

The Macroeconomic Outlook

24th November 2023

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Jonathan Wilmot

- >40 years' experience analysing financial markets
- Co-Founder of XAI Asset Management
- Previously at Credit Suisse for 30 years
 - Chief Global Strategist
 - Head of Macro Investment in UK Asset Management Business
- Studied PPE at Oxford



A Tour of The World Economy

How We Got Here, Where We are Going



GLOBAL STRATEGY – **JONATHAN WILMOT**

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November 2023

OUR FUTURE DEPENDS ON IT

- *“PRODUCTIVITY ISN’T EVERYTHING, BUT IT’S NEARLY EVERYTHING”*

PAUL KRUGMAN

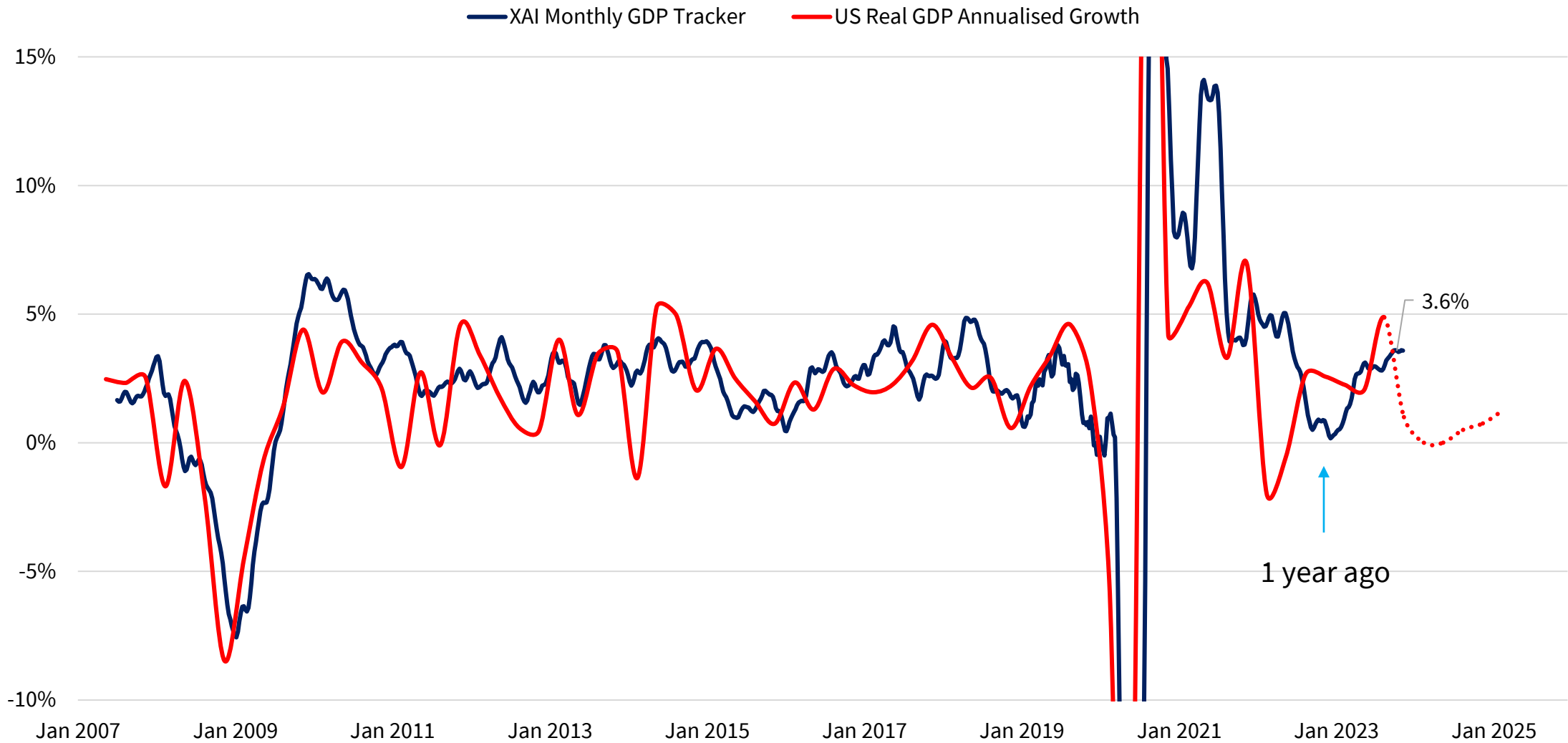
THE CONSENSUS ONE YEAR AGO

- America and Europe were heading into recession, though possibly a mild one
- The world was entering a new era of shortages, disrupted supply chains and higher inflation
- The post-COVID rebound in China would probably drive oil and natural gas prices (much) higher
- All of that was wrong!

GLOBAL OUTLOOK: 2024

- LAST PHASE OF THE COVID CYCLE
- FIRST PHASE OF THE GREAT TRANSFORMATION

XAI MONTHLY GDP TRACKER VS US REAL GDP* (% PER ANNUM)



