that the measures taken will effectively prevent the looming deflation, the impact of which would be devastating. (0.1% inflation in December and 0.24% on average for the year)

#### Will China continue its policy of refocusing on Asia?

In the reshaping of the global balance, China has an interest in considering its allies and how the global dynamic will be determined. This dynamic is not assured because the global balance is evolving. It wants to be the leader in the region while its relations with its major local rival, India, are strained. It would like to limit and reduce the influence of the United States.

This will be a major issue in the reshaping of the world. There are two dimensions: China's desire to control the Pacific coasts militarily and its choice to form economic alliances with other countries in the region. This reflects two very different approaches.

#### Can China take the risk of launching an offensive on Taiwan?

This is the big question which has two dimensions

1- China's desire to conquer Taiwan, knowing that the people of Taiwan are not only made up of Chinese who fled Mao's China. These Chinese, who migrated in 1949, represent approximately 10% of Taiwan's population. The rest of the population is of Chinese origin, but with migratory flows from the 17th and 18th centuries.

2- The ability of the West, and the United States in particular, to defend Taiwan. There is a democratic dimension, but also an economic dimension due to Taiwan's influence, particularly through TSMC, the semiconductor manufacturer.

Is there an emergency on China's side? I don't think so.

As long as China's internal dynamics remain unreliable, it will not risk cutting off the sources of its growth, which is still highly dependent on exports. It will not want to expose itself to Western sanctions, as is the case with Russia, because its exports to the US and Europe are very significant. As long as the domestic market does not replace exports, conflict will be postponed.

Xi brings up the Taiwan issue whenever he can, but it remains in the realm of potential, just to maintain tension.

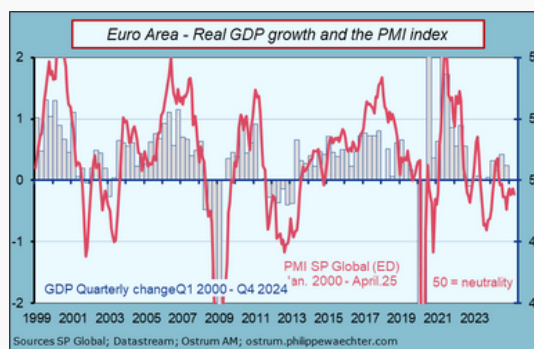
### How to position the Eurozone in this new context?

#### What is the economic situation in the Eurozone, particularly in France and Germany? Is there a risk of a recession?

The Eurozone is in a fragile cyclical position. A major reason is insufficient domestic demand.

Consumption is following a mediocre pace, reflecting the loss of purchasing power since the inflationary episode, high energy prices and the aging of the population which is reflected in higher savings among seniors than among young people (this is traditional but has been reinforced by the recent inflationary episode). Furthermore, Germany is in the process of reflecting its economic model which is suffering from fewer outlets in Asia and China in particular and which is penalized by high energy costs. Germany is also suffering from a serious political crisis which is limiting risk-taking and investment for households and businesses.

In France, the demand issue is a major one, with reduced consumption, particularly for goods. The necessary fiscal rebalancing does not call for a spending spree, as consumers and businesses alike feel that a decision in favor of higher taxes will be made at the appropriate time. The final point of weakness in Europe is the labor market. After a surge in employment following the pandemic, the labor market is adjusting to economic conditions, particularly the lack of an immediate recovery. This could result, and may already have begun, in a decline in employment.







## The big questions of 2025

### What about inflation and ECB policy?

The inflation rate has fallen sharply, notably due to a reduced contribution from the price of goods, food prices and the negative contribution from energy prices since the beginning of 2023.

The problem for Christine Lagarde is the price of services, which is not adjusting downwards, leaving the risk of an inflation rate above the target for some time to come.

The adjustment of the labor market should result in a lower increase in wages, leading to a decline in the price of services. Wages are clearly slowing down in France and to a lesser extent in Germany, and this should allow inflation to settle at a lower pace.

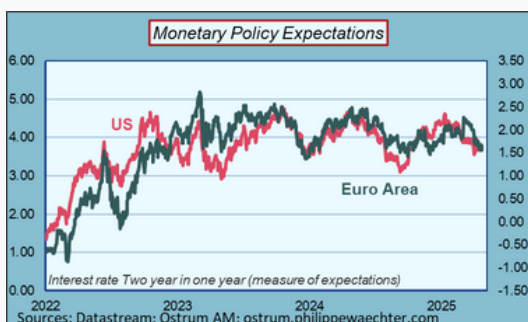
The ECB is somewhat more concerned about the pace of the economic cycle, as it assumes that the inflation rate will converge more quickly than expected in September towards or beyond the 2% inflation target. Such an environment would give it room for maneuver.



### What are the outlook for the Euro/dollar?

The euro's exchange rate is trending downward against the dollar, and that's a good thing. This helps create a competitive boost for economic activity.

This also reflects the mediocre cycle in Europe and the perception that monetary policy is not necessarily convergent between the Fed, whose rates could remain higher, and the ECB, which must lower its rates to avoid a recession. This new perception is reflected in the graph. The new feature is that there is no longer necessarily uniformity in the monetary policies of Western countries. This could result in marked adjustments to the exchange rate.

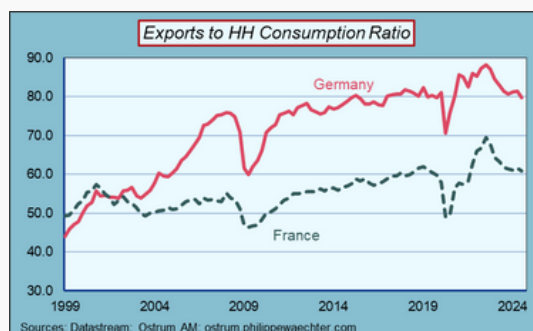


### What is the risk associated with political uncertainty in France?

The economic cycle operates with sources of impulses that guide the profile of economic activity.

In Germany, exports have played a major role, particularly since the reform of the labor market in the early 2000s.

In France, consumption plays this role. The graph illustrates this divergence. In Germany, the weight of exports is close to that of household consumption. In France, consumption remains the main driver of growth.



As a result, the emerging pattern for France remains highly dependent on the pace of consumption. Economists argue that a falling inflation rate will reduce the incentive to save and increase the incentive to consume.

In this context, political uncertainty can play a role. The high savings rate can also reflect a form of Ricardian moment. Ricardo raised this point by saying that a fiscal policy associated with a large public deficit would ultimately result in a tax increase to finance it. This trade-off is generally not validated by empirical studies. But for France, at a time when the public deficit is attracting everyone's attention, the imbalance in public finances could lead to the maintenance of a high savings rate because there is uncertainty about how the reduction of the public deficit will be implemented.

In the past, the economy's underlying growth and limited public deficit were enough to reassure households. Growth in activity, aided by expansionary fiscal policy, meant they didn't have to worry about financing the entire situation.

What has changed is a lower growth rate since the end of the Great Recession, but a significant imbalance in public finances more recently. This is the aspect that must be corrected, and political uncertainty is leading to questions about how this management will be carried out. This could fuel a form of Ricardian behavior that would penalize the cycle in the short term. Compared to a situation where the government had a majority in the National Assembly, the difference stems from the certainty of who will be prime minister for 1, 2, or 6 months and what majority will carry it.



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# Europe





## Europe and its industrial policy

The United States and China have chosen to strengthen their industrial policies to be able to continue to innovate and maintain the course of a technological dynamic generating productivity and additional income.

By strengthening their domestic demand, these two economies will have a stable base in the face of a more uncertain international environment. Industrial policy must help modulate the direction of the economy to gain autonomy because the world is no longer as cooperative as it was during the rise of globalization.

Strengthening internal dynamics should reduce the risks of excessive sensitivity to shocks from the rest of the world while reducing the volatility of productivity gains and associated jobs and income.

In Europe, on February 26, the main thrusts of the industrial strategy will be presented. This is an important step that will reflect the Europeans' response to the American and Chinese challenges. In a less cooperative world, we must be able to define ourselves through an autonomous strategy.

Stéphane Séjourné, the new European Commissioner, gave an interview to Politico, outlining the main points of what could be the European strategy for industry.

There are 3 main axes

- Be active in maintaining existing industrial businesses. This involves specific aid.
- Define a strategy to reduce energy costs which are much too high in Europe compared to the US. This is a competitiveness challenge.
- Give an active role to public markets, particularly to accelerate low-carbon strategies.

Such a framework would make sense if the industrial sector were in a normal cycle. This is not the case. It is in acute crisis in Germany. The Draghi report speaks of massive investments, disruptions, and milestones to innovate and generate productivity gains.

In the interview, despite some inflections, there is more continuity than rupture. This does not seem to be commensurate with the challenges of bringing European industry out of its torpor.

But the final blow probably comes towards the end of the interview when the subject of a rapid agreement with the US to avoid a trade war is raised. Christine Lagarde shared this point a few weeks ago.

This is a way of acknowledging Europe's inability to manage without the US. Europe thus agrees not to interfere in global discussions and to accept American positions. This may be a principle of reality, but it can be satisfactory.

By tying its hands in this way, Europe will probably have to accept that the objectives it defines as major could become secondary in order to comply with American wishes. We are thinking here of the climate and the death of net zero, which I mentioned yesterday.

Source POLITICO Europe Stéphane Séjourné Link <https://politi.co/4gGBWNK>



## Europe's dependence on America

Donald Trump is now in the White House. The MAGA (Make America Great Again) slogan he championed throughout his campaign could be translated as "me first." It's a vision that stands in stark contrast to what the United States has been doing for at least 70 years.

The Marshall Plan provided significant aid to Europe to facilitate and accelerate post-war reconstruction. This choice also reflected the choices made in the institutional construction of international society at the time. The United States was thus taking advantage of its major role in resolving the Second World War.

This asymmetry between the two regions of the world was not called into question. It could be called into question with the return of Donald Trump to Washington, thus upsetting the European balance.

There are three sectors plus one that are frankly dependent on American research and production.

1. Defense is Europe's primary dependency on the United States. The Americans, through NATO, defended Europe. As a result, the arms sector developed rapidly across the Atlantic while remaining very insufficient in Europe. And if Europe needed weapons, it obtained them from US manufacturers. France and Great Britain were exceptions. Challenging this agreement would harm Europe but would benefit American arms manufacturers since Europe would have to rearm quickly, especially if maintaining NATO is linked to a sharp increase in defense spending by each European country (5% of GDP).

2. Europe is highly dependent on American technology. There are the GAFAM companies, but also semiconductors and innovation more generally. This was the observation of the Draghi report, which highlighted the structural insufficiency of European investment, resulting in a significant delay in innovation and the capacity to innovate, and causing less growth in per capita income in Europe than in the USA.

3. Energy. This became particularly acute with the gas crisis in 2022 when the war in Ukraine broke out. American liquefied gas had been and remains a lifesaver. Europe suffers from a lack of natural resources. As a result, the price of gas is much higher in Europe, creating an incentive for industrial companies to expand across the Atlantic. This should push Europe to further develop low-carbon energy.

4. Finally, Trump's return to the White House will profoundly alter the European political balance. Italian, Hungarian, and other leaders will see it as a kind of model that is incompatible with European integration.

Europe must reinvent itself because catching up will take a considerable amount of time; there is an urgent need to mobilize.



## Europe facing the world

Following the speeches by US Vice President JD Vance and US Secretary of Defense Pete Hegseth, Europeans can no longer entertain any illusions about American support. The US's protective role in Europe now appears to be a thing of the past.

Thus, time has accelerated and Europe must question its autonomy. The recent reports by E. Letta and M. Draghi provide an initial measure of the changes that must be made to achieve this autonomy.

Several thoughts.

The first is energy. Europe is heavily dependent on imported fossil fuels. This is a lever through which Trump wants to increase his dependence on the United States. This should be an additional incentive to further develop renewable energy and reconnect with nuclear power to gain the capacity to produce the goods and services that Europeans need.

The second is defense. This issue, urgent given the nature of the negotiations in Ukraine, is being hotly debated throughout Europe, with budget increases and this item being given special status in budget management.

The third is more autonomous financing. The Capital Markets Union would allow Europe's excess savings to be harnessed within Europe. This is essential for financing energy and defense needs. It should be a source of attraction for investors and strengthen the credibility of the construction being put in place.

The fourth aspect concerns innovation and technological dependence on the United States. The needs are considerable and essential. AI initiatives must not remain a dead letter.

Europe must also reaffirm its commitments on climate change. Trump wants to remove the associated constraints, but in the long run, he's wrong. European companies, which also see this as less regulation of their activities, should think twice.

By reaffirming its struggles, Europe must also give itself the means to become attractive again to researchers from around the world. This will help retain the minds that may be tempted by the American approach and attract others, because human capital is the major lever of the transformation that awaits Europe.

But Europe must also assert itself as a will, as a framework within which the destiny of Europeans can flourish. This is perhaps the most complex stage today, with the rise of populism that challenges the long and patient construction of the old continent. Democracy has been Europe's strength and must remain so.

Europe must transform itself quickly and shift its priorities. It must mobilize resources that will take it out of its comfort zone. Faced with China and the United States, it must take stock of its power and recognize the need to avoid falling into a dependence that would be deadly.



## What has changed for Europe?

Things have moved very quickly since Trump arrived in the White House just six weeks ago. But for Europe, what is changing?

Three levels to consider.

