JEAN-CLAUDE MEYER

Vice Chairman International of Rothschild & Cie

Thank you, Jean-Claude. I will just say a few words on the markets next year.

The future is not at all obvious after the election of President Trump, since he is unpredictable and has such an influence from a geopolitical viewpoint but also on the economy and the markets. He also has an influence not only on trade, as you mentioned, but also on immigration, which is so important for inflation. However, we can anticipate, and I apologize that I am not being very original, one scenario for Europe and two for the US, and maybe as a surprise, a third one for the US. In my view, there is only one scenario for Europe, which is continuous very slow growth of 0.9% to 1% next year and inflation around 2%. Above all, Europe will be affected by the US tariffs and by the Chinese market for its exports. The ECB will continue to cut rates following the deposit rate of 3% down to 2%, maybe 1.5%. At the same time, the Fed will slow down the pace of interest rate cuts to a median rate of 3.5%, which will reinforce the dollar which, of course, is very bad for the emerging countries. Europe is faced by many diseases, organic growth has been only one-third of that of the US since the pandemic and is tarnished by the absence of capital market union, the ageing workforce, a declining labor force, low productivity, lack of energy, low investment in technology, and missing a true single market. Therefore, the difference between the US and Europe will widen. In addition, Europe is faced with a risk of public debt, in France in particular. In brief, the outlook for Europe is rather dark and the European stock markets, despite relatively good earnings per share, will remain dull and much less attractive than the US market.

We have two scenarios in the US, first one booming, already in place, called the Trump trade with good company results, robust consumer spending, reduced taxes, deregulation and M&A fueling the stock market. The US enjoys growth of 3%, unemployment of 4.1%, and inflation of 2.7%, with the SSP having increased by 26% this year with a strong dollar reinforced by the flow of hot money invested in the US. Growth next year should be around 2.4%, twice the eurozone level, and investors from all over the world will continue to bet on the US, especially if compared to a declining Europe, and a much less attractive China. Every year, Europe invests EUR 300 billion in the US financial markets, particularly in the magnificent seven, which contribute 50% to US stock market gains. The market cap of the US represents 50% of the world market cap, three times the European market cap. As we know, contrary to Europe the US benefits from a large, united consumer market, high productivity in the tech sector, financial resources, leadership in technologies, and cheap energy. US labor productivity has grown by 30% since the 2008 financial crisis, more than three times the pace in the Eurozone and the UK, a productivity gap for a decade is reshaping the global economy.

The second scenario is less rosy because of Trump's policies, a rebound of inflation is likely to happen because of restrictions on immigration which will increase wages, as well as higher trade tariffs and a huge trade deficit. These three factors, plus low unemployment, will create overheating and therefore a slower easing cycle, if not a later increase in interest rates in the US. Yields on 10-year Treasuries are already up at 4.4% and we can anticipate high debt, a stock market down, or at least bumpy, the end of the US soft landing and great instability.

In addition to those scenarios, the level of global public debt is at USD 100 trillion, and the geopolitical risks increase the uncertainty and make us, as Jean-Claude mentioned, more cautious, especially since a bad US scenario could contaminate the world economy in a vicious circle.

To conclude, what is likely to happen in the US is a third scenario with a rather good beginning to the Trump presidency and a more unstable and risk period six months' later.

Jean-Claude Trichet, former President of the European Central Bank, Honorary Governor of the Banque de France

Thank you very much indeed, Jean-Claude. You have taken no risks because you have three scenarios for the US but unfortunately, you only mentioned one for Europe that is rather sad.