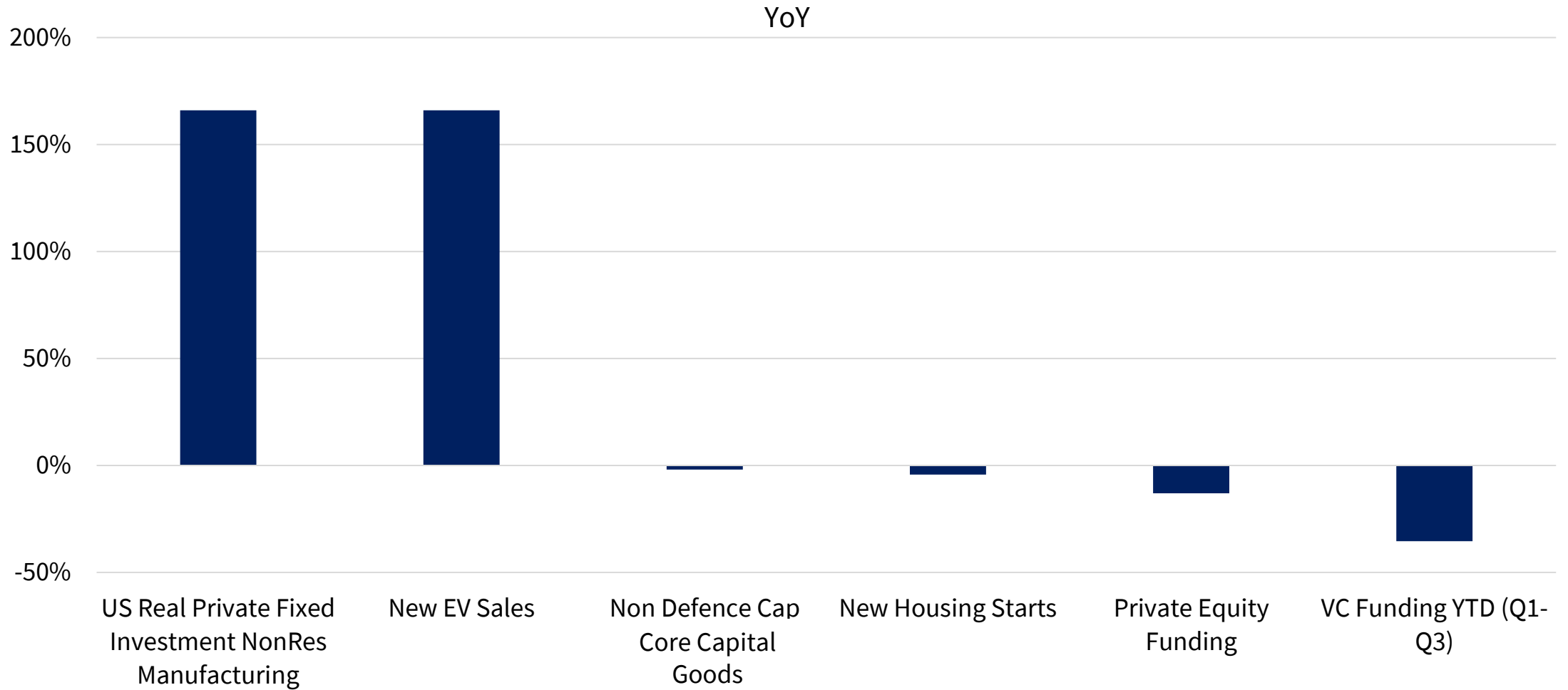
* Forecast from Oxford Economics

WilmotML

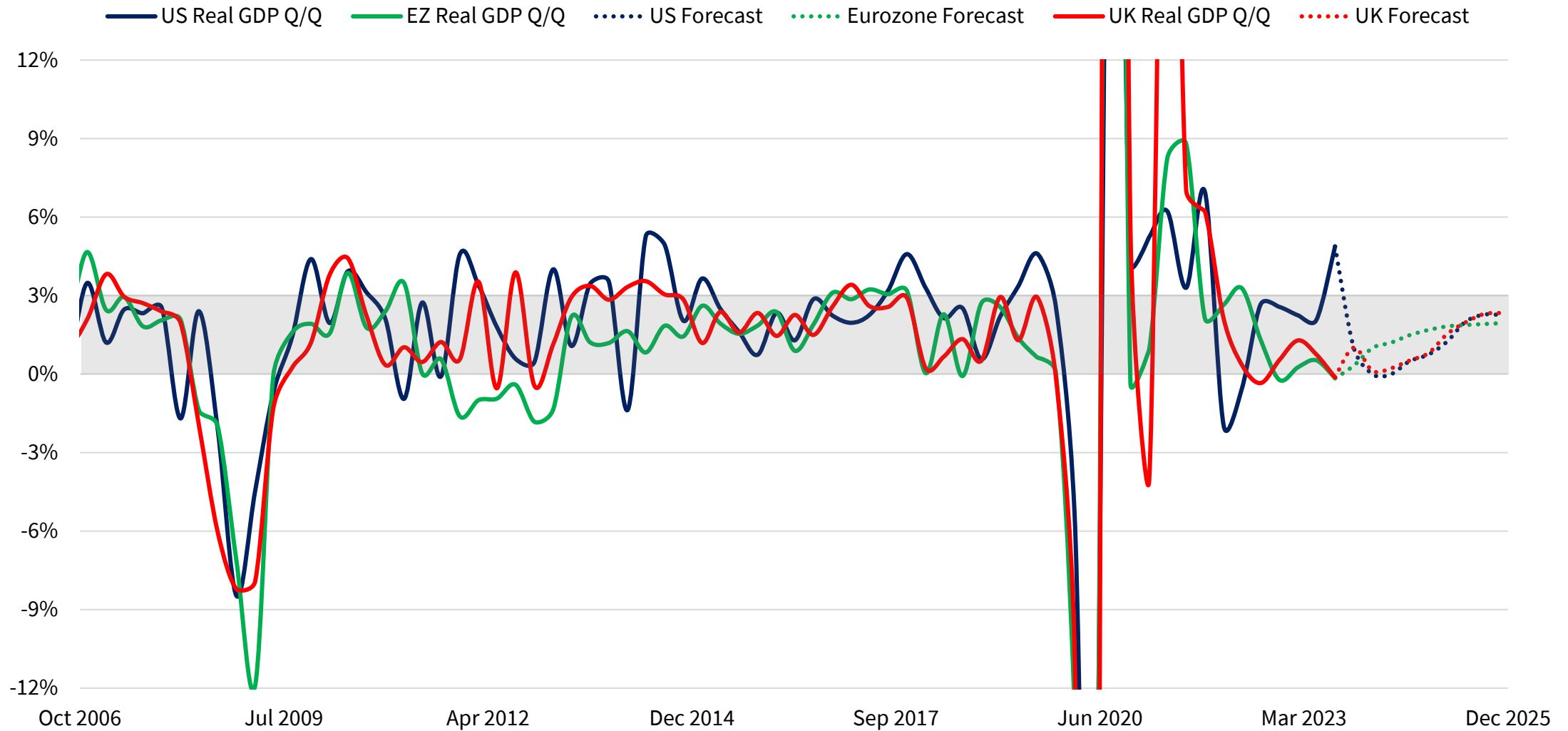