- 1- Economic policy. The tariff barriers of the new American administration will have negative effects on global activity, with the risk of also generating a little more inflation.
- 2- The political shock when Europeans perceived that the United States was no longer the guarantor of their security.
- 3- The American disengagement from the fight against climate change is a shock for the Europeans who had based their strategy on this structuring choice.

We need to go further in the analysis.

Regarding the economic policy shock, which is regrettable, the dynamics of the economy remain within the scope of the model we know. The parameters associated with customs tariffs push the model to its limits, but there is no break. If there is a break, it reflects the departure from a cooperative and coordinated environment that had enabled the development of globalization. The response is to become less dependent on fossil fuels and on innovation. This requires efforts that lead to adjustments in macroeconomic priorities.

The political shock is more complex because it takes Europe out of the framework in which it was established. The effort must now focus on security in all its forms. The United States is no longer there to protect us. We must radically revive military spending, make it a priority, and balance it with other expenditures. We absolutely must rethink the hierarchy of Europe's political objectives.

The model is no longer the same, which raises the question of the composition of countries playing by the same rules. We have seen the rapprochement between France and England, but also the distrust of Orban and Fico regarding European choices. Georgia Meloni will have to define herself more precisely. The reconstruction of Europe depends on this.

The third point is the climate. The European Commission had made it its primary objective. The United States' withdrawal from the Paris Agreement and the decision to favor production at all costs over sustainability objectives have destabilized the choices made in Brussels. The climate issue is no longer at the top of the pile of issues to be addressed.

On this point, either Europe reaffirms the legitimacy of its fight or it aligns itself more or less with the American position. Companies that do not necessarily benefit from more favorable conditions in Europe due to higher energy prices could tip the balance.

Europe must reinvent itself. It has had the talent to invent itself in the past; it is now up to it to show that it is capable of rethinking itself to increase its autonomy and maintain its place in the community of nations.



## What if the German recovery plan was the long-awaited boost for Europe?

Since 2019, the German economy has stagnated, and the negative impact of Covid has been caught up with but not overcome. German GDP increased from 100 to 100.2 between 2019 and 2024. In France, using the same benchmarks, the 2024 figure is 103.5, and that of the Eurozone is 104.7.

Germany's slow growth has been a handicap for the whole of Europe. The infrastructure stimulus package and the increased military budget could change everything. The measures are of significant magnitude. They represent a boost of 1% of GDP each year over 10 years. However, the distribution of spending over time is unknown.

Two points: Since the German state is not in debt, it will easily find financing even if the interest rates paid on the debt are a little higher. There will be no immediate spending arbitrage, thus facilitating the speed and effectiveness of the plan. The second aspect is that by prioritizing infrastructure, digital technology, and renewable energy, the plan will revive the German domestic market. This recovery, first through businesses, then the job market, and finally consumers, will increase imports, which will benefit Germany's partners.

When German domestic demand grows faster than that of France, Franco-German trade improves rapidly, benefiting France. This mechanism is also true for Italy and other European countries, as Germany is generally their largest economic partner. This will result in an acceleration effect.

Thus, Italy, which will export more to Germany, will use French products for its manufacturing.... It is this multiplier effect which will have a very favourable and lasting impact on the European economy.

Two more remarks: The German model depended on Chinese impulses for its exports, cheap energy from Russia, and the American military umbrella. Nothing works anymore. This is an opportunity to refocus German activity to satisfy, in Europe, this quest for autonomy in decision-making and production in a more hostile world.

This plan gives substance to Europe in the medium term. It should also provide opportunities for new institutions that promote further integration, such as the Capital Markets Union.

The second observation is that the inflationary nature of the spending will depend on the sequence of expenditures. If they are too high at the outset, this would result in new wage pressures, the consequence of which could generate inflationary risks.

This plan should ultimately help reduce downward pressure on struggling sectors. It won't turn them into Phoenixes, but it will limit a form of systemic risk while allowing the development of new activities.





## The world has changed without Europe

"We have no eternal allies, and we have no perpetual enemies. Our interests are eternal and perpetual, and it is our duty to pursue those interests." These are the words of Lord Palmerston, British Foreign Secretary in 1848, that Europe should have long since incorporated into its foreign policy framework.

With the disruptions observed on a global scale, Europe finds itself helpless. It believed more than any other part of the world that trade, democracy, and institutions were sufficient ingredients for a lasting peaceful framework. This Europe of peace has probably missed moments that should have been seized to adopt a geopolitical strategy consistent with a changing environment.

Today, the unsupportive policy of the White House since the arrival of Donald Trump towards Europe creates the perception that the old continent has, for a long time, indulged in a form of euphoria, withdrawn into its own construction and ultimately paying little attention to world affairs.

According to Jo Inge Bekkevold in a recent article in Foreign Policy, Europe has failed to act vigilantly at three important moments in recent history.

The first is the failure to recognize the imperial revival of Russian power. The energy trade, particularly, reflected the idea that deeper trade would be beneficial and lead to stability on the continent. This has prevented the resurgence of Russian power.

The second point is that China's rise has forced the Americans to shift their military focus to the Pacific and away from Europe. This shift in policy direction took place in the early 2010s, but it has not prompted Europeans to rearm. Military budgets have increased in only four countries. This is insufficient given the already noticeable American withdrawal.

The third moment is the rapprochement between China and Russia since 2014. China has allowed Russia to not feel isolated despite the tensions in Ukraine after the invasion of Crimea.

These three recent events should have been wake-up calls for Europe, signals of its isolation from the other three powers. Now it's time to compensate for the end of cheap access to Russian gas, take into account the shift in American interests, the Sino-Russian agreement, and recognize that the American umbrella over Europe is no longer as effective.

Thus, in a limited timeframe, Europe must adopt a strategy that could have been implemented over the past ten years. This would have been beneficial for growth and would not have led to the haste and urgency in which Europe is now immersed, with the risk of disorganization penalizing activity and employment.

The world had changed and Europe did not want to notice it.





## And how should Europe react?

A bilateral trade deficit in the United States necessarily reflects manipulation and taxes by the other country. It must therefore be corrected. This is the spirit of the measures announced by Donald Trump on customs tariffs.

Thus, the tariff applied to each country corresponds to the trade balance divided by that country's imports into the US. If the rate is positive, it is divided by two and corresponds to the rate announced by Donald Trump, with a minimum of 10%.

In other words, any bilateral deficit of the United States testifies to a plundering of the American economy, the tariff must correct this imbalance thus conditioning its behavior to American wishes.

This vision does not correspond to historical reality but to the American desire to impose its leadership and its capacity to be the ultimate decision-maker.

With this in mind, what might Europe's reaction to these new tariffs be?

1- Europe can negotiate a lower rate to be less penalized. This is a possible option for Ursula Van der Leyen. The balance of power that would be established would be in favor of the Americans, who would then be in a comfortable position to negotiate and accept or reject the proposals. This is a choice in which the USA imposes its ideas since the negotiation would focus on Europe's acceptance of American grievances.

2- Europe can take retaliatory measures to avoid being subjected to excessively high customs tariffs and use the balance of power in its favor. However, this would risk raising customs tariffs, as suggested by Scott Bessent, the US Treasury Secretary. The shock would then be even more severe for business and employment.

3- A form of contempt where Europe, in the face of excessive customs tariffs, would go and negotiate alliances with other countries (India, China and others). American tariffs are accepted, but history is written elsewhere than in American dependence.

The first two reactions are consistent with the White House's choices. For a country, entering into negotiations within this specific framework means making its choices conditional on those of Donald Trump.

Implementing retaliatory measures is a possible option for China, whose vision is long-term and whose economy is very powerful. Isn't Europe too scattered to take this path? Such a showdown would require a similar approach from all countries in the Union.

Ultimately, the most sympathetic option appears to be one in which Europe ignores American wishes. This cannot be an easy path given Europe's dependence on US technology and NATO, which is still in place. But it could be a way for Europe to gain its independence and increase its autonomy. It is not the knee-jerk, playground option, but it is probably the one that will allow us to sign the European renewal that we are all waiting for.



## Europe, productivity and aging

Europe must find greater autonomy in the somewhat crazy world that is emerging. China is no longer such a strong market, Russia is no longer a cheap source of energy, and America no longer has the same capacity to protect Europe and carry it along in its economic cycle. Faced with a form of verticalization of the world, Europe must first count on itself if it wants to continue to count against China and the United States.

Europe must have the capacity to innovate, enabling significant productivity gains capable of driving sustainable increases in income. This is because a large part of the per capita income gap with the United States stems from productivity growth that is too slow in Europe. This is the observation of the Draghi report. We must therefore be able to work at the technological frontier and no longer just below it, as we tend to do in Europe.

Two counterpoints: Innovation requires people, and a major observation is that Europe is unable to retain high-level researchers and engineers. They are attracted by technical resources, a research environment, and remuneration that Europe has never been able to offer them. This is a first counterpoint.

The second counterpoint is the rapid aging of the population. The number of people over 65 will exceed the number of people under 20 in France by 2030. The dependency rate is rising rapidly throughout Europe. In Italy, those over 65 could represent more than 70% of the number of working people aged 15 to 64 in the coming years.

Two comments: We need to revalue the remuneration of active workers to encourage them to work for themselves and for the growing proportion of retirees who need to be financed. But, and this is the second observation, an aging population is a population that innovates less. A recent study published by the CEPR indicates that qualified people continue to enrich their knowledge until their forties before seeing their capacity to learn reduce with age. For those with few qualifications, the shift is more rapid and the difficulties in learning become a handicap. An aging society no longer has the capacity to accumulate knowledge, which is the necessary path to innovation. Training must take a different form to reduce this risk to knowledge accumulation.

Europe's dilemma is therefore that it must invest massively to innovate, but with a rapidly aging population whose capacity to accumulate knowledge is diminishing. The choice is therefore political, because the rejuvenation of the population can only come from political decisions on migration flows in particular and an increase in the retirement age. Without this, it will not be possible to maintain a high income for all.



## The four cardinal points of Europe

"But in their own way, Europeans have created a place where they are guaranteed rights to what others desire: life, liberty and the pursuit of happiness." This is the conclusion of a recent article in "The Economist."

In a world where the rules are changing abruptly, Europe must fight to maintain its strengths. In many countries, freedoms are under threat, power is growing stronger, and oligarchies are dominating. This is not the case in Europe.

Europe must be at the heart of this new equilibrium that is emerging. It must gather its strengths before redeploying. Strengths and weaknesses will be structured around four axes.

The first is that of the institutions with two priorities which must facilitate the autonomy of Europe.

The Capital Markets Union, renamed the Savings and Investment Union (SIU), aims to maintain the €300 billion savings corresponding to the external account surplus in Europe. These savings must find vehicles that will keep them in Europe while financing investment.

The second priority is the complete internal market in order to have a vast market allowing for scale effects and facilitating the emergence of European champions so as to no longer be so dependent on foreign technologies. Europe must be able to exist through its technology.

The second axis is innovation, which should enable the emergence of cutting-edge technologies and thus improve Europe's productivity. Productivity gains are the necessary condition for increasing income over time. Europe's gains are insufficient, explaining the divergence in trajectory with the United States. This is what Mario Draghi explained in his report. One component of this axis on innovation is military development. We remember in the 1960s the common dynamic in the United States between the military and industry. Europe must promote overlaps between these two branches.

The third area is energy. This is a weak point since Europe imports the majority of its fossil fuels, which represent 70% of its primary energy consumption. Renewable energy developed rapidly after the 2022 crisis and now provides a greater contribution than fossil fuels to electricity production. We must go further. Nuclear power is a choice that has been revived to stabilize electricity production when conditions do not favor renewable energy.

The fourth axis is the demographic challenge resulting from the rapid aging of the population. This aging weighs on the dynamics of growth and penalizes our capacity to innovate while raising major questions about the distribution of income between active and non-active people but also about the nature of the flows of foreign populations to allow innovation by rejuvenating the population.



# Donald Trump at the White House



## Donald Trump, the balance of power and unpredictability

Donald Trump has won and now has considerable power since he was voted into office by the Americans, he is in the White House, he holds the Senate, he has a majority on the Supreme Court and he will probably also have a majority in the House of Representatives.

His ability to govern without compensation is considerable. Moreover, he has an additional advantage compared to 2016, as his current collaborators are all in his debt, whereas at that time many came from the presidency of George Bush Jr.

However, by the mid-1980s, it was noted that Gorbachev had all the power, but this did not save the USSR. In other words, power without compensation is not a guarantee of success.

### What does this change?

After the Second World War, the institutions established aimed to avoid repeating the mistakes of the first half of the 20th century. They were intended to help define common rules that would benefit the collective interest. The integration of China and the dynamics of globalization were part of this common interest. The increase in trade has transcended political conflict.

Divergences began to emerge shortly before the pandemic, with the emergence of imbalances caused by globalization. This primarily reflected China's economic and political maturity, its capacity for innovation, and the challenge to American power.

The Chinese example has shown that a different path is possible. Putin, Orban, and Erdogan have all embraced it, emphasizing power struggles over respect for the rules. As a result, collective momentum has been weakened.

The United States appeared, along with the Europeans, as the guarantors of the initial rules, considering that the democratic and market model that they supported was the reference towards which it was necessary to strive.

Trump's arrival is reshuffling the cards. Alliances like NATO are weakened, and the challenge to territorial integrity is a source of concern. The balance of power is shifting in the United States' relations with the rest of the world. American policy could become unpredictable.

For the new American president, the rules that will prevail will be those carried by America.

This is explicit in the questioning of measures aimed at combating global warming and in the desire to drill ever more fossil fuels, in contradiction with the convergence towards carbon neutrality.

