

All the small things are adding up

Sometimes, you've got to focus on the small things. And there are signs of relief in the global economy right now. Yet, perspective is everything, so never overlook the huge political and geopolitical changes that are happening everywhere



The global economy has entered the final stretch of the year. Before the festive season and outlook reports begin, it currently offers some rays of hope, at least for the humble and modest among us.

This year has been another wild ride for the global economy and, in part, another example that (geo-)political developments do not always lead to severe disruption in economies or financial markets, at least not in the short term. So far, the global economy has proven more resilient than feared, given the substantial (geo-)political shifts we are still witnessing. Recent weeks have brought developments that seem to feed tentative, yet fragile, optimism: a truce in trade tensions between the US and China, another Fed rate cut, solid eurozone growth, and an ECB seemingly brimming with confidence.

As is so often the case, when taking a closer look at these developments, it becomes a matter of perspective whether these are truly signs of relief for the global economy or merely a temporary respite. While the fact that trade tensions between the US and China have not escalated further is positive, the “soybeans for fentanyl tariffs” deal is far from a structural breakthrough and does little to eliminate the risk of renewed tensions. The Fed’s rate cut, delivered amid a data fog caused by the ongoing government shutdown, should provide some support for the economy and

markets, but Chair Jerome Powell's comments indicate a certain reluctance to continue cutting rates. Meanwhile, solid eurozone growth in the third quarter was driven by a surprise surge in French activity, yet remained below the eurozone's potential growth rate. For me, this is reason enough to rub my eyes and ears when listening to the ECB's self-confidence that all is well in the eurozone.

Another theme in recent weeks has been stock market valuations and the AI rally, with more and more market observers warning of a possible bubble bursting. I am not in a position to comment on valuations, but I do recall that financial crises hardly ever occur when almost every expert and commentator predicts them. In any case, we are gradually shifting into the next phase of the AI boom, where application, not just production, will be key. It is also a phase in which interest rate levels, particularly in the US, could become more relevant as tech companies move from cash-flow-financed to debt-financed investments.

Credit where credit is due: despite all warnings and fears, the global economy has held up better this year than expected, and the AI boom has clearly offset some other adverse factors. Personally, I remain convinced that we are in the midst of substantial and historic geopolitical shifts. Global tariffs are at their highest level since the 1930s; trade flows are changing; trade is increasingly used as a geopolitical policy instrument; we still have a war in Ukraine and European commitments to ramp up defence spending; there is growing awareness that China has become a global player in many key industries; and almost all industrialised economies are struggling with how to reconcile rising government debt with high investment needs and the fiscal challenges of ageing – just to mention a few. However, as with structural shifts and transitions in the past, they can be frightening to some but do not automatically lead to disastrous economic outcomes.

All of this shows that the global economy is currently experiencing respite, not relief. But as we enter the festive season and outlook period, let's cherish the moment. As the US punk rock band Blink-182 sang: it's all the small things. For now.

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