FIRE AND ICE

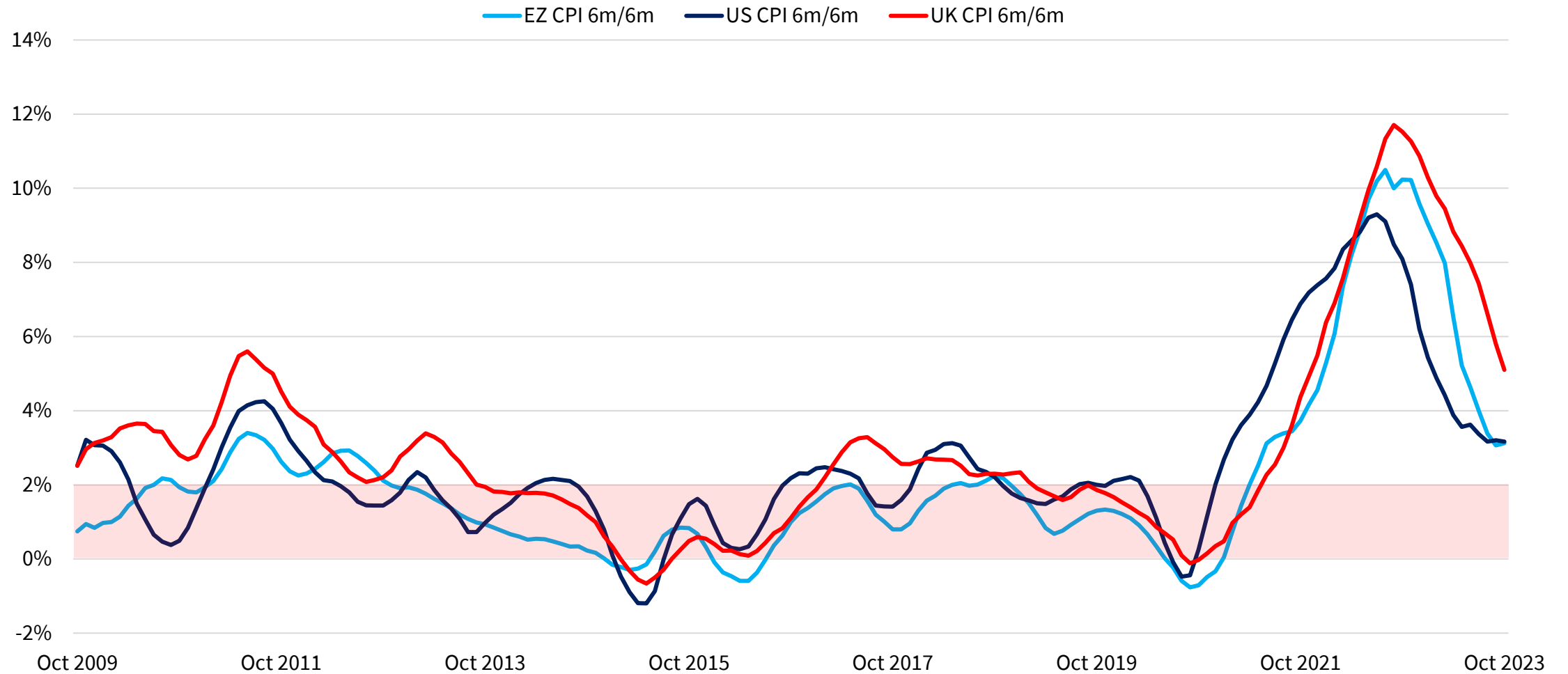
YEARLY CHANGE IN US SECTORS FOR OCTOBER 2023 (Q3 FOR VC FUNDING)