In other words, in the space of ten years, the common rules and the choice of collective interest, which had allowed the long period of growth, have been frankly set aside.

Trump tips the balance towards the unpredictable.

### For Europe?

The every-man-for-himself approach outlined by Donald Trump's program will have at least two major consequences for Europeans.

The first is the impact of the tariff increase Trump promised upon his arrival in the White House: 10 to 20% for all and 60% for Chinese products. This risks having a lasting impact on global trade dynamics. Europe will be directly penalized. This risk to activity will not be offset by the implementation of expansionary fiscal policies in Europe.



## Donald Trump, the balance of power and unpredictability

The other point concerns the United States' attitude toward NATO, and therefore the security of the world and Europe in particular. Especially if, as Trump promises, the war in Ukraine is stopped within 24 hours.

The questioning of the collective interest is also seen in the Paris Agreement, which the USA could once again leave.

Furthermore, it was emphasized that the Chinese and Americans did not agree on anything, except on the climate, where cooperation was good. This will likely no longer be the case. The objectives of the two countries are likely to diverge.

### To conclude

Challenging the rules does not mean a stabilized dynamic.

It would be wrong to believe that the economy, left to its own devices, would converge toward the most efficient growth path. The economy needs rules and institutions to function efficiently. This year's Nobel Prizes in Economics are a testament to this.

In a tweet responding to the results, Olivier Blanchard noted: "I'll defer to historians and climate scientists. But when the world is largely governed by autocrats or would-be autocrats, I suspect the standard deviation of what can happen increases considerably."





## The end of American democracy was all too predictable

### Excerpts

For 2,300 years and since Plato's Republic, philosophers have known how demagogues and would-be tyrants win democratic elections.

In a democracy, everyone is free to run for office, including those unfit to lead or preside over government institutions. One telltale sign of this unfitness is the ability to lie without restraint, particularly by presenting oneself as a defender against the people's perceived enemies, whether external or internal. Plato believed that ordinary people were easily controlled by their emotions and therefore susceptible to such messages.

This type of policy was not necessarily doomed to success. As JJ Rousseau argued, democracy is most vulnerable when inequality in a society has become entrenched and too glaring.

Deep social and economic disparities create the conditions for demagogues to exploit popular resentment, and for democracy to eventually collapse in the manner described by Plato. Rousseau therefore concluded that democracy required widespread equality; only then could citizen resentment be so easily exploited. People who feel wronged (materially or socially) come to accept pathologies – racism, homophobia, misogyny, ethnic nationalism and religious bigotry – that they would reject under conditions of greater equality.

It is precisely these material conditions for a healthy and stable democracy that are lacking in the United States today. On the contrary, America is defined today by its massive inequality, a phenomenon that can only undermine social cohesion and breed resentment.

There was a tacit agreement among politicians not to engage in such a divisive and violent form of politics.

Under conditions of deep inequality, this kind of coded policy eventually becomes less effective than its more explicit version. What Trump has done since 2016 is toss out the old tacit agreement, calling immigrants vermin and his political opponents "the enemy within." Such an explicit "us versus them" policy can be very effective. Democratic political philosophy, then, offers a good analysis of the Trump phenomenon. Tragically, it offers a clear prediction of what will follow. According to Plato, the kind of person who campaigns this way will rule like a tyrant. Based on everything Trump has said and done during this campaign and his first term, we can expect Plato to be right, once again.

Source: Project Syndicate Jason Stanley Lien: <https://bit.ly/4ffu317>



## Is Donald Trump's program credible?

And now, what will happen? This is the question we are all waiting for as we await Donald Trump's inauguration into the White House on January 20.

We can get a taste of the directions that will be taken by observing the various appointments that have been made. From Marco Rubio to the creation of DOGE (Department of Government Efficiency) for Elon Musk, the options taken appear unorthodox. They will have to be confirmed by Congress. It should be noted, however, that while there are appointments to health, education, the UN, and elsewhere, there is currently no one as Treasury Secretary to replace Janet Yellen.

Trump's economic program can be summarized in a few points.

The key element is opposition to free trade, which is associated with multilateralism, a historical source of deterioration of the US economy, according to Republicans. To work, multilateralism must be part of a framework with established rules that are identical for all.

1. Donald Trump, already in his first term, wants to steer trade toward a bilateral level. The goal is to give the United States negotiating power commensurate with its economic might.
2. The customs tariffs promised by candidate Trump are only a reflection of this preference, even if it means negotiating the level of import taxes by country based on the negotiations.
3. The power of the US economy must be used to support local employment, particularly in the manufacturing industry.
4. By refocusing American production on American soil, Donald Trump wants to give the economy the capacity to innovate and not be dependent on the rest of the world, particularly China.

This protectionist bias had already been observed during Trump's first term. The results were mediocre. The external balance was higher when Trump left the White House than when he arrived. The impact on employment was ineffective. Each job saved came at a high cost. Ultimately, it was the consumer who paid the bill, as the price increases across the border were passed on to the consumer.

This assessment is negative, but the border measures only affected a limited amount of imports. The border tax measures proposed by candidate Trump would be 10 to 20 percent for all products imported into the US and 60 percent for Chinese products. The amount of products subject to the tax is multiplied by 10.

The American consumer will be the big loser in this story. There are two reasons for this.

1. America doesn't manufacture all the goods consumers need. The US share of global manufacturing output is 12%, according to the OECD. This is low, and it means that 88% of the output is manufactured and destined for other countries. Why would companies lower prices specifically for Americans while maintaining the same price for consumers in other countries?
2. Let's imagine a rate of 20%. Which companies can afford to reduce their margins by such a large amount?



## Is Donald Trump's program credible?

In fact, the consumer will pay twice: for the price of the imported good purchased in a store and for the good manufactured in the US but with intermediate consumption purchased abroad by the American company. The American value chain will be affected, with the risk of creating persistent inflation.

The Peterson Institute calculated the additional cost of the measures for consumers, which would be \$2,600 for the typical American consumer.

Furthermore, the measures taken by the American government will lead to retaliation. During the first term, Europe was threatened with border tariffs, but all European countries showed solidarity, forcing Washington to abandon them. Things will likely be different in 2025. In 2016, China was the main target. It responded by exporting via Vietnam and Mexico, rendering the American measures null and void.

American inflation, a global trade war, and a negative impact on economic activity are the likely outcomes of the measures Donald Trump would take upon his arrival at the White House.

This should be sufficient deterrent to reduce the likelihood. Rationally, no one wants to fall into this logic that penalizes the American economy first and the global economy second.

From an analytical point of view, this faces two obstacles.

1. The first is our inability to think about disruption, our inability to imagine that the excessive measures that could be taken will actually be taken. The framework in which we all grew up is one of great moderation, with little volatility in growth and inflation and a form of regulation that limits excesses.
2. Since the worst is never certain, it's more comfortable to imagine that the most unpleasant outcomes won't materialize. And examples are provided to demonstrate this assertion. In 2016, after Brexit, the situation in the United Kingdom was expected to be dramatic, with a considerable loss of revenue as a result of leaving the European Union. A recent study by the Center for Policy Reform, however, indicates that the loss of revenue for the United Kingdom was around 5.5% compared to remaining in the EU.

The Americans chose not to keep the Democrats in power. Donald Trump gained 2.5 million votes compared to 2020, while Kamala Harris lost 7 million compared to the vote for Biden.

I won't analyze the vote, but the policy that Trump will pursue can be perceived as credible. Two reasons

- In the short term, the impact will be negative for the reasons mentioned. However, there is a desire for change in Trump's speech that will allow him to indicate that the convergence towards Make America Great Again (MAGA) will be a long process with a cost to breaking away from the current model.



## Is Donald Trump's program credible?

- The option is credible because a good portion of Americans seem ready to accept it. A bit like Brexit. The majority of Britons outside London and Surrey voted to leave, believing things would be better afterward. We don't necessarily know what Americans who vote for Trump expect, but they clearly want something else, something that will give him political credibility.

The model may no longer be one of great moderation. The rules Republicans want to follow are those that are exclusively favorable to America. There will be shocks and volatility, and we must prepare for that.

Politically, the option of breaking away may be credible to Americans. However, economically, the direction is all the less credible given that America now carries much less weight in the world than it did in 2016. The shock will only be more violent. And the world will continue to function even if the United States wants to play a different game.

The measures and their consequences are still uncertain, but the economy risks losing predictability if everyone pursues policies that suit them without taking into account the rest of the world.

Cooperation is waning and the balance of power is returning. This is the lesson of Trump's election for the global economy.



## Donald Trump et la Fed

Donald Trump's victory was unambiguous. Investors welcomed this success: the dollar appreciated and the Dow Jones climbed to its all-time high. However, the new American president's remarks raise questions, even concern and uncertainty for the financial markets.

The major issue for investors is the independence of the central bank, the Federal Reserve, which decides monetary policy. Its strategy must ensure price stability and the highest sustainable use. The benefit of independence is to have a different perspective from that of the government in managing the economic situation. This is what has displeased Donald Trump since his first term.

**"My only question is who is our greatest enemy, Jay Powell or President Xi" (D.Trump on X)**

During his first term, Trump railed against the Fed's rate hikes, believing that the central bank should not be the sole decider on interest rates. During the recent election campaign, he reiterated his distrust of the institution and its chairman.

He's not the first president to rail against the central bank. Nixon, Reagan, and many others did so. However, since Clinton's first term, and with the exception of Trump, the White House has refrained from any comment on the monetary institute, thus respecting the independence of its decisions.

In his potential standoff with the Fed, the new White House tenant has several weapons at his disposal

Jay Powell will leave the Fed in May 2026. Trump can wait until then and then appoint one of his cronies.

- Only one other FOMC member (excluding the regional bank presidents) will leave the Fed at the end of their term during the Trump administration. This is not enough to reverse the choices that will be made.
- FOMC members could resign before the end of their terms to allow for another choice. This has happened before.
- Trump could remove Powell from office. Powell has said in advance that he would not do so if Trump asked him to. If the new president decides to remove Powell, the case would end up before the Supreme Court.

It is not known what strategy Donald Trump will pursue, but the relationship could deteriorate if, due to the new president's economic policy measures, inflation threatens to rise again.

The massive tax cuts will fuel demand, and tariffs will put pressure on business costs. The combination of the two will be inflationary, forcing the Fed to raise its benchmark interest rate.

This is where tensions could arise, as Trump wants low interest rates at all costs.



## Donald Trump et la Fed

A conservative central bank generally guarantees a low and relatively low inflation rate, much like the 30 years before the pandemic.

Central banks are independent to avoid any interaction with political power, thus reducing the risk of high and persistent inflation. This was the subject of much theoretical development in the early 1980s. A conservative central banker generally resulted in a low and relatively unstable inflation rate.

If the White House were to rein in the Fed's neck, the central bank's credibility in meeting its objective of price stability and promoting growth could be profoundly affected.

The issue of the relationship between the central government and the issuing bank is not new, but it has taken on a new urgency with Trump's second term. First, because the new president has a distrustful attitude toward the central bank's regulatory capabilities, and second, because Trump wields all the power in Washington. He could then have the means to influence the monetary institution's destiny.

History cannot be written in advance, but if this step to reduce the Fed's independence were to be taken, it would inevitably create uncertainty about both the pace of future inflation and the ability to curb it. This would fuel expectations of a higher inflation rate, which would translate into a risk premium on interest rates. Throughout the inflationary episode that began in spring 2021, the Fed and other central banks managed to stabilize inflation expectations, helping to stabilize the economy.

In an economy that is about to undergo profound changes, taking the risk of a high and volatile inflation rate is certainly not the right choice. Such a threat would generate uncertainty and therefore reduce the economic horizon. At a time when massive investment is needed, this would undeniably be the wrong option.

This is why I will be paying close attention to these developments. Because if the Fed loses its independence, the movement could be launched...





## Donald Trump takes office on January 20

Post-World War II institutions created rules for the functioning of global society in order to generate a form of coherence in the face of complex situations. The past half century had been dramatic, the result of a lack of dialogue and the ability to intervene.

The new group was fairly homogeneous within developed countries, but beyond this perimeter, attitudes could diverge. After the fall of the Berlin Wall, the collective feeling was that this break would allow for the respect of established rules.

This illusion didn't last. China, Russia, and even India didn't fall into line. They didn't become democratic for those who weren't. The economic game worked well, but without any political translation. It was necessary to be able to seize economic opportunities and transform them into wealth, without this necessarily resulting in the establishment of democracy.

What is changing with Donald Trump in the White House is the risk of seeing the United States move away from this respect for the rules and tend towards a political regime comparable to that of China, Russia, Turkey or Hungary.

This political framework was put forward by Pierre Yves Hénin and Ahmet Insel under the name of National Authoritarian Capitalism or NaCA.

This framework, which is found in the countries mentioned, could apply to Trump's USA.

There are several conditions that allow us to properly characterize these countries.

- 1- Countervailing powers lack the capacity to contradict. We see this in the countries mentioned, and we may see it in the USA, where Trump threatens the press and those who were in power under Biden.
- 2- A strong dose of nationalism. In the United States, this is illustrated by the choice to exclude immigrants from the country in order to solve America's problems.
- 3- Power is highly personalized and very strong. Erdogan, Modi, and the others are identified with strong power. Trump would not depart from this caste.
- 4- Power is indifferent to the truth. The truth is what suits power. The official story of Tiananmen Square in 1989 or the outbreak of the war in Ukraine are constructed by the power in place.
- 5- The existence of a powerful oligarchy converted into support for the leader. Those in the United States are the kings of tech, for example. But in such situations, corruption is never far away.

