



June 23<sup>rd</sup> 2016

***Disagree on uncertainty story – economic issues shall remain after UK vote – Focus must shift to social issues in advanced economies – Politically correct taboo on limiting EU immigration has been shattered! – Income inequality is spawning more poverty***

***We disagree on uncertainty story!***

*When shall the die be cast? It is said that markets hate nothing more than uncertainty. We disagree! In this case they shall hate nothing more than a “leave” victory.*

***Most investors positioned “long only” – cannot do sophisticated non – directional or short selling strategies***

*The vast majority of investors are historically positioned “long only”. With stocks constituting now both the capital appreciation and income components of their portfolio – few have the chance to play sophisticated volatility or spread trades.*

***Remain wins – one asteroid gone – but economic issues remain***

*We are seeing enthusiasm starting to boil up again with the pound surging and European stocks roaring ahead. Should the “remain” camp carry the day – the fundamental issues of slowing global growth and deflation shall still be there.*

***The game shall shift from central bank measures to tackling social upheaval***

*Reductions in pricing power shall continue to whittle away at the competitiveness of many firms bereft of the inflation boost. The emphasis shall shift from central banks managing “asteroid shocks” to governments tackling social problems in the advanced economies.*

***Can you argue against opportunity cost?***

*Anger at immigration shall not subside – with the anti – immigrant arguments now becoming more sophisticated and relying heavily on difficult to counter opportunity cost. The newcomers are now seen as depressing wages at the bottom of the labor spectrum.*

***With technology reducing the number of well-paid positions and requiring ever higher skill levels to access them – the “new poor” see themselves as hammered at both ends.***

***Do not disparage “Globalization and its discontents”!***

*We see protracted slow growth as ultimately not only increasing income inequalities but as pushing ever greater numbers into poverty. Whatever one may think of globalization – to paraphrase Freud – we might now well speak of “Globalization and its discontents”.*

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### ***Easy to dismiss “Great Displaced” as new sub-proletariat! Governments must now fight on two fronts***

*While it is easy enough to dismiss these groups as the modern day equivalent of the sub(lumpen)proletariat – many are from the downwardly mobile lower middle class. There are now two clear and distinct agendas for governments.*

*The first is the re-establishment of some sort of normality in financial markets, transforming them from de-facto wards of state surviving on central bank generosity – into going concerns.*

*The second is to stop the steady descent in the advanced economies of the lower middle class into extremism. Inflation at two per cent shall not resolve the social bomb.*

### ***The UK referendum has moved the EU debate away from the fringes and to center stage!***

*We continue to see the referendum’s importance in the fact that it is being held! The dispute between Euro-fans and “separatists” has now been assigned a legal and constitutional legitimacy and framework – which can be “hot tanked” by other EU members. The debate has shifted from fringe movements and acquired respectability.*

### ***Politically correct taboo on limiting immigration in Europe has now collapsed!***

*Cutting through all of the economic “fog” – the key point is that it is no longer taboo to be for limiting immigration. Melting pots in history shall have largely been limited to the New World – with the historic European nation state not fertile ground for this concept.*

***The author of these notes remembers well when in France it was suddenly no longer politically incorrect to express sympathy with the National Front – around 2005. They have been steaming ahead ever since.***

### ***Not surprised at slowing of growth in the Euro Zone***

*With regard to macro data – we are not surprised to see a lower than expected PMI composite index in the Euro Zone. What we see as a major concern is that - albeit fluctuating within a narrow and low band – services have disappointed.*

### ***Can we all transition to domestically driven growth?***

*With global growth slowing and the manufacturing – exports axis being pressured – services, which are largely consumed domestically – are the principal support to growth. We are seeing both the EU and Euro Zone attempting a US style transition and become increasingly “stand-alone” economies.*

***Will they pull off the trick? Is a slight decline in consumer debt ratios sufficient to kick start a buying boom?***

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His career has spanned the complete range of macro risk analysis - energy / commodities with ENI - Global Fortune 500 17 - leading global natural resources group, capital markets with Swiss Bank Corporation (now UBS) and insurance / reinsurance with the A.M. Best Company. Jean contributes regularly to international media commenting on key macro-economic issues.

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