REAL GDP Q/Q WITH FORECAST: US, EUROZONE, UK

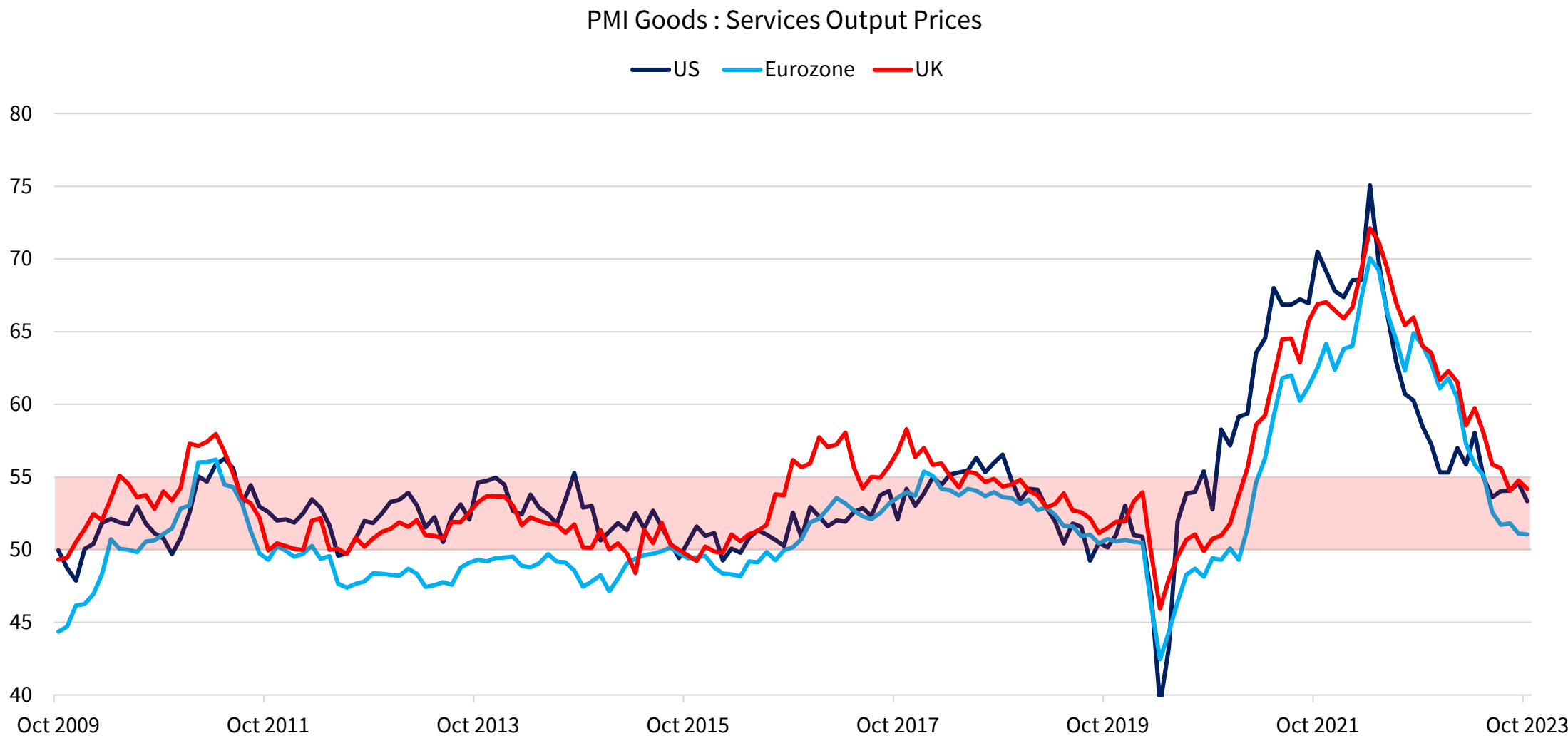


CPI 6M/6M ANNUALISED: EUROZONE VS US



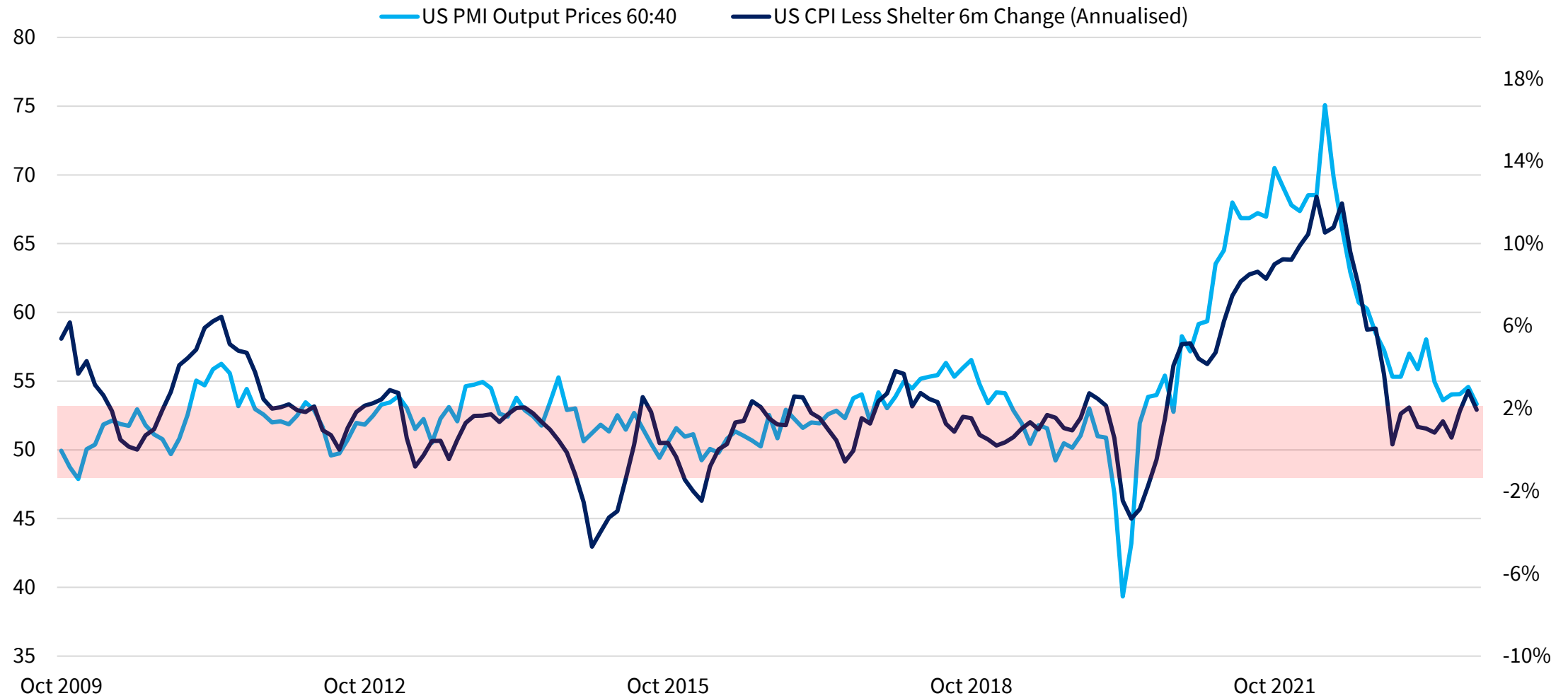