The five points seem to apply to Trump's America. Democracy is no longer considered an asset or a collective achievement. Internationally, multilateralism is flouted. The NaCA is gaining ground and suggests an increase in the scope of conflict since the rules are no longer meant to be respected. Is a new international balance then possible?

Source: Alternatives Economiques Pierre-Yves Hénin Ahmet İNSEL Link: <https://bit.ly/3PG6nrp>



## Trump and the climate

The year 2024 was the hottest on record. The global average temperature was 1.6°C above the pre-industrial average.

This is the moment Donald Trump has chosen to pull the United States out of the Paris Agreement. This is the moment when additional efforts should be made to intensify and accelerate the process of reducing greenhouse gas emissions. This is the moment Donald Trump has chosen to sign executive orders to explore and exploit previously protected regions like Alaska.

The country that has historically emitted the most greenhouse gases into the atmosphere will see its emissions rise again. By 2030, this would add 4 billion tons of CO<sub>2</sub> equivalent. This is a crucial moment because, at COP 30 in Brazil in November 2025, each country will have to revise its climate commitments. This step will be important because, for the time being, the commitments made lead to a temperature between 2.7 and 3°C. The possible American divergence will therefore weigh heavily.

The commitment is also collective. The entire banking and financial sector is withdrawing from its climate commitments. The Fed did so last weekend, and the major banks have also withdrawn. Everyone is rallying behind the White House.

However, there are glimmers of hope. The picture is not entirely bleak.

The commitments made in response to Biden's Green New Deal have resulted in significant spending and a heightened awareness of climate risk. Trump does not have a monopoly on climate change in the US.

Furthermore, a group of 24 bipartisan governors, the Climate Alliance, representing 60% of the US economy and 55% of the population, remains committed to the climate issue and does not wish to sign a carte blanche to the new president.

For China, this American backtracking is an opportunity. Xi is committed to the fight against global warming. He understands that it is necessary to adapt the economy to this new paradigm and combine it with the appropriate green technology, which China has no shortage of and will continue to produce. The Middle Kingdom will thus be able to meet the adaptation demands of various countries around the world, something the Americans will not be able to do. Trump's United States, which views China as its greatest technological rival, gives the Middle Kingdom an opportunity to set the technological standard and take a decisive turn.

Europeans will have to resist pressure not to buy more of the liquefied gas Trump wants to sell to reduce the trade deficit with Europe. US gas was essential during the 2022 energy crisis. But we must not go further. We must continue to build renewable energy infrastructure to increase the share of carbon-free energy.

The climate battle will be a real global challenge and the uphill battle is not lost.



## An American sovereign wealth fund – A challenge to democracy

Donald Trump proposed the creation of a U.S. sovereign wealth fund on Monday. The idea may seem appealing when you consider the sovereign wealth funds in Norway, China, Singapore, and several Middle Eastern countries. They smooth current income over time for future generations. The specific question for a US fund is how it is financed and for what purpose.

In a country like Norway, the fund is financed by oil revenues. Rather than spending this windfall immediately, the fund allows its revenues to be spread over time to meet pension financing needs when oil is no longer profitable or its resources are exhausted. For China, the external surplus allows it to accumulate liquidity whose use will be smoothed over time.

In all cases, these funds are invested in financial assets and/or real assets. They are thus capitalized on immediate revenues to reduce future risk. The idea is simple: to redistribute these resources in the future. It's a form of pooling over time so that oil revenues, for example, benefit everyone over the long term.

In the American case, Donald Trump has indicated that this would involve debt financing. In other words, the fund does not draw on surplus revenue, but rather on an accumulation of debt. The logic is different, since the American government is already heavily indebted (around 120% of GDP in 2024) and its public deficit is close to 7% of GDP.

The fund thus created would not be intended for redistribution over time, but would instead be a weapon for the White House's economic policy. It would be invested in American assets. Donald Trump has raised the possibility of using such a fund for a TikTok operation. This would potentially be a way to circumvent the US Congress's control over public spending. Congress would therefore give its approval for the fund's establishment, but would not be able to control its use. Such a fund could thus increase the deficit and debt without any democratic oversight. Such a fund existed in Malaysia, the 1MDB fund, but its resources were quickly exhausted and it disappeared.

Given the very vague rules set out by the White House, the origin of the resources is clear, but the destination of the funds allocated there is unclear. The risk is then of fueling a form of corruption, cronyism, and personal enrichment.

This is the problem of a country whose central power seems to be moving away from democratic rules. Signs are multiplying that suggest that power is feeding power without sharing it.

This cannot be reassuring given the size and power of the United States.



## Tariffs, the US recession, “Smoot–Hawley” and China

The past few days have been marked by Trump's procrastination on tariffs. One day, he imposes very high tariffs on Canada and Mexico, then lower ones on China, then reverses sanctions against the North American Free Trade Agreement countries. Such a strategy is a source of confusion and uncertainty.

Although it has not yet been finalized, it is already having a major impact on macroeconomic indicators in the United States. The external balance deteriorated sharply in January due to the sharp increase in imports. This must be seen as a desire to purchase foreign products before the tariffs are applied.

The Atlanta Fed, which measures GDP growth almost daily, suggests that this shock could push GDP growth into negative territory in the first quarter.

Economists fear this risk of tariff escalation. In 1930, US President Hoover signed an executive order authorizing a dramatic increase in US customs duties (Smoot–Hawley). Combined with an overly restrictive monetary policy, these tariffs were a major factor in transmitting the US recession to the rest of the world. This led to retaliatory measures, particularly in allied countries that felt betrayed. Some countries sought to negotiate. Whatever the strategy, the impact was a sharp decline in global trade and US exports.

It is clearly not desirable to enter into a similar pattern. The world is truly interdependent after 30 years of deepening trade. This would very quickly result in shortages that would have dire consequences. We often think about what happened in 2021 with semiconductors. We do not want Washington's strategy on these same semiconductors to result in a disorderly and unbalanced framework.

Another point to note is the strong reaction of Canada and Mexico, but a more moderate attitude from China. The former received a reprieve, but China did not.

The Middle Kingdom has been experiencing successive shocks of tariff increases since 2017. Tariff increases now stand at 33%, compared to just 3% in 2017 before the first Trump measures. China took retaliatory measures but did not negotiate in the Oval Office to avoid the risk of being targeted. A Chinese person never wants to lose face and therefore does not want to risk appearing like a puppet on a TV show.

However, China does not believe in the fentanyl negotiation and that it is merely a pretext. The most important thing is that China has a longer horizon than immediate posturing. Choices are made for the long term and are long-term. Convinced of its choices, particularly regarding technology, China believes it will win in the long term.



## Not all of them died, but all of them were sick.

The big day has arrived. Donald Trump has imposed exorbitant tariffs on the rest of the world. The basic rate will be 10% for all products entering the United States, but 20% for the European Union, 24% for Japan, 26% for India, 34% for China (i.e. 54% with the existing 20%) and 46% for Vietnam.

These tariffs are half of the tariffs, currency manipulation and customs barriers applied by each country to American products (without specifying the method of calculation).

In total, 60 countries are targeted with customs duties according to the calculation mentioned. The administration aims to raise \$700 billion from these taxes, or 2.4% of the US GDP. This is a level not seen since 1820/1830. America had nothing comparable, lagging far behind Great Britain and Europe at the time.

Tariffs will increase import prices because, in the short term, American supply will not be able to adjust upwards. These higher prices will have an impact on demand, which will be weaker, thus reducing the American external deficit.

Except that many products are essential to the functioning of the US economy. Computers, cell phones, and a host of other products will have to be paid more for, no matter what, because they will be essential to the functioning of the US economy. The production of these goods cannot be quickly relocated to the US under the same conditions. The impact will be inflationary.

In the short and medium term, imports will pick up again, and the deficit will return. If the products were manufactured elsewhere, it's because the manufacturing conditions there were better. And what kind of labor will this new production rely on? The unemployment rate is 4.1%, and expansion won't be able to rely on cheap foreign labor, since it's being expelled. The impact will be inflationary.

The targeted countries will retaliate. China, Europe, and others will react. Tariffs or barriers of all kinds will be imposed, weighing on American exports. This will not reduce the US external deficit.

The measures taken are a negative shock to the global economy and world trade. Everyone will lose. Raising prices 10, 20, or 30 percent higher and thinking this will lead to better conditions is a delusion. Americans in Wisconsin, Ohio, or Montana will suffer because high prices or shortages will make their lives more difficult. World trade will be affected, and China, Europe, India, and others will also suffer.

In the old world, production was located where it was most efficient and therefore best for collective well-being. This allocation will now be guided by customs tariffs, and so much the worse for collective well-being.





## The World According to Trump – Faulty Premise – Part 1

In less than a week since Donald Trump's announcements on tariffs, the foundations of the global economy have been called into question. There is the economy of the past and the one now dictated by the White House in Washington.

The economist must not allow himself to be drawn into effective communication that does not support analysis.

Two points to keep in mind: The first is to remember that tariff shocks, especially when significant, have had, in the past, deleterious effects on the economy and employment. Recovery is slow because production processes have been disrupted or severely disrupted. Absorbing the shock takes time, and imbalances persist.

The second point is that the premise of Donald Trump's reasoning is false. No, the American economy has not been exploited and plundered by the entire world. American technology has dominated the world since the post-World War II period, and the dollar is so intertwined with the global economy that leaving it would be the most perilous experience imaginable. It could be put another way. The major platforms that dominate the Western world—Amazon, Google, Microsoft, and a few others—are American and benefit from the dynamics of the very large American domestic market to provide unparalleled power in the rest of the world. It is this type of dynamic, based on an integrated European market, that Europe lacks to compete. The United States has also won the battle for soft power. Ask yourself which movies you prefer to watch or which streaming platforms guide your evenings in front of your screens. All of these things bring in a lot of revenue for the United States, and that's a big part of what makes its trade deficit tolerable.

No, the American economy has not been dismembered by the rest of the world; otherwise, companies across the Atlantic would not have invested so much in China, would not have made so many technology transfers. The local market was buoyant, justifying the behavior of US companies, which were not at all trapped.

The other dimension of this premise is that American power has been hand in hand with its political power. This has recently been reoriented toward Asia at the expense of Europe. China is the political obstacle of the 21st century, just as the USSR was that of the 20th century, raising the question of NATO in Europe and its financing.

This communication premise also reflects the weight of the United States. The world, according to Trump, is a zero-sum game. We must find ways to capture the wealth of others for the benefit of America.

By breaking existing rules and individualizing customs duties, each country will be tempted to negotiate to soften its sentence, but this negotiation will be done according to the goodwill and conditions dictated by the White House.

To be continued...



## The World According to Trump – Part 2 – On the impossibility of killing two birds with one stone

### The prerequisite

Indicators of distrust in Donald Trump's economic policy are multiplying.

According to the University of Michigan survey, American consumers are very worried. In April, they expect inflation to rise sharply to 6.7% over the next 12 months and to reach 4.5% over five years, levels well above those observed during the recent inflationary episode. They are also worried about employment, which, according to the same consumer, would decline significantly over the next six months.

Economic policy uncertainty, as measured by the Economic Policy Uncertainty Index, surged with Trump's arrival in the White House. At the beginning of April, it blew all the benchmarks, including those of the pandemic, during which we were all sorcerer's apprentices.

American economic policy is perceived as unpredictable. This is evidenced by the fact that the measure prohibiting taxation of phones, computers, and other devices is now only temporary, according to the Secretary of Commerce, whereas it appeared permanent when it was announced on Saturday.

### The dual strategy

The White House is said to be pursuing a dual strategy.

An explicit statement on tariffs and the need to make the rest of the world pay for what the United States has helped shape around the world for decades.

The other strategy would reflect the need for very low interest rates due to the considerable amount of bonds to be refinanced. We're talking about \$7 trillion in bonds that were issued at a reduced interest rate during the pandemic and that must be renewed at market rates. Given the current 10-year rate (4.5%), the additional cost to the US Treasury and budget will be considerable.

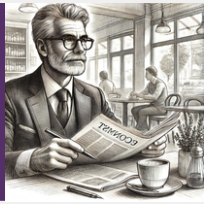
Two non-exclusive points The negotiations to discuss customs tariffs were to focus in particular on this refinancing and the ability of the rest of the world to carry this debt at very low rates so as not to weigh on the US budget. The postponement of the tariff measures pushes back these negotiations and therefore the possibility for the United States to have the rest of the world bear the burden of the debt.

The other option was to plunge the United States into recession to lower interest rates and thus allow for cheaper refinancing. Trump had, in fact, indicated that a short recession might be necessary.

### The debate

The loss of investor confidence is reflected in a strategy that is anything but US assets. And this refinancing will likely come at an exorbitant cost to the US Treasury.

We cannot muddy the waters and demand commitments from economic players. This doesn't work because businesses and investors must have clear and stable rules. Washington's amateurism raises fears of the worst.



# The dynamics of international trade



## Understanding the impact of US tariff measures

Donald Trump has imposed 25% tariffs on products from Mexico and Canada and 10% on Chinese products. This is a first step. There are several points to emphasize.

1- During the election campaign, China was America's primary enemy. Why then apply lower tariffs to it than Canada and Mexico? And even taking into account the tariffs implemented during Trump's first term, the rate is only slightly higher than that of the other two countries. Yet Canada's dependence on trade with the US is much greater than that of China. Seventy-seven percent of Canadian exports go to the US, while the figure is only 16 percent for China. Would the impact of excessively high tariffs with China be excessive?

