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I turn now to Jean-Claude Meyer, Vice Chairman International of Rothschild, a previous manager of Lazard and, of course, he is very well-known to all of us.

Jean-Claude Meyer

Last WPC, my view on the financial markets was relatively optimistic. My forecast was a "transitory inflation" and a "plateau" of the stock markets. I was wrong insofar inflation, Jean-Claude you will forgive me, like all the central bankers. But right about the stock markets: November last year, Dow Jones was at 36.000 and November this year 34.000. Of course, after Covid, nobody could anticipate a war in Ukraine leading to increased inflation and a stagflation. Today, we face a very dark situation which is tackled by central banks with a great difficulty, – but leading hopefully to better days.

There are situations you all know everything about. GNP increase is low: 1% in the US next year and a 0.5% in the eurozone. Inflation is very high: it reaches 8% in the US due to the labor market and supply bottlenecks with a core inflation of 6.3%, and goes as high as 10.6 % in the eurozone because of energy and food with a core inflation of 4.3% due to consumer demand, huge liquidities after covid provided by central banks, and supply chain bottlenecks. The war in Ukraine has accelerated further this inflation. China has a problem with a very low growth rate of 3.2% because of Covid. The US labor market is running hot with a low unemployment of 3.7%. Interest rates will certainly increase next year which will reduce growth and create volatility. Therefore, this crisis is global, which is not encouraging.

As we know, stock markets depend on inflation, interest rates, economic growth, profits of companies; and today inflation is high, recession fears are mounting, and therefore financial markets are very volatile. Central bankers live in a tragic dilemma because their measures have adverse collateral effects, – such as medicines for doctors –, and therefore fine tuning is difficult for them. Their key question is how much can they increase interest rates to reduce inflation and avoid a recession. They are faced with this tragic paradox: every good news on growth and jobs are in fact bad news, because they maintain inflation. And on the contrary, bad news on growth and unemployment are excellent because they anticipate a reduction of inflation, lower interest rates and then possibly a stock market boom.

Today, central bankers seem to shift towards a slower tightening to avoid a recession specially as it takes a year to measure the results of a rise of interest rates. Stock markets are therefore a little better oriented since a month. Other central bankers believe that if there is a chance of tightening monetary policy too much, the risks of doing so are not as serious as letting inflation prosper. "Hawkish" central bankers will do whatever it takes to curb inflation against "dovish" bankers in favor of a pivot.

This December 14, Fed will increase once more interest rates, after 4 increases already this year of 0.75%. Will it be a 0.75% increase or just a 0.50%? Same question for ECB at its meeting December 15. A 0.50% increase by the Fed is not unlikely and it is my hope, – my bet. Especially because annual consumer price growth in the US slowed to 7.7% less than the 8% forecast, which should ease pressure on the Fed. This moderate increase would give an optimistic signal to the markets. But because of the bigger inflation pressure in the eurozone and of the delay taken by ECB vis a vis the Fed, ECB the day after could raise its rates to 0.75%. In spite the fact that in the eurozone inflation is due mainly to a short supply and that a risk of interest rate will not solve this situation. A 0.75% increase by the Fed of the ECB will affect the economic growth, and the stock markets.

Next year will be volatile, difficult, unpleasant, a "tough year" to quote the Chairman of Mubadala, because growth will decline with a recession in some countries until the summer; stock markets will remain unsteady, – bumpy. Interest rates should increase at a slower pace in parallel with a lower but sticky inflation going down and energy prices, shipping rates and raw materials falling thanks to a lower growth. This growth contraction should also raise the unemployment up to 5.5% in the US which will have a positive effect against inflation. But we can have a rosier scenario in 2024. Once "the job is done" to quote Jay Powell, anticipations for 2024 should improve, with a certain growth, including in China, lower inflation and lower interest rates, in brief: a soft landing. Provided there is no more Covid and that the war in Ukraine does not deteriorate, and there is no war in Taiwan. In this framework, we can therefore be a little more optimistic for the end of next year, with a recovery in 2024.

US stocks markets will then behave better than the European stocks, thanks to the strength of the dollar, and the lack of problems which Europe has to face: the eurozone being more fragile than the US, and more affected then by the Ukrainian war and by inflation due to the price of energy, of food and the high demand stimulated by European budgetary policies. To conclude, we feel badly in the short term, better in the medium term, and contrary to the projections of Keynes: not dead in the long term. Maybe a dream.

Jean-Claude Trichet

Thank you very much indeed, Jean-Claude.