INFLATION PRESSURE COMING BACK TOWARDS POST GFC NORM

PMI COMPOSITE (60:40) OUTPUT PRICES: US, EUROZONE, UK



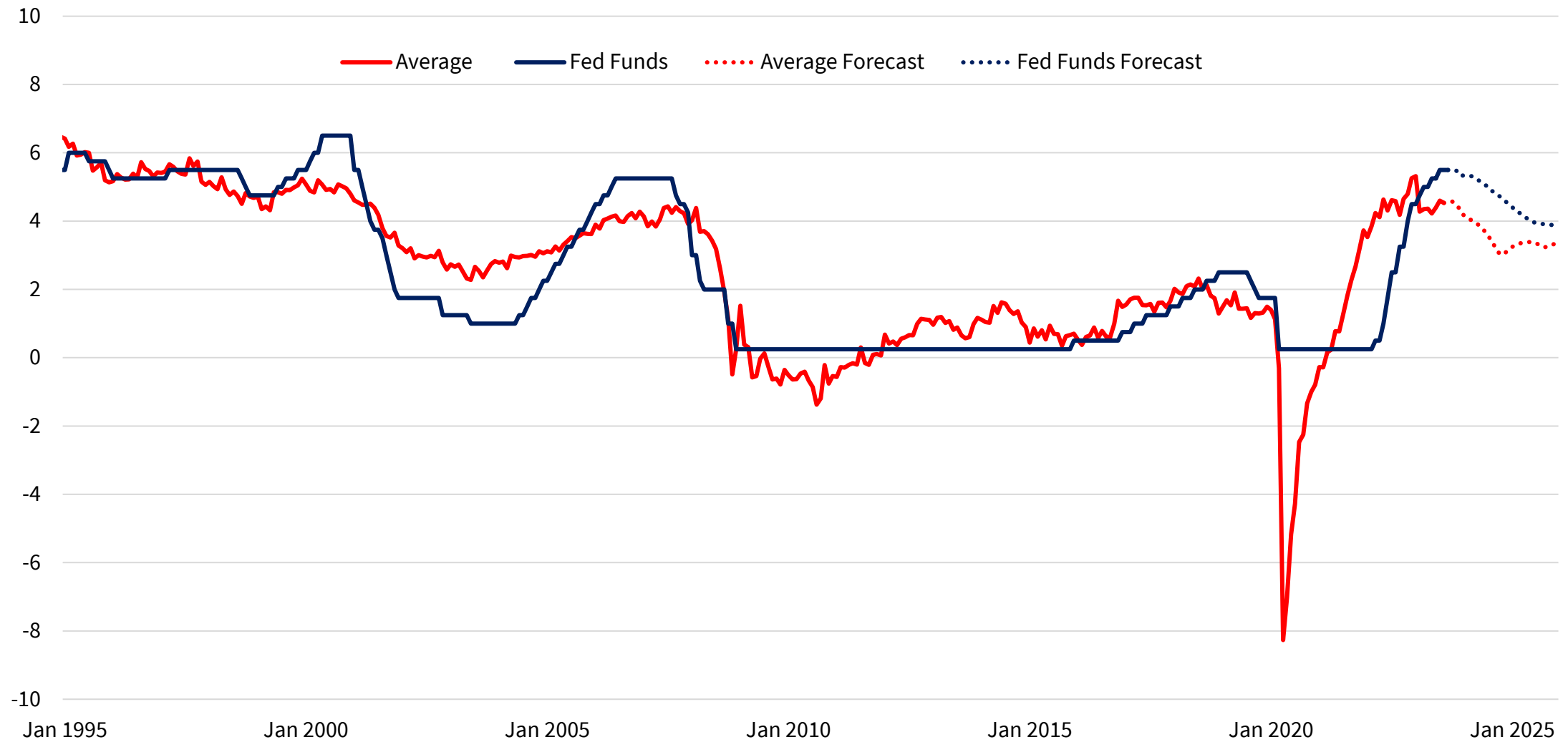
US INFLATION EX-SHELTER IS ALREADY BACK TO TARGET