2- These measures have already provoked retaliation. China has taken the matter to the WTO, and Justin Trudeau has announced tariffs on American products. Denmark's reaction to the Greenland issue sheds light on the consequences of the retaliation. The price of Ozempic, widely used by Americans for weight loss, would increase by 500%. Who would lose? The American who wants to lose weight and who will no longer have access to it.

3- NAFTA, the American free trade agreement, was designed to make North America an efficient manufacturing hub. Manufacturing centers are spread throughout the country. The implementation of tariffs calls into question this beneficial structure for all. The instability of political relations is unfavorable. Throughout the production process, products cross borders multiple times. Will goods crossing the border have to pay a tariff each time? The dynamics of production will be unbearable. It can even be an excellent way to create disruptions in the production process. This brings to mind the automobile industry. Some imagine a rapid blockage of the automobile market and a \$3,000 increase in vehicle prices.

4- The impact of the measures on the U.S. economy would be 0.8% on American inflation, representing an additional cost of \$1,250 per household. For the entire American economy, the shock would be -0.2% in the medium term: no rebound effect is expected in the future.

Donald Trump's mercantile approach can be summed up by this statement from Sir Thomas Smith in 1549: "We must always be careful not to buy from foreigners more than we sell to them, for by doing so we risk making ourselves poorer and them richer." This worldview was contradicted by Ricardo, who showed the collective interest of exchange. Implementing customs tariffs disrupts trade and penalizes a country's counterparts, as well as its consumers and businesses. It simply highlights a power struggle imposed on a flawed economic model.



## The economy and the balance of power between nations

Geopolitics took a real turn during the meeting in Riyadh between Americans and Russians. Suddenly, Russia reintegrated the community of nations and regained a respectable status. This radical change further isolated Europe, which could no longer count on the United States as an ally. This was a complete reversal of the pattern established after the Second World War. At the time, the USSR and the United States defended two opposing worldviews. Europe itself had been divided between the two powers, and the European world was built on this foundation.

Putin was ostracized by Western powers after the invasion of Ukraine on February 24, 2022. Sanctions were approved by the United States and Europe but rejected by China and India. Two political constructs clashed. India and China allowed Russia to continue the war effort, notably by not banning purchases of Russian oil.

The resulting precarious balance was not the best because at no point did it create the conditions for a solution to the Ukrainian conflict.

With Donald Trump's arrival in the White House, the rules of the game are being called into question. According to Washington, one country can seek to annex another at will. Canada, Greenland, the Panama Canal, or more recently, the Gaza Strip could experience this bitterly. This would thus validate Russia's choice over Ukraine.

With Trump, international relations can only be understood through the prism of power relations. This is why he misunderstands European integration based on cooperation and coordination. This is one of the reasons for the recent violent messages sent to European citizens and governments. They could create cracks in European solidarity, which is already being undermined by European governments that position themselves close to Trump and/or Putin. The United States, China and Russia then emerge as three major powers while Europe appears helpless.

For economists, the model is changing. Throughout the period since the mid-1980s, shocks were economic and could be resolved through coordinated action by central banks and governments. This was in the collective interest and was therefore easy for economists to understand.

A world of power struggles is much more heterogeneous in its behaviors and reaction functions. Choices no longer result from an optimization calculation but from parameters specific to each government. Uncertainty will have to be approached differently. The talent of economists will lie in prioritizing and managing these uncertainties. Their ability to reason about uncertainty must generate action because the economy must recover to avoid excessive political influence.





## US customs tariffs: destabilizing and inflationary

The implementation of 25% tariffs at the US borders will be announced on April 2. The Trump administration's goal is twofold:

- 1- Collect revenue with the ultimate objective of replacing income tax
- 2- More concretely, to relocate production to American soil.

A company that wants to access the American market must pay an entry fee. The magnitude of the revenues would reflect the attractiveness of the American market. These high revenues would allow for a corresponding reduction in income taxes. This weekend, Peter Navarro, a close ally of Trump, spoke of customs tariffs as excellent news for households.

The question is who will pay the tax?

Is it the American consumer if the company passes on the tax in its sales price?

Or will the foreign company reduce its margin to maintain the same price?

The outcome will depend on the competitiveness of the local market and the sector of activity. But we cannot assume a priori that foreign companies will spontaneously agree to reduce their margins. This is not what past experience, particularly the tax increases of Trump's first term, teaches us. The consumer will pay.

For Trump, foreign companies must be encouraged to set up in the US to take full advantage of the American market. It's never that simple. If the US trade deficit is so large, it's partly because production conditions in the US are unfavorable compared to other locations. What would make American sites more competitive? A tax? Not sure.

The automotive market is interesting from this perspective. Since the creation of the North American Free Trade Area on January 1, 1994, manufacturers' factory locations have been optimized between Mexico, Canada, and the United States. Production lines allow products to circulate between the three countries to increase the efficiency of the process. The tax will potentially make American cars more expensive, since Mexican and Canadian products will pay the tax.

Relocating production to the US is not easy. The newest factories are in Mexico and Canada. Those located in the US are old and inefficient, even though they have been modernized. Relocation would require a considerable investment that manufacturers are not prepared to make. Furthermore, it would take a considerable amount of time.

The automobile market risks being destabilised for a long time, either by price increases or because it has to relocate, but with considerable investment beforehand.

The automobile industry is a key component of the American industrial process. If this sector becomes disorganized and inefficient, the entire economy will be weakened.



## The United States vs. China

The battle between the US and China will be exciting, as each country is taking restrictive measures against its opponent. 104% tariffs on Chinese products in the US and 84% on American products in China (the figures have since changed).

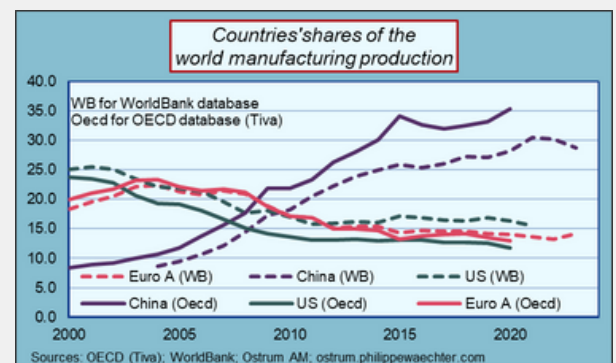
The battle will inevitably focus on manufactured goods, and we see from the first graph that the positions are opposed. China has an exceptional surplus. It depends on the United States, but its production system is ultimately relatively independent on American products. The opposite is true in the US. American products lack competitiveness (it's not just prices) and there is a significant dependence on Chinese products. China has an undeniable advantage since its products are now often of very high quality.

Another way to view China's dominance is to look at each country's share of global manufacturing output. China, with about 30% of global manufacturing, has a much greater share than the US (around 15%).

The last graph is interesting because it shows the United States' loss of market share in the rest of the world. In 2000, the United States was the leader almost everywhere, and China had little presence. By 2024, the positions are largely reversed. China dominates trade, becoming the leading trading partner in many countries.

Many countries will inevitably question which links to prioritize.

Washington's current posture will be difficult to defend over time; the game may appear too asymmetrical.





## Understanding the importance of international trade

Donald Trump's announcement regarding tariffs came as a bombshell. The United States' trade deficit must be reduced at all costs.

There are four dimensions to analyzing a country's foreign trade. A view limited to the size of the deficit is too restrictive and does not reflect the value of trade between two countries.

The first three dimensions reflect the dynamics of trade. The fourth is macroeconomic.

The first dimension, put forward by Ricardo in 1817, is that of comparative advantages. A given country can manufacture two goods (to simplify), but it is often more efficient to specialize in the good for which it is most efficient, leaving the manufacture of the second good to another country. Ricardo and others after him showed that such a system is more efficient overall. Let's take an example: The United States builds airplanes. They need steel. Should they produce both airplanes and steel, or should they specialize in airplanes and import steel? The latter combination is the most efficient. But it means that the United States will have a deficit in steel with the other country and a surplus in airplanes sold there. The two figures won't necessarily eliminate each other. It is therefore inefficient to strive at all costs to achieve balance in bilateral trade.

The second dimension is geographical. We tend to trade with the countries that are geographically closest. For the USA, this is Canada and Mexico.

The third dimension is about countries that trade more intensely the more similar they are.

Reading these three points, we note that the zero balance, neither deficit nor surplus, in the relations of a country with the rest of the world is not natural.

The fourth aspect is that of the permanent external deficit of the United States.

A country's external balance reflects the gap between its domestic savings and its investment. When savings exceed investment, this results in an external surplus. When savings are less than investment, there is an external deficit.

The drift in the US external account simply reflects insufficient savings or, in other words, excessive consumption in relation to the still significant investment plans.

This has nothing to do with trade between two countries, between the USA and Canada for example.

If the point of discussion is the excessive size of the deficit, the only way to combat it is to reduce domestic demand and encourage private or public savings (reducing the budget deficit). Depreciating the dollar has, in the past, helped reduce the deficit, not eliminate it.

The White House's proposals are confusing regarding all of these elements and the extent of the various imbalances. The problem is that the choices made are at stake for the world's economic health.



# New International Order



## A new international order is emerging

A few days before Donald Trump's arrival at the White House, the feeling shared by all is that the international balance is going to be upset.

Global dynamics have long relied on common rules and responses from all countries involved in defining this global balance. Of course, Russia, Turkey, China, and a few others did not follow all the guidelines. But the stability reflected the willingness of Western countries to continue playing the game.

The risk with Trump's arrival in Washington is that the United States will stray from the long-established framework. As a result, lacking anchorage, the overall picture could be seriously shaken.

The framework to be defined will reflect very diverse issues.

- The first, exacerbated by Donald Trump's return to the presidency, is the emphasis on the balance of power in the negotiations. This is already evident in the announcement of Washington's attempts to seize power over Canada, Greenland, and the Panama Canal.
- The second issue concerns the climate, as the global average temperature will exceed 1.6°C above the pre-industrial average by 2024. Collective action must be taken to address this.
- The third dimension is the shift towards a more authoritarian political order and a critique of the liberal order.

Let's take a look back at how this international balance of power works, one that has worked rather well for decades. According to Princeton professor G. John Ikenberry, the rules of the liberal world have been defined around four specific elements.

- Trade and free trade are mutually beneficial, promoting economic prosperity.
- Institutions promote cooperation and the peaceful resolution of conflicts.
- Interdependence between countries promotes cooperation and strengthens its benefits.
- Liberal democracy is suited to cooperation through a political system capable of adapting quickly.

This Wilsonian framework, to promote prosperity, was very dependent on supranational institutions established such as the UN, the IMF and NATO.

This international order is not without its errors or dysfunctions. The fall of the USSR gave the United States a sense of omnipotence, but it became bogged down in the war against Iraq or assumed that China would become democratic with the intensity of trade and the rise in individual wealth.

For the rest, Ikenberry draws a world with three poles. The Western countries with the US, Europe, Japan, Australia and New Zealand, a group in the East with Russia and China and the Global South led by India and Brazil. I will return to this approach very soon because it is both fascinating but also highly debatable.

Source: G. John Ikenberry Chair in Major Contemporary Strategic Issues Link  
<https://bit.ly/3DTF2Q8>





## The end of the American world in 2030?

The American 20th century ended in 2030. After a long and imposing dominance since the post-Second World War, the American economy is developing a significant comparative advantage in technology, mainly in AI and cryptocurrencies.

Yet, by 2030, the consolidation of the tech sector, the considerable inequalities it caused, and its close ties to the US government had led to a loss of efficiency in the sector. The momentum that had made tech the most attractive sector, the one that attracted investment, had faded. Consolidation had made it less effective, and investors realized that the justice system was biased toward the largest companies. Investor interest quickly faded, causing a major stock market crash. The sector that had driven the American economy no longer had the capacity to do so.

The story doesn't end there, because a stock market event isn't necessarily enough to bring about a permanent regime change. For Daron Acemoglu, who recounts this story in the weekend FT, several other elements mark American society.

The first is a series of economic policy mistakes. High inflation and public debt are Biden's legacies, marking a shift in the way the US economy operates.

Donald Trump, with his tariff policy and withdrawal from the Paris Climate Agreement, has removed the US economy from its historic role, the one that led to Western prosperity. The ongoing power struggle and the rejection of long-term goals for America have given the United States a different status, weakening the role of the dollar and financial markets.

The second is an institutional dysfunction in America. Political polarization, the perception of a disconnect between everyday concerns and the political choices made, have stretched the institutional framework that had shaped America for decades. The substance of this America has crumbled and lost the trust of American citizens. The common dynamic has lost the power that once carried the world with it.

The combination of the technological crash, the blurred political framework and a loss of confidence in institutions created the conditions for this 2030 rupture.

Acemoglu writes this from the perspective of 2050 and looks as a historian at how the American economy and society collapsed in 2030 without having the means to recover afterwards.

In this FT article we find the roots of Acemoglu's thinking on the essential and vital role of institutions.

I don't know if this is the scenario the United States will find itself in over the next 25 years, but its probability does not appear zero.

Source Financial Times Daron Acemoglu Lien <https://on.ft.com/4gtgVoY>



## A world of power relations

A major event since Donald Trump's arrival in the White House has been the withdrawal of the US central bank from the network of central banks for climate.

The network aims to adapt monetary policy to the constraints resulting from climate change. At the same time, central bank strategy must make the transition to carbon neutrality more effective. The idea is that the climate is a common good in which all stakeholders must be active. And this is not incompatible with price stability.

