

JEAN-CLAUDE MEYER

Vice Chairman International of Rothschild & Co.

Jean-Claude Trichet, President of the Académie des sciences morales et politiques, former President of the European Central Bank, Honorary Governor of the Banque de France

I turn now to Jean-Claude and he will have the *mot de fin*, please Jean-Claude.

Jean-Claude Meyer, Vice Chairman International Rothschild & Co.

Thank you very much. Last year we were in the middle of a storm and I anticipated, like Mr. Horii, a very dark situation which could lead to a more rosy picture in 2024. Today I confirm a more rosy picture for next year, but just with a delay, i.e., end of next year, in spite of huge geopolitical risks around, particularly since October 7.

Last year we were wondering when the rates would increase, now a question is when a cut will happen. World inflation has dropped to its lowest in two years, growth has declined without a major recession in spite of interest rates and their peak. The tightening cycle is coming to an end but central banks have to finish the job and keep interest rates higher for longer, it has affected the stock market since mid-October, it will slow the world growth and will hit consumers. However, at the end of next year, at the end of 2025 according to Jean-Claude, we can forecast a soft landing in the US, less so in Europe which faces a risk of stagflation. I am sorry not to be very original this year, it seems to be an awful cliché but sometimes clichés do happen.

Today, since October 7 the war in the Middle East will cause a probable rising cost of energy, compulsory additional investments in defense, the reduction of world trade, a weakening confidence and therefore a lot of uncertainty and volatility on the markets. This new situation has a chance to increase inflation and reduce growth, but hopefully should not encourage further tightening in order to avoid the risk to squeeze the economy too much. By the way, this bad news has not affected the stock markets too badly, oddly enough the markets being more sensitive to the recent rise of treasury yields which favors bonds against shares and then being more sensitive to a pause of fed rates. In spite of this huge risk we can keep our previous scenario of a soft landing in the US and a stagflation in Europe even though I am today a little less confident and more cautious.

Three additional comments, first there is a large divergence between the US and the Euro Zone, insofar as the GDP, it is flat in Europe and around maybe two to 3% in the US. Inflation in the US is 3.7% in September, 4.3% in Europe. This divergence is because the US have started their monetary policy earlier and, because Europe has much less resilience being fragmented, being near the war in Ukraine, with an ageing society, with financing coming from banks instead of equity markets in the US.

Second point, this divergence should last until the end of '24, inflation could be 2.6% in the US, 3.2 in the Euro Zone, growth 1.6 in the US and very small in Europe, around 1% due to particularly the sort of recession in Germany. In a nutshell, more inflation in Europe than in the



US, more growth in the US than in Europe. Maybe besides the soft landing in the US we shall have a landing in Europe.

Third point, central banks seem to be in favor of a pause from now on and they should start cutting rates second half of next year, fueling then a recovery.

To conclude, the stock markets should remain volatile and relatively flat until the third quarter of next year. The US stock markets and the Japanese one could go up slightly more than the European stock markets which will remain bumpy, but naturally all stock markets will go up again as soon of course of interest rates will appear, i.e., end of next year. This scenario may be too optimistic, it will be achieved provided that the slowdown in China and the accumulated debt worldwide does not deteriorate further and above all that the crisis in the Middle East remains limited. Contrary to what is happening now, the geopolitical risk might greatly influence the markets and dramatically change with very quiet forecast.

Jean-Claude Trichet

You are prudent, you reserve all possibilities, which I understand very well. Okay, Jean-Claude thank you very much indeed.