PMI OUTPUT PRICES (SERVICES : GOODS, 60:40) VS US CPI LESS SHELTER (6M/6M ANNUALISED)



CENTRAL BANKS EVERYWHERE STARTED TIGHTENING MUCH TOO LATE

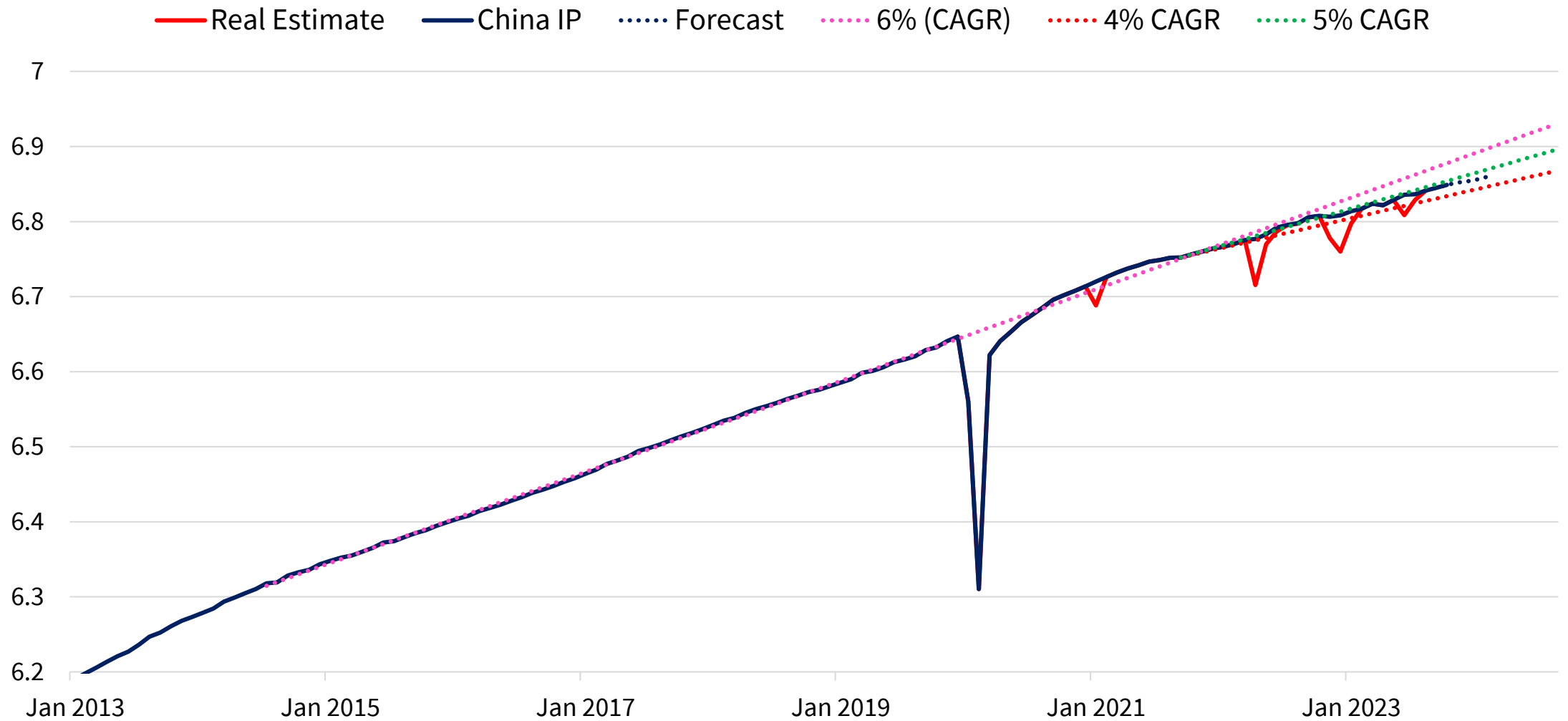
US TAYLOR RULE (CENTRAL ESTIMATE) SUGGESTS THEY HAVE DONE ENOUGH



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- CHINA: BI-POLAR

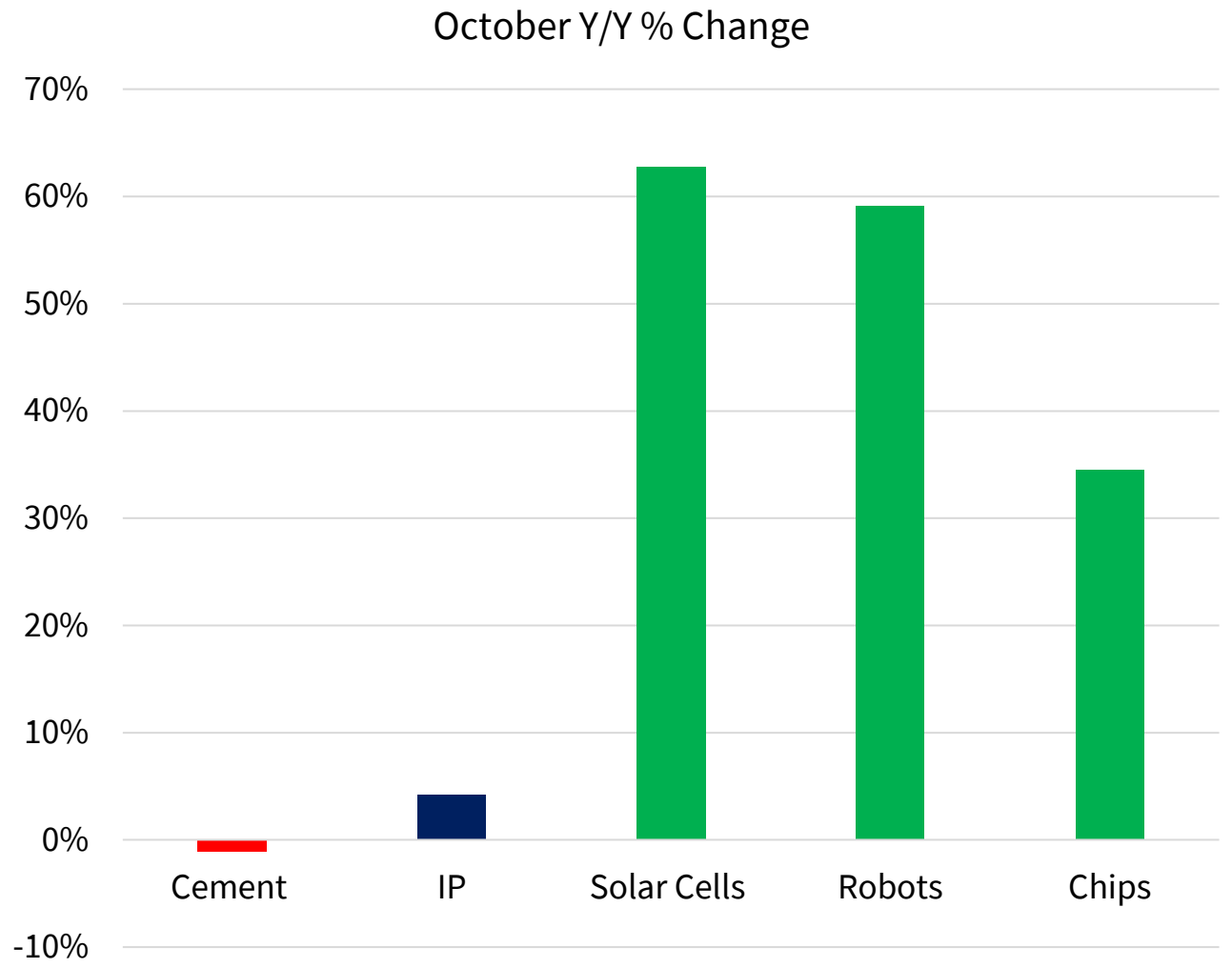
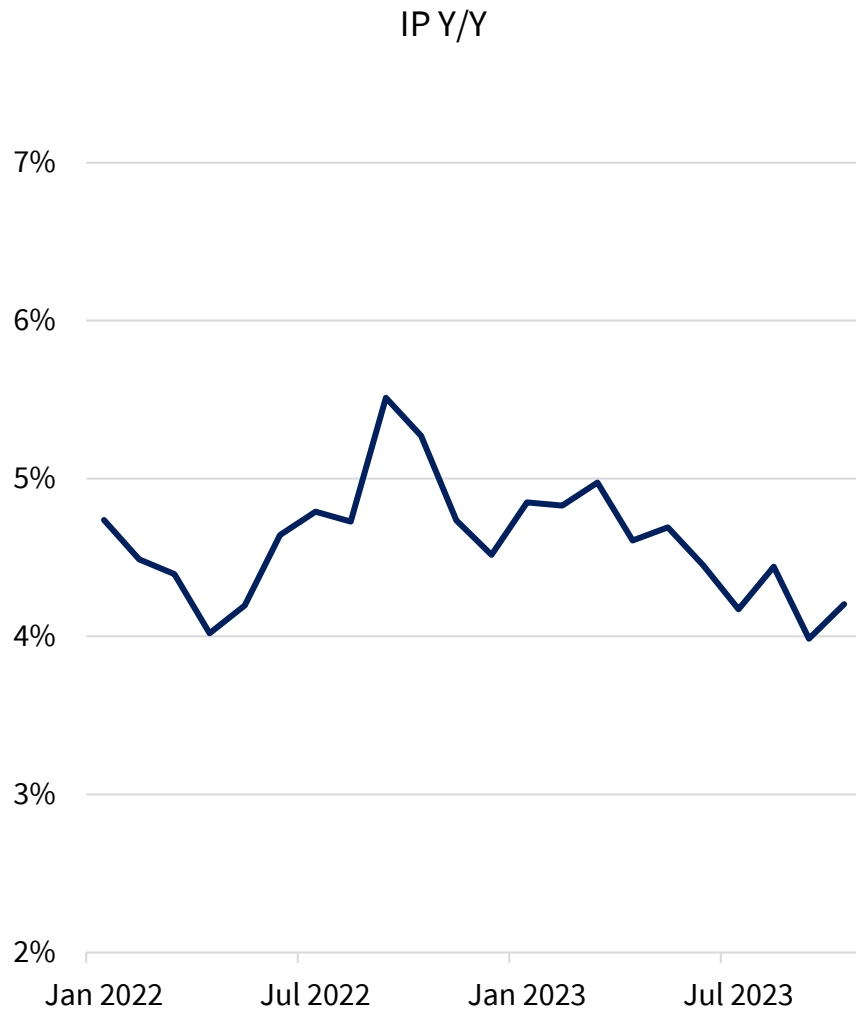
CHINA ON A SLOWER GROWTH PATH