The Network for Greening the Financial System (NGFS) defines scenarios in which financial players, including central banks, are stakeholders in understanding the convergence towards carbon neutrality. The Fed's withdrawal weakens the framework, just as the Paris Agreement framework has been weakened.

The NGFS exit occurred without pressure from the White House, and Powell voted to leave the network. At a conference held under the auspices of the BIS in 2021, Powell explained that climate policy was the government's business and that the central bank's behavior was consistent with the government's policies. The Fed therefore joined the NGFS in 2020 after Trump's departure and Biden's arrival. He withdrew from the organization after Trump's return to Washington. This should be seen as a form of loyalty.

But it's clear that the climate process is becoming shaky. For a long time, the climate issue was a source of cooperation and coordination between countries and institutions. The common cause seemed strong enough for all the world's countries to sign the Paris Agreement. And even if the transformation never lived up to the hopes raised, the climate issue remained at the top of the pile of sensitive issues.

With Trump's arrival, the issue has become less commonplace; it isn't number one anywhere. Even within the European Commission, the guidelines for the Green Deal are being called into question.

The issue seems to have faded, even though climate warnings have never been so loud. Temperatures continue to rise (1.6 degrees above the pre-industrial average in 2024, beyond the Paris Agreement), and the points of no return for physical phenomena are rapidly approaching, after which it will be too late.

These issues have become secondary for many. This shift from climate to carbon-based growth and AI reflects a radical change in the way the world works. It illustrates a world that is no longer coordinated and cooperative, with a common goal to achieve. But it is now a world of power struggles. As we saw with JD Vance's statement in Paris at the AI Summit, there is no question of constraining innovators and the power they generate.



## The world of tomorrow!!!

Until recently, Russia appeared to be an exception in the dynamics of the global economy. China, the United States, and Europe primarily conditioned their behavior on economic issues. Russia was the only major country to systematically adopt the balance of power as the basis of its behavior.

With Trump's arrival in the White House, the situation has shifted and the camp in favor of the balance of power has grown sharply.

Europe, trapped, is forced to react quickly. This translates into increased military spending. An €800 billion plan has been adopted by Brussels. Europe is mobilizing to confront a form of unpredictability that has come to characterize the world.

There are many non-exclusive questions that are asked.

Is the period we're experiencing temporary or permanent? The answer varies depending on what we anticipate. If it's temporary tension, then you need to flex your muscles and be patient. If the change is permanent, then we may feel that the disruption we are currently experiencing will not be associated with a stable equilibrium. This is the possibility of conflict.

The second issue is the diminished appeal of American financial assets. They represented, and had long done so, risk-free assets. They attracted the interest of all investors due to the solidity represented by the United States, both democratically and economically.

If the US goes it alone, then alternative systems will have to be found and defined. China and Europe, as well as the rest of the world, will have to define one or more other compasses to guide financial flows. The end of USAID, which provided development assistance in the most fragile regions, is a first sign of American disengagement.

The third question concerns the climate. This issue, which has moved from the top to the bottom of the pile, is by no means resolved. Rising temperatures, rapidly approaching tipping points, and the proliferation of climate-related events are all signs that Trump's arrival in Washington will not stop.

Given the "Drill, baby, drill" and the lack of resources now allocated to the IPCC, this question will quickly come back to the forefront.

We'll need expert technology on this issue. They won't be American, given the US disengagement, but they will be Chinese. In the Middle Kingdom, the climate issue is still taken seriously, and decarbonization and renewable energy technologies are developing.

The US-led technological battle to constrain China risks turning in Beijing's favor because the world will need to escape excessively high temperatures. The US will then have lost the battle.

Other questions are asked, we will come back to them.



## The coming financial crisis?

In this somewhat crazy world of thunderous announcements and equally spectacular counter-announcements, of humiliation and contempt for Europe, one might have imagined a kind of financial market whirlwind. This is not the case.

Markets sometimes fluctuate sharply, but they never break out. The Nasdaq's more than 9% decline on March 7th from its February 18th high is not a breathtaking situation requiring pressured action.

On the interest rate side, the 10-year US bond fluctuates around a horizontal trend of just over 4%.

This framework is certainly changing. Post-election enthusiasm is waning, particularly for tech stocks. The Nasdaq lost 4% at close Monday evening. And President Trump hasn't ruled out the possibility of a recession, which seems to be a prerequisite for the return of a great America. For investors, a recession is never neutral. It inevitably creates adjustments and trade-offs that may need to be anticipated now.

The recent market nervousness has also been observed in Europe. The German 10-year bond yield jumped following the announcement of the likely new German chancellor's \$500 billion plan. The German government's financing needs are set to soar, and investors in Europe are becoming more cautious.

The European 2-year yield has also been rising since the ECB's meeting on March 6.

Expectations of an early end to the ECB's rate cuts are therefore growing.

All of this is generating significant volatility in financial indicators. One gets the impression that market dynamics are finding a form of coherence with the uncertainty surrounding economic policy and future political choices.

But is a financial crisis likely?

This is a major question and a possible answer to the world's disorders.

The world has lived conditionally on the dollar and US assets for nearly 80 years. And this has been a factor of stability for the global economy.

If, under Trump's leadership, the measures taken further accentuate American isolationism, can the greenback still be at the center of the game? Certainly not.

Because the financing system of the world's major regions will need to be more autonomous.

This covers the European discussion on the "Savings and Investment Union," which expands on the concept of the Capital Markets Union.

The Europeans and the Chinese and all the others will have to find one or more alternatives to American assets consistent with the isolationism desired in the USA.

Such a transition, based both on the uncertainty of the emerging world and the certainty that the old world will not return, is becoming increasingly likely. The speed and brutality of the rupture are to be found in the Oval Office, with the unpredictable decisions made there.



## What currencies in the world after?

The world that is emerging will not resemble the one collectively constructed until now. This integrated world had transparent borders and has lived.

In this world, the dollar reigns because it is perceived as the least risky currency (internationally there is an anti-Gresham's law according to which good money drives out bad, the good one being the dollar). The euro has tried in vain to compete with it and the BRICs' attempt at another currency has not been conclusive.

But the world is changing; the imbalances that now characterize it no longer point toward an expansion of globalization but rather toward a more local refocusing. The United States is implementing a more isolationist policy with China and Europe, considered non-allies on the international stage. This new approach, forced by Washington, could translate into a form of distrust toward American values and the dollar.

A more vertical world, strengthened borders and less confidence in the greenback are all ingredients to encourage the formation of a sort of tripolar world.

Long ago, economists envisioned such a three-pole framework. Each pole would be centered on a country (the United States and China) and a geographic region (the eurozone), but also on a currency. Countries attached to the reference country would have an exchange rate fixed with the reference currency, which would fluctuate with the other two.

Such a framework raises many questions. The first is that of liquidity. During past crises, crises that would not disappear under this new framework, central banks have always demonstrated coordination to provide liquidity and prevent a collapse of the monetary system. Would such solidarity continue to work?

The transition period would inevitably be very long and therefore generate uncertainty for all stakeholders in the global economy. Exiting the dollar would not be an easy operation, given the greenback's considerable role in financing the global economy. Establishing a new, stable framework would be a lengthy process, with an authoritarian dimension to its implementation. This would also mean a form of withdrawal of economic activities to areas of influence and therefore a long and painful adjustment of growth and employment.

The loss of confidence in the dollar resulting from the White House's policy will not spontaneously translate into a new framework. The processes are long and chaotic, with the risk of being associated with conflicts, since the lack of adjustment within each zone would cause tensions that could become unbearable.

The American shift, its autocratic dimension, and its isolationism do not reassure investors about American assets and the dollar. But the inevitable shift will bring chaos.





## The Recomposition of the World – Part 1

In a recent speech, US Vice President JD Vance explained the failure of globalization in these terms: "The idea of globalization was that rich countries would move up the value chain, while poor countries would manufacture the simplest things." This order has not held. China and many countries, particularly in Asia, have developed, competing with rich countries. This is why, according to Vance, globalization, which has not maintained the established order, is a failure.

This vision is not necessarily that of economists.

Anthea Roberts and Nicolas Lamp in "Six Faces of Globalization: Who Wins, Who Loses, and Why it Matters" identify the six different visions of globalization.

How then to position Vance?

(I use the authors' titles to characterize the interpretations.)

- 1- The vision of large institutions. Resource allocation is efficient on a global scale, and there is always a way to catch up with the pack. This is the miracle of creative destruction.
- 2- A left-wing populist interpretation: globalization has created inequalities in the distribution of income: globalization favorable to the 1% and to the owners of capital.
- 3- In another left-wing vision, the big winners are the multinational companies that have redefined the rules of trade and tax rules to become even more powerful.
- 4- The right-wing populist vision deplores the impoverishment of workers in Western countries in favor of workers in emerging economies.
- 5- Geoeconomics: Globalization creates challenges that cause us to lose our sovereignty. China has used trade liberalization and investment flows to catch up with, or even threaten, Western nations. The solution is to focus on technology to maintain a standoff with China.
- 6- Globalization is creating an unsustainable trajectory. A new framework must be redefined.

Before returning to Vance, it should be noted that Donald Trump's position during his first term was more that of right-wing populists. He implicitly used Branco Milanovic's elephant diagram, showing that incomes in emerging countries had grown much faster than those of low-skilled workers in developed countries.

Today, geoeconomics fits better with Vance and Trump's vision. Except that, for Roberts and Lamp, globalization has had positive effects on everyone's income. For Trump and Vance, America has lost out in this globalization. They go beyond economic analysis to add a political dimension.

The economy is merely a means to convey a political message. If the United States has lost on the economy, its revival can only come through political action and therefore through a large-scale power struggle.

To be continued...



## The Recomposition of the World – Part 2

The era of globalization saw the rationality of trade and its proliferation emphasized. Each participant stood to gain from exchange. The model was positive-sum. Such a framework facilitated peace between nations, with each nation benefiting from developing its activities and revenues rather than entering into an inevitably destructive conflict.

This is not the analysis of US Vice President J.D. Vance, for whom the world has developed at the expense of the United States. Free trade and multilateralism are traps for the United States, the leader of the rich countries, since the economy is, above all, a zero-sum game. This is the idea that must be retained from the way economic policy is now being steered on the other side of the Atlantic.

The idea is that the world is finite and that, consequently, the United States must frame its actions within a balance of power that will allow it to increase its power, which is necessary to maintain the American position. The bilateral approach is favored so that the negotiation reflects the balance of power between Washington and its interlocutor.

This has several types of consequences when the dominant economy is as powerful as the United States.

The first is that the world's development should only be conditional on what is done on American soil. The tariffs that will eventually arrive must penalize the development of other economies but also encourage the most efficient companies to set up in the United States.

The second is that if the world is finite, if the economy is a zero-sum game, then it is tempting to capture territories where goods, particularly raw materials, are available. Borders are no longer as tangible.

We understand the bifurcation well.

After World War II, free trade was a means for Western countries to develop, but it was also, because of the resulting increase in income, a way to attract countries that remained behind the Iron Curtain. It ultimately worked.

What has changed is the rise of autocratic regimes in China, Russia, and a few other countries. These countries, without political opposition, also have authoritarian tendencies and global influence. China's Belt and Road Initiative and Russia's territorial gains in Georgia and Ukraine, even before the current conflict, should not be interpreted in any other way.

What's new is that the United States seems to have shifted into this camp of autocrats. In this zero-sum economic model, power is the weapon and the ultimate stake. The economy is merely a means to the political power it allows. And if it requires conquering territories to achieve this, autocrats are giving themselves the means to do so. International law thus loses its status as the ultimate reference.

To be continued...



# The world of tomorrow



## Should we expect the worst? – Part 1

"The Trump administration's political ambitions for Europe mean that, for now, America is also an adversary," concludes Gideon Rachman in the Financial Times after US Vice President JD Vance's Munich speech.

The rapprochement with Vladimir Putin, the proposed solution to the war in Ukraine, the political rapprochement with extremist parties in Europe, which are generally not very supportive of European institutions, and the announcement of a 25% tax on US imports of European products, are taken together as strong signals of a radical change in Washington's position.

Tensions between the two regions have existed in the past, but never has there been such a shift in focus from the fate of Europeans. Europe was not built on a dynamic of power relations, and this is not in line with the logic of the new US administration. For it, pressure must be exerted so that the strongest party gets what it wants. Therefore, for Washington, cooperation and coordination, which are the tools of European construction, are unnatural. Moreover, this also reflects support for extreme parties that are generally hostile to the institutions that built Europe.

Consequently, if America is now an adversary, European leaders must ask themselves what they must do to protect themselves and gain greater autonomy. The objective must no longer be to satisfy Washington but to prepare for the worst, for an unprecedented situation in which Europe will have to make choices that will allow it to define itself and set a course.

There are two dimensions to this. The first is internal, the second is Europe's positioning in relation to the rest of the world.

Internal choices will be decisive because the model that will have to be put in place will be of a very different nature from that put in place over the years since the 1950s.

The first aspect is the increase in military spending. This is the hot topic of the moment because we need to reverse course. Since the fall of the Berlin Wall, the weight of military spending has decreased. These are the peace dividends. The world after 1989 was no longer one of Cold War confrontation and NATO protected the Europeans;

The war in Ukraine and recent US statements challenge these assumptions.

The United Kingdom has already announced a military spending target of 2.5% of GDP. The Baltic and Scandinavian countries are on alert.

Public debt, already at 81.6% of GDP in the third quarter of 2024, indicates that room for maneuver is limited. So, how can we spend more on the military and how can we balance this with other social, sovereign, and climate-related spending?

