Ten Seconds Into The Future 2025 06

Where we are:

- We are in year 15 of a trade war, one that began very slowly and invisibly, but which was brought into the open in 2016.
- We had spent 40 years increasing efficiency at the expense of robustness. This has changed in recent times.
- Inequality between countries has receded but inequality within countries has risen. This enables and drives some of the political and social dynamics we experience.
- Inequality has encouraged over saving and led to complacency in sovereign funding.
- We’ve had 80 years of American provision of security and economic and political leadership. This appears to be coming to an end.

Where are we headed?

- Will the current escalation mark a zenith or merely an inflexion point?
- Will the war stay in trade, or will it spill over to other domains?
- Substituting robustness for efficiency is naturally inflationary, and possibly stagflationary.
- Sovereign debt ratios have risen. Covid was a single event that raised fiscal deficits, but current trajectories don’t seem to signal a mean reversion.
- Life expectancies are rising. This has implications for dependency ratios, fiscal deficits, social dynamics, personal finance.

What does this imply?

- Sovereign credit is often manifested in FX.
    - Europe, China and India have room to spend.
    - US and Japan do not have room to spend.

- Geopolitics. It depends.
    - Hostilities escalate.
        - This would always be unpredictable, but some things will be unavoidable. Expenditure on unproductive assets such as military materiel will be inflationary. Economic growth could actually accelerate if industrial war machines are engaged. Post conflict resolution, technology might actually receive a boost.

    - Hostilities abate.
        - This would be the base case envisaged here. The developed world is getting too old and rich to spoil for a fight. Still, accidents can happen.

- Savings rates.
    - Fiscal and monetary policy may tend to be progressive and lead to an aggregate reduction in savings rates. Fiscal deficits may be more persistent or rise while monetary policy is more constrained.
    - Equilibrium interest rates could rise.

Navigating markets:

Some themes will play out over decades. However, they are path dependent and initial or near term conditions will impact trajectories.

Artificial intelligence.

The quest for AGI is unlikely to be successful, however, tangential development will be sufficient to drive a lot of innovation and productivity. There will be some significant disruption to labour markets, not from a simple displacement but expect AI to shuffle the deck. AI’s energy thirst will drive renewable energy demand until more efficient compute is engineered. Invest in renewable energy or in more efficient computing. Consider the entire ecosystems around these themes.

Longevity.

Healthcare access and cost will need to be addressed. Some countries are close to the point of a healthcare crisis.

Labour demand and supply will need to be addressed. For many countries, labour mobility and immigration will be unavoidable and should be facilitated.

There will be implications for the savings and investment industry which will need to present public and private solutions to funding post-retirement life.

Inflation.

Interest rates are likely to rise in the longer run. Ageing populations, rising fiscal deficits, lower savings rates, constraints on monetary policy, combine to tip the balance in favour of rising interest rates, and debt service. Interest rates are one of the most important factors in asset valuations so that an opinion on the trajectory of rates will be unavoidable.

Planetary heating.

One significant contributing factor to solving planetary heating is the free rider problem. Solutions will therefore require internationally coordinated regulation. In a deglobalizing world, this will be challenging. Fortunately, renewable energy is already mostly cheaper than fossil fuels. Non-financial barriers to adoption remain, keeping capacity factors lower than they need be.

If one believes that one will be paid for solutions, then investment in decarbonisation and renewables is likely to pay off despite the current volatility in carbon markets and the uncertainty around policy support for environmental investments.

The USD and US financial hegemony.

For over 80 years the US has provided the world with a public good: the USD and a rules-based free market financial system. In return the US enjoys cheap funding and political and economic influence divorced from the health of its economy. The current US administration appears unwilling to continue to provide this support. The price is that the USD and USD interest rates will become dependent on economic fundamentals. What this means in practical terms is that fiscal indiscipline will result in credit deterioration which will manifest in both interest and exchange rates. A weak USD is not a given but will depend on the fundamental health of the US sovereign balance sheet. Higher interest rates are not a given but will depend on whether the US can manage both prudent fiscal management as well as price stability. While Trump dominates the news, we need to look beyond this Presidential term and consider the durability of his politics and policies, the individuals that might succeed him, and most of all, the integrity of the executive, legislative and judicial pillars of government.