INDUSTRIAL PRODUCTION LOG LEVEL



BUT CLEAN ENERGY, AUTOMATION AND CHIPS ARE BOOMING

CHINA: AGGREGATE IP GROWTH VS NEW ECONOMY SECTORS



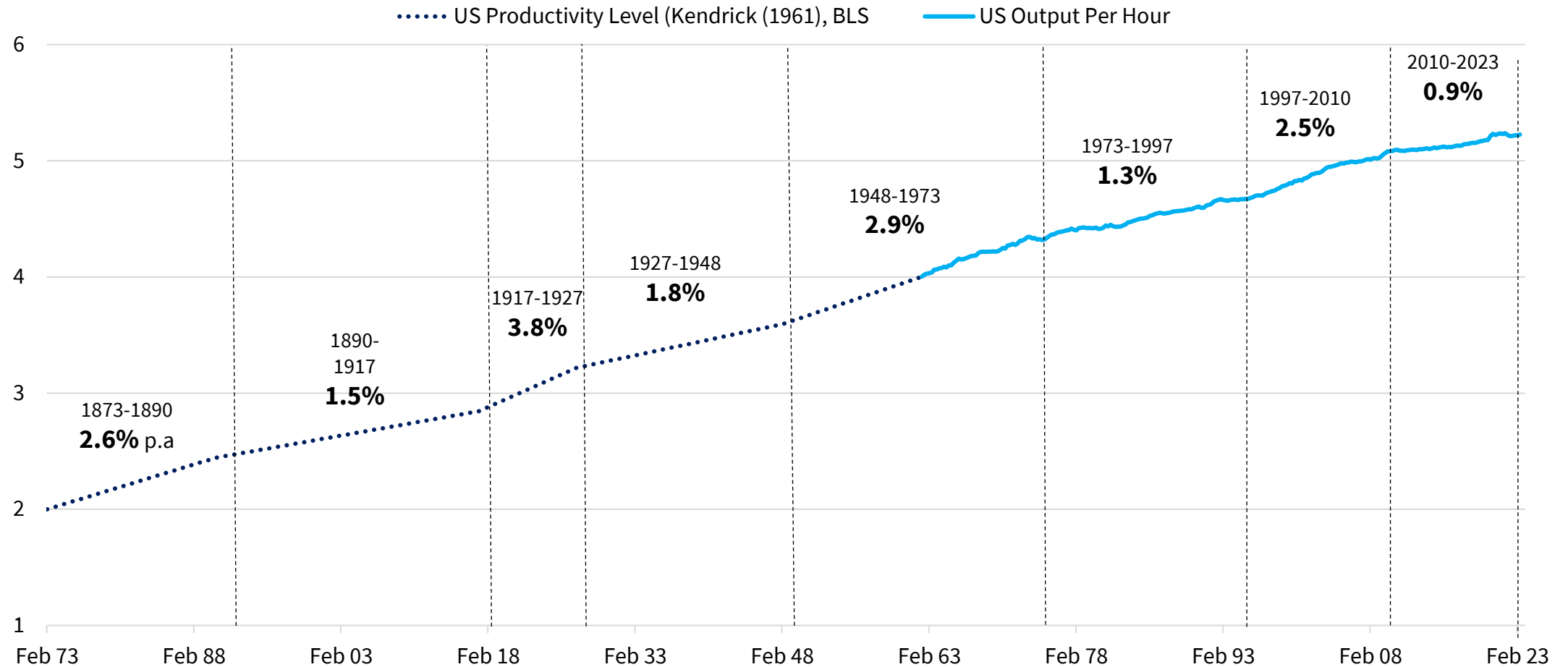
THE GREAT TRANSFORMATION IN 2024

- AI EVERYWHERE: ACCELERATING
- ZERO CARBON: TEETHING PROBLEMS
- GEOPOLITICAL RISKS: ELEVATED BUT NOT QUITE WHAT THEY SEEM