To be continued tomorrow...



## Should we expect the worst? – Part 2

Geopolitical change will be a key factor in determining the policy hierarchy.

For a long time, the combination of an omnipresent monetary policy and a supportive fiscal policy allowed for the period of great moderation characterized by a low volatility of growth and inflation.

Climate and the necessary energy transition were introduced in homeopathic doses so as not to disrupt the existing macroeconomic framework. Moreover, climate demands did not change behavior at the time. The trajectory of emissions slowed slightly, but global temperatures broke records year after year, reaching 1.6°C above the pre-industrial average in 2024.

By provoking tensions between the United States and China, technology disrupted this macroeconomic framework. Technology, a vector for the deployment of globalization through significant transfers, then became a weapon, quickly rising to the forefront of government concerns. The US Inflation Reduction Act took this into account by reinstating industrial policy associated with technology while making it climate-compatible.

The coherence of economic policy has been shattered with Trump's arrival in the White House.

First of all, AI, presented as the transcendence of technology, is favored by Washington, even though climate is no longer a goal. To remain competitive, Europeans have altered their intransigence on climate. As stated in the omnibus, the objectives remain, but their implementation has been significantly simplified. The political hierarchy has been disrupted for the first time. Competition through AI and technology prevails over the long-term constraint of climate. In fact, companies are abandoning this major objective. BP is the latest to do so.

Yet since the AI summit, the world has become even more twisted. The United States has shifted its position, moving closer to Russia at the expense of the Europeans. Every European state is now considering increasing the share of defense spending in overall budgetary measures, with Brussels even considering excluding it from budgetary measures. More planes, weapons, missiles, and munitions will have to be built, and military infrastructure will have to be upgraded to be ready.

With the emergence of politics, the hierarchy of economic policies has once again been disrupted. Resources will have to be found to finance the military and sacrifice other expenditures.

Resolving the equation will be impossible. Military, industry, and technology will prevail. Climate change will remain a secondary objective, and the social dimension of adjustment could become a major one, reversing the priorities pursued since the post-war years.





## The world is changing and so is its macroeconomic representation

The representation of macroeconomics is turned upside down.

The Great Moderation, characterized by low volatility in growth and inflation, is over. The world is reeling from the consequences of competitive technological dynamics, economic policy shocks, and the shift away from a sustainable political equilibrium.

Two levels of analysis are necessary to understand macroeconomic phenomena.

The first level is the one we usually refer to. However, the associated framework is no longer the one that prevailed during the Great Moderation. The cooperative and coordinated dimension has had its day, and openness to the world has been replaced by the desire for a more regional, more local policy.

But the nature of the cycle is no longer the same either. Technological dynamics are no longer simply distributed by the US; Chinese competition is provoking a new confrontation.

The income that Americans drew from their technological advance is being called into question. It is within this framework that the Trump administration's tariff policies must be analyzed. They are based on a balance of power that is no longer the multilateral framework of the past.

The combination of these elements will inevitably result in resource reallocations and greater volatility in macroeconomic indicators. The rules are different and are not applied in the same way everywhere. This will result in friction and adjustments that can sometimes be violent.

The second level is conditioned by the changing political balance of the world. Donald Trump's position on Europe and a world conditioned by autocratic powers require us to rethink the priorities and hierarchy of economic policies.

In such a regime, the options taken and choices made can be brutal and rapid. This is evident in the growing awareness in Europe regarding military spending. With NATO's reliability no longer as strong, Europeans must arm themselves to maintain their autonomy. This translates into an allocation of resources in favor of the military, but also in favor of low-carbon energies that are less dependent on supplies from the rest of the world. Therefore, the need to increase some spending translates into the need to reduce others. And the obligation to revisit the social model, particularly in Europe.

Political shocks and the resulting consequences will have major macroeconomic impacts and significant volatility risks due to the abruptness of the disruptions.

The volatility of macroeconomic indicators will be a composite of these two levels of macroeconomic analysis. The risk components will not be in phase. The dynamics may be difficult to interpret.

It will be even more so since climate risks are increasing with the multiplication of climatic events.



# A more cyclical vision



## Inflation is not a monetary phenomenon

Inflation stories are all different. While price increases are tending to normalize in the Eurozone and the United States, China is on the verge of becoming deflationary, and Japan, long deflationary, is experiencing a 4% price increase.

American and European inflation can be treated in much the same way. The acceleration in inflation, from spring 2021 to its peak in mid-2022, is the accumulation of a succession of shocks. The rise in energy prices after the health crisis, rapid demand after the depression linked to other Covid-related events, companies running out of inventory, and shortages of spare parts are all factors that are inflationary. But the disappearance of the causes led to the normalization of inflation. And one can question a counterfactual in which central banks would not have intervened and the effectiveness of the mechanism since services inflation remains unresolved. The restrictive fiscal policy in 2023 and 2024 was perhaps a more effective instrument by directly and significantly impacting demand.

In Japan, the story is quite different. Since the mid-1990s, the economy has been characterized by deflation and a highly accommodative monetary policy that has been unable to reverse the trend. But the Japanese have suffered from rising energy and international prices. Adapting to this new environment has been slow to materialize.

In a recent article in the Financial Times, a Tokyo shopkeeper testified, "A few years ago, stores and food companies used to apologize when they raised prices, but now they don't seem sorry: they just go ahead and do it." The process has begun, and the government wants to take advantage of this situation to definitively escape the deflationary risk that remains a threat given the decline in Japan's population, which is penalizing demand. The process in this terra incognita will be full of lessons.

In China, the risk is deflation. Since the beginning of 2023, the price index has been flat, and the inflation rate fell in February. To understand the direction taken, the finger is pointed at weak consumer demand. And that's right. Penalized by the real estate market, Chinese consumers are worried.

Yet we can't stop there. Demand also means investment. Its real estate component has collapsed, but the manufacturing sector has been robust, driven in particular by the automobile industry. As in Western countries, the automotive sector in China is a force that structures the economy. Five years ago, production capacity was 40 million vehicles. Since then, 20 million electric vehicles have been added. This trend will not continue. Demand will truly be less strong, and the risk of deflation is likely.



## Consumers hold the key to a possible US recession

Recession fears are growing in the United States as the economy trended robustly toward the end of Joe Biden's term. This shift in outlook is becoming increasingly significant.

About ten days ago, the acceleration in imports in January reflected businesses' concerns about the risk of rising prices resulting from the Trump administration's tariffs. It was this indicator that caused the Atlanta Fed's first-quarter GDP projection to plummet. This may seem excessive. Stock markets are experiencing a major correction, which reflects more of a darkening economic outlook than a sign of recession.

These factors weaken the representation of the economy but generally a recession does not result.

According to UCLA specialist Ed Leamer, recessions are overwhelmingly associated with real estate and its financing. The last one was in 2008, and it was brutal. Real estate is also the reason why there were fears of a recession in 2022, with the sharp rise in interest rates. Real estate is not currently a major source of concern, this risk can be ruled out.

The most striking thing about February and March was the shift in consumer attitudes. Consumers suddenly became anxious, as highlighted by the collapse in confidence indicators. This shift in benchmarks is also associated with a sharp rise in inflation expectations over the next five years. This measure had barely changed during the inflationary episode of 2021/2023. Households are questioning and anticipating that the current economic policy will have a strong and lasting impact. This is the signal associated with this change of regime.

In 1990, following Iraq's invasion of Kuwait, the American economy experienced a recession. According to Olivier Blanchard (American Economic Review, May 1992), this was due to the rapid and brutal change in the American consumer. Its consumption had unexpectedly declined compared to the usual determinants. With the conflict in Kuwait, oil was very expensive, and America was becoming the world's policeman after the global upheaval with the fall of the Berlin Wall and the USSR.

Consumers may already realize that the world will be different with Trump in the White House. Whether it's regarding tariffs affecting many industrial regions, immigration issues, or the labor market, particularly in federal institutions, the world is changing radically. The outlook is darkening, and households, even if they still see an increase in their income, are wondering about how the economy will evolve and, behind this, their own situation. Consumption could adjust significantly.

Is a recession possible? The answer is clearly yes.



## International finance in 2025\*

Like the real economy, finance is disoriented by recent economic and political developments. Gold is at its highest, and long-term rates in Germany have risen as never before following the announcement of the stimulus plan. And even central banks are no longer certain of their views.

Long gone are the days when reading the decisions and expectations of central banks was enough to understand the future shape of the financial markets.

This loss of bearings has two dimensions

The first is the shift in the hierarchy between fiscal and monetary policies. Since Reagan and financial globalization, central banks have regulated the macroeconomy.

The framework changed when China entered into competition with the US on certain technologies, just before the pandemic. The US has long dominated global technology and generates significant revenue from it. Too much competition from China would weaken this structure.

The real blow came at the end of the pandemic with the shortages. The United States implemented a large-scale industrial policy. The economy was becoming local again and losing some of its horizontal vision. Tariff policies in the US and defense policies in Europe accentuated this bias.

Monetary policy is becoming dependent on government decisions. The pendulum, long in favor of central banks, is shifting direction.

Investors need to get used to it, and central banks need to accept it. But above all, we need to find a new balance. The world is less open and becoming more vertical. This represents a major shift for central banks. Reading the financial markets will become more complex.

The second rupture is linked to the political choice of the United States, which is moving closer to its historical enemy to the detriment of its allies Canada and Europe.

Can this form of isolationism be compatible with the use of the dollar and American assets as a safe haven? Certainly not. If the real economy is fragmented, the monetary and financial economy suffers the consequences. We need to invent a new framework, a tripolar world? It's complicated, but what we know is that the dollar will lose its luster with the current policy. This is a terrible upheaval for investors.

Two final remarks. The first is the White House's desire to promote cryptocurrencies, even if it means putting them in competition with the dollar (sic). We don't really understand the objective. The second is the appointment of Michele Bowman as head of banking regulation on the Fed board. She wants to give banks back their freedom to finance the economy. In the past, greater freedom has repeatedly resulted in banking crises. Let's be prepared.

\*My shortened remarks at the conference organized by l'Opinion





## Will the dollar depreciate?

The dollar is structurally overvalued given its external deficit. In any economy, such a deficit would have resulted in a sharp and lasting depreciation of its currency. This is not true for the greenback, which is the currency of the world's largest economy, but also the international reserve currency and the currency of transactions worldwide. This gives it a special status.

However, devaluing it would reduce the external deficit, making the American economy less dependent on foreign savings flows.

But the depreciation of a currency, especially an international currency, cannot be decreed.

And when we talk about a significant depreciation of the dollar, we find historical benchmarks. This could be a guide, but none of these experiences are currently reproducible.

Let's start again.

In April 1933, the United States left the Gold Exchange Standard, a monetary system based on gold. This system was the one that helped spread the American crisis of 1929/1930 to the rest of the world. By leaving this restrictive framework, the dollar adjusted abruptly.

In 1971, when Nixon proclaimed the non-convertibility of gold and the dollar, it was because the Bretton Woods system was running out of steam. The end of this monetary system generated significant volatility in the currencies of developed countries.

In 1933 and 1971, the monetary system was corseted and losing its effectiveness. There is no such rigid corset to be broken in the current monetary system.

In 1985, the dollar was at its highest, and all major countries were embarrassed by the situation. The Plaza Accord reflected a coordinated effort by the G5 central bankers to take action and reduce monetary imbalances. The system worked so well that the Louvre Accord was necessary two years later to try to stop the greenback's slide.

The key point of this episode is the coordination of central bankers.

Following the tariff measures announced by Trump, such coordination is at least conditional on each country negotiating with Washington on the tariffs. Only an agreement between the negotiating countries and the US could trigger coordinated action by central banks. The process is therefore conditional and cannot be presented as a repeat of a past episode.

Currency depreciation isn't spontaneous, especially if it's considered the benchmark currency internationally, even if the White House wants it to. The story is also a little more complicated, since China, another global economic and political power, doesn't want to negotiate on tariffs and is ready for a real showdown.

Financing American growth from the world may not be as easy as the White House anticipated.



## The United States, China, tech and the climate

The United States' incomprehension of China is expressed in JD Vance's remarks on globalization: "The idea of globalization was that rich countries would move higher up the value chain, while poor countries would make things simpler." China has benefited from enormous technology transfers, particularly from the US, which had a great interest in them given the rapid development of the Middle Kingdom. It has also invested significantly in investing, training, and networking its territory with a technology-oriented environment.

Trump, during his first term, was overtaken by Chinese telecommunications companies, thereby excluding them from the US market.

What's wrong with technology?

Americans have long since developed the technological standard, the one that generally serves as a benchmark. Investments, patents sold, and royalties have brought them a comfortable income.

China, with its army of engineers and political will, has become a true rival. From a manufacturer of mediocre goods, the Middle Kingdom now produces products that are world-class.

The United States sees it as a competitor that could end up dethroning it by defining the technology standard and grabbing part of the revenue.

Washington's aim is to coerce Beijing to keep China in line. The battle is there, but it is complex because the tenant of Zhongnanhai has political power that extends throughout the world beyond its economic might. Beijing thus has considerable negotiating power in the standoff with Washington.

Why the climate?

The White House has signed the withdrawal from the Paris Agreement and dismantled institutions working on climate change, including NASA and NOAA. Climate change is clearly no longer a top priority.

Yet, the issue of climate change remains the major challenge of the moment. After an average global temperature of 1.6°C above the pre-industrial average in 2024, there is no sign of a reversal of the trend. Hydrocarbon consumption is breaking record after record. It will be warmer in 2030, and climate events will be even more significant.

In the United States, the climate issue is no longer a priority. As a result, research and allocated resources will be more limited than they were. In contrast, China continues to be concerned about it and is providing itself with the means to address it.

Therefore, tomorrow, when the whole world demands technological means to save itself, it is towards China that we will all turn.

Its current blindness has caused the United States to lose focus on its very priorities. China is giving itself time, but on the issues of climate and technology, it could win the battle.



## 2025 vs 2008, which crisis is more serious?

Is the crisis caused by Donald Trump's economic policy choices, by the unpredictability of announcements, their cancellation or withdrawal, more serious than that of 2008?

At that time, the ground was constantly giving way, the real estate markets were collapsing and on the financial markets, the impression of being constantly holding its breath prevailed because the propagation of shocks was neither linear nor instantaneous. It was necessary to find the right compass and give ourselves the means to converge on the right trajectory.

The shock is not of the same nature in 2025. It is not a shock of valuation. It is a man who considers that his country has been robbed by its relations with the rest of the world. Each country is accused of having abused American largesse. China benefited from technology transfers and Europe protected itself through NATO.

Such a crisis is conditioned by the unknown demands made in advance by the Americans to lift the tariff sanctions, by ruptures in the value chains, it is the discussion on the impact of customs tariffs on semiconductors, on the way in which the States will cooperate in the future and finally on the coherence of the world and the respect of cultures.

In 2008, in the face of shocks, the authorities' response was based on the idea of coordinating efforts. The G20 in London highlighted the collective efforts needed to emerge from the slump and find ways to ensure such a crisis would not recur. The oversight of financial institutions was at the forefront. It was also necessary to collectively revive activity. Central banks also quickly intervened in a complementary manner. Monetary policy became unorthodox. The Fed's 0% interest rate was restrictive. It was then necessary to move to quantitative easing to unblock the situation.

Today, coordination no longer plays a role because the crisis does not result from market exaggeration, from mechanisms that have gone too far, or from adjustments that are impossible to control. The crisis stems from the idea that the world is divided between the good and the bad, and that this choice, made by the greatest economic and political power of the moment, is not negotiable. The only way out would be to accept the overlord's conditions. History shows that this only creates an unstable world.

After a crisis, the world never returns to the way it was before. But adjustment mechanisms can limit operational deviations. In 2008, all the countries involved were committed to playing together with consistent rules.

Today, the allure of coordination and cooperation appears outdated. We will have to live differently. If Washington's strategy is sustainable, it will be the most significant shift in decades. Global public goods, such as the climate, will no longer be material, and we will have to prepare for the worst.



# Artificial Intelligence, the other Revolution



## AI and inequalities in the labor market

Technological shocks are often perceived as causing risky situations in the labor market. This question is old, it was well described by Alfred Sauvy in "The Machine and Unemployment" (1980).

The arrival of new technologies caused workers to become increasingly nervous about their jobs. This usually resulted in a period of social instability before new job creations compensated for those lost while ensuring higher incomes.

This reassuring aspect of past history, however, is not entirely so in recent decades. The introduction of microcomputers has outsourced and improved working conditions for those who used them.

This has been a major source of inequality in the labor market between those who benefit from the productivity gains resulting from their use and those who do not. The inequality was in income and employment interest, while job creation remained significant.

The emergence of artificial intelligence has put the issue of technology's impact on employment back at the top of the agenda for economists. Will AI generate additional inequality? And will it be a source of job disruption?

The answer is, as always, more complex than one would hope, especially since the AI experiment is only just beginning.

There are four types of reflections for now

- AI has not caused a reversal in labor market dynamics. The employment profile remains very consistent with that of the business cycle.
- Some predictions about specific jobs have been contradicted. Some jobs, such as radiologists, were expected to shrink rapidly due to AI. This does not appear to be the case.
- AI is rehabilitating the middle class in the labor market and reducing inequality with more qualified people. This is somewhat the opposite of what was observed with the introduction of the microcomputer. AI is thus a generator of productivity for the least qualified people, ultimately allowing for an increase in income.
- However, if we put a group of entrepreneurs or a group of researchers in competition with each other, we see that AI can be a source of inequality in relation to the relevance of queries and the way of posing problems. In this case, the intelligence of individuals is complementary to the use of AI. The result is more unequal.

These few elements reflect results from experiments that will need to be repeated to make them more relevant. But it seems that AI is having a different impact than what was generally observed in the past. This makes it a fascinating field of study that will likely continue to amaze us.

Source: CapRadio Gregory Rosalsky Lien <https://bit.ly/4OmbmUp>





## Artificial Intelligence – Is Power Shared?

Donald Trump's first week in office was thunderous. The number of executive orders was enormous in every area. Observers were all like cats with Donald Trump manipulating the little red laser to lead them wherever he wanted.

The most significant shift concerns the dynamics of American power. One of the first major announcements concerned the \$500 billion Stargate project. Its objective is to make the United States the center of AI by defining the technological standard, the one that will determine its use in other countries. It's a way to generate considerable revenue that will fuel the United States while strengthening its power.

To facilitate the implementation of such a plan, Donald Trump removed an executive order from Joe Biden on certain constraints related to the development of AI and then on January 23 he published an executive order whose aim is to examine previous measures taken by Joe Biden and likely to be obstacles to American innovation in artificial intelligence.

This issue of AI is now a major one in state governance. In the American case, there can be confusion. Tech bosses are very present and wield significant power since the political power removes the constraints that could curb their innovations. AI now has impacts in all areas, not just economic ones. Drones, very present in all military theaters, are an illustration of this overflow. This military domain is traditionally reserved for political power, but here we see the risk of confusion.

The other aspect to highlight is the desire to empower this sector. It must be powerful to establish American dominance. Therefore, decisions will not be made without the consent of tech bosses. This also means that discussions about dismantling GAFAM are no longer relevant. AI is more than ever a source of considerable power. But is power shared?

Vladimir Putin's inner circle grew rich and powerful by exploiting raw materials. For Donald Trump, the resource is technology and the AI associated with it.

The contrast with China, another country with a strong AI presence, is striking. When Jack Ma, head of Alibaba, became too powerful, he was ousted by President Xi. The Chinese political power wants to maintain control over the tech sector and does not want to accept a state within a state.

These choices are not neutral in terms of who decides, who guides government policy, but also who allocates resources to develop this or that sector of Tech.

The risk is a shared trajectory between Trump and Tech until the moment when power is no longer shared.



## The Emergence of DeepSeek: Reflections on the Future of the Technology Industry

The advent of DeepSeek is an event of considerable magnitude.

Not simply because the Chinese firm has made a simpler, cheaper, but equally effective product than its American competitors. It also reflects a challenge to the American industrial strategy of isolating China.

Tech companies in the United States have been favored by investors for many months. They have been innovative, giving themselves the opportunity to collectively accumulate a rent. This advantage is reflected in their explosive valuation. With the world of tomorrow expected to be even more dependent on technology than it is today, investors are looking to take advantage of this with portfolios built around this sector.

This valuation has been accentuated by the US government's easing of restrictions on technology transfers to China. In the past, the Middle Kingdom benefited from these transfers but also invested heavily in research and education to remain competitive. DeepSeek shows that Washington's strategy isn't enough to maintain America's lead, and perhaps it's not the right move to keep China in second place. The drop in valuations reflects this.

The combination of tech giants and Washington's aggressive strategy has failed to keep China at bay.

If the DeepSeek model is less sophisticated in its construction, without an Nvidia chip, cheaper than ChatGPT but just as effective, we will see a battle to exclude the newcomer from the highly profitable AI game. This is a legitimate strategy when a competitor enters the arena with more attractive features. The consumer will benefit with lower prices.

Unless the US government takes safeguard measures to defend Silicon Valley tech.

On an international scale, the important thing is to know who will define the standard technology, the one that will be used without thinking. The Americans have benefited from this advantage for decades, creating considerable revenue streams for the American economy. If the Chinese can do just as well and more cheaply with technology made with three pieces of string, they have a spectacular comparative advantage and considerable room for maneuver to be able to define this famous technological standard.

This battle over the standard has been fueling tensions across the Pacific for several years. The cards are now being reshuffled, as the hierarchy for the next 10 years becomes more blurred. Companies will demonstrate ingenuity with sometimes surprising alliances. Governments will play all forms.

AI is a tool of domination and therefore woe to the vanquished.



## AI, an industrial revolution

Artificial Intelligence is presented, around the summit in Paris, as a series of moves. There was ChatGPT, then DeepSeek, and last week, Le Chat de Mistral AI. And comparing the speed, cost, and open-source status of each. The generative dimension of AI is essential because it's what reaches the general public by facilitating the writing of texts, the creation of drawings, or even videos.

Yet, even if we perceive the disruption this entails, it does not seem to be related to the considerable sums that have been recently mentioned. The Stargate program in the USA was associated with the amount of 500 billion dollars, Emmanuel Macron communicated a figure of 109 billion euros in France, including a Data Center whose cost would be between 30 and 50 billion.

These figures reflect the idea that AI is a much broader field than just generative AI. Moreover, European AI is excelling in the areas of health and climate, demonstrating its ability to address the specific challenges of these sectors.

These investments in the USA, Europe, China, and elsewhere reflect the possibility of a regime change in the functioning of the economy and society. Information processing can thus appear as a true industrial revolution. And we must be part of it, we must be active players in this disruption, or risk being dominated by another major region of the world.

The AI revolution is far faster and more widespread than that at the turn of the 19th century. A partial measure of this adaptation indicates that generative AI is used far more by Americans after two years than the laptop and the internet ever were.

If this is an industrial revolution, we must participate in it and be actors in our own history, and consequently, a lot of investment is needed to adapt our production systems to this new framework. France also has a particular effort to make because SMEs and mid-cap companies are less well equipped in AI than their European partners.

We must both make up for lost time, as Mario Draghi said in his report on productivity in Europe, and continue to invest to stay in the race.

This has two major consequences.

The additional investment (5 percentage points of GDP, Draghi said) must be sustained over time, requiring trade-offs with other expenditures. Financing cannot be achieved solely through additional debt.

The second point is financing. Until now, financing has been dependent on flows from the United States; it would be necessary to refocus these flows on Europe via the Capital Markets Union, which would notably allow the recycling of the 3 points of GDP of savings in excess of investment.

It is up to Europe to take action to strengthen its economic and political autonomy. The stakes are high and essential.



## Table of Contents

<b>Preface</b>	<b>Pages 1 and 2</b>
<b>Some introductory thoughts</b>	<b>Page 3</b>
• Being a macroeconomist today	Page 4
• Being a Macroeconomist Today - Part 1	Page 5
• The big questions of 2025	Pages 6, 7 and 8
<b>L'Europe</b>	<b>Page 9</b>
• Europe and its industrial policy	Page 10
• Europe's dependence on America	Page 11
• Europe facing the world	Page 12
• What has changed for Europe?	Page 13
• What if the German plan was the long-awaited boost for Europe?	Page 14
• The world has changed without Europe	Page 15
• And how should Europe react?	Page 16
• Europe, productivity and aging	Page 17
• The four cardinal points of Europe	Page 18
<b>Donald Trump at the White House</b>	<b>Page 19</b>
• Donald Trump, the balance of power and unpredictability	Pages 20 and 21
• The end of American democracy was all too predictable	Page 22
• Is Donald Trump's program credible?	Pages 23, 24 and 25
• Donald Trump et la Fed	Pages 26 and 27
• Donald Trump takes office on January 20	Page 28
• Trump and the climate	Page 29
• An American sovereign wealth fund: a challenge to democracy	Page 30
• Tariffs, the US recession, "Smoot-Hawley" and China	Page 31
• Not all of them died, but all of them were sick.	Page 32
• The World According to Trump - Faulty Premise - Part 1	Page 33
• The World According to Trump - Part 2 - On the Impossibility of Killing Two Birds with One Stone	Page 34
<b>The dynamics of international trade</b>	<b>Page 35</b>
• Understanding the impact of US tariff measures	Page 36
• The economy faces the balance of power between nations	Page 37
• US tariffs: destabilizing and inflationary	Page 38
• The United States vs. China	Page 39
• Understanding the importance of international trade	Page 40
<b>The new international order</b>	<b>Page 41</b>
A new international order is emerging	Page 42
• The end of the American world in 2030?	Page 43
• A world of power relations	Page 44
• The world of tomorrow!!!	Page 45
• The coming financial crisis	Page 46
• What currencies in the world after	Page 47
• The Recomposition of the World - Part 1	Page 48
• The Recomposition of the World - Part 2	Page 49



## Table of Contents

<b>The world of tomorrow</b>	<b>Page 50</b>
• Should We Expect the Worst? Part 1	Page 51
• Should We Expect the Worst? Part 2	Page 52
• The world is changing and so is its macroeconomic representation	Page 53
 <b>A more cyclical vision</b>	 <b>Page 54</b>
• Inflation is not a monetary phenomenon	Page 55
• Consumers at the heart of the risk of recession in the United States	Page 56
• International finance in 2025	Page 57
• Will the dollar depreciate?	Page 58
• The United States, China, tech and the climate	Page 59
• 2025 vs 2008, which crisis is more serious?	Page 60
 <b>Artificial Intelligence, the other Revolution</b>	 <b>Page 61</b>
• AI and inequalities in the labor market	Page 62
• Artificial Intelligence: Is Power Shared?	Page 63
• The Emergence of DeepSeek: Reflections on the Future of the Tech Industry	Page 64
• AI, an industrial revolution	Page 65
 <b>Table of Contents</b>	 <b>Pages 66 and 67</b>



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