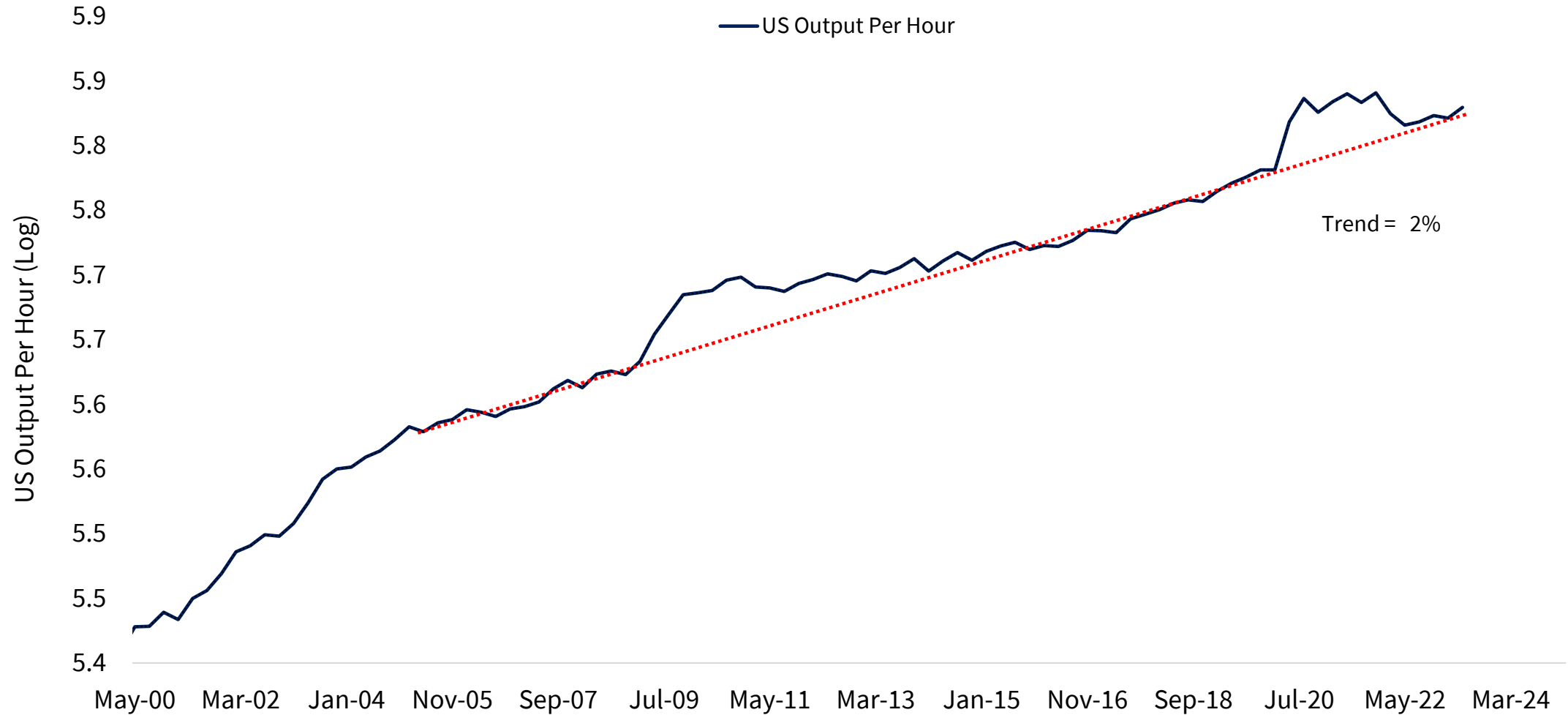
PRODUCTIVITY GOES IN CYCLES TOO

- MACHINE INTELLIGENCE IS TO BRAIN POWER WHAT THE STEAM ENGINE WAS TO HORSEPOWER

PRODUCTIVITY REGIMES: FAST, SLOW, FAST



US PRODUCTIVITY: NOT SO DISMAL AFTER ALL



THE STAKES ARE ENORMOUS

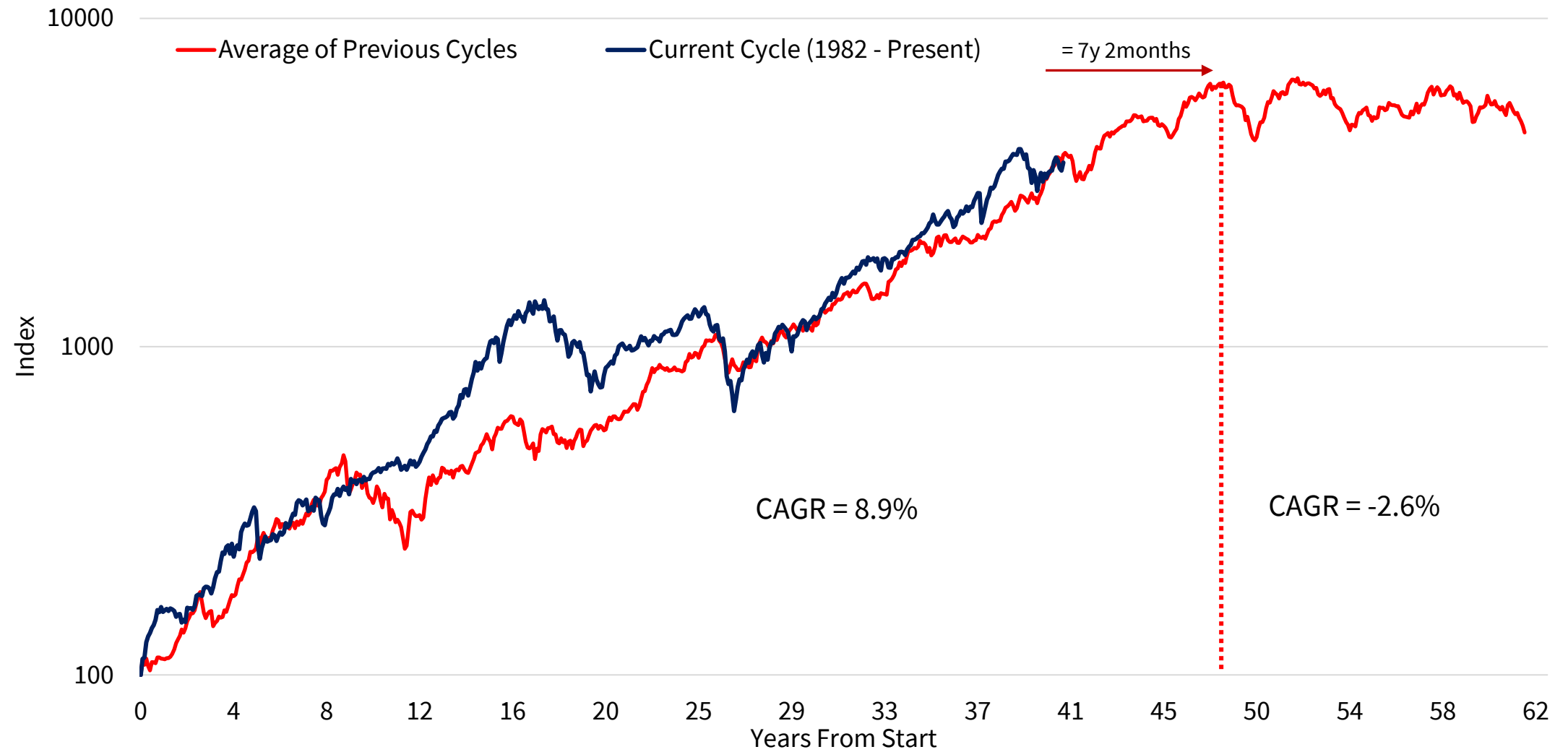
- AGI MAY NOT BE AS CLOSE AS ENTHUSIASTS THINK BUT THE PRODUCTIVITY BENEFITS ARE CLOSER THAN THE SCEPTICS THINK
- THE OPEN AI LEADERSHIP SAGA IS YET ANOTHER SIGN THAT COMMERCIALISATION IS UNSTOPPABLE
- CHINA AND EUROPE ARE FALLING BEHIND THE US
- IF YOU AREN'T AN AI SUPERPOWER YOU WON'T BE AN ECONOMIC OR MILITARY SUPERPOWER

HOW WE THINK ABOUT GEO-POLITICS

- THE US, CHINA AND THE KLEPTO-STATES
- THERE ARE 70 ELECTIONS THIS YEAR AROUND THE WORLD NEXT YEAR: ONLY TWO REALLY MATTER
- TAIWAN: CHINA MORE LIKELY TO BLOCKADE THAN INVADE
- AMERICA: TRUMP HAS PERHAPS A 40% CHANCE OF BEATING BIDEN AND THAT IS TOO MUCH
- THE MIDDLE-EAST: THE PROBABILITY THAT THE CONFLICT WILL WIDEN IS HIGH; THE PROBABILITY THAT IT WILL LEAD TO SOARING ENERGY PRICES IS LOW

A BUMP IN THE ROAD FOR EQUITY MARKETS?

US REAL EQUITY RETURNS: LONG CYCLES



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