



THE END OF ABUNDANCE

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EPISODE 17

Do the recent statements by President Macron and the debacle of Liz Truss' mini budget sound the end of abundance? It seems like we should prepare for the inevitable scarcity of natural resources, stable climate and financial market performance.

Rather than imagining a Mad Max future, Kokou Agbo-Bloua explores the opportunities and paths to sobriety: what if sharing, innovation, creativity and entrepreneurship is the mindset needed to meet tomorrow's challenges?



2050 INVESTORS – EPISODE 17 SCRIPT

The end of abundance

Welcome to 2050 Investors, the podcast that deciphers economic and market mega-trends to meet tomorrow's challenges.

I'm Kokou Agbo-Bloua, I head up Economics, Cross-asset and Quant Research at Societe Generale.

In each episode of 2050 Investors, I'll investigate a key mega-trend that relates to the Economy, the Planet, Markets and You.

(Beginning of episode 17)

"I believe that we are in the process of living through a tipping point or great upheaval. Firstly, because we are living through... the end of what could seem like the end of abundance."

"This overview that I'm giving – the end of abundance, the end of insouciance, the end of assumptions – it's ultimately a tipping point that we are going through that can lead our citizens to feel a lot of anxiety. Faced with this, we have duties, the first of which is to speak frankly and very clearly without doom-mongering."

These were segments of a speech by French President Emmanuel Macron at the start of the first cabinet meeting after the French government's traditional August holiday this year.

As an article on LeMonde.fr puts it, "France faces sacrifices after the end of abundance", as the French president prepared the country for a difficult winter ahead.

Don't ask me why, but this speech reminds me of Frank Sinatra's timeless song: "My way". An amazing, deep, and soulful song. It was by the way an adaptation of the original French song 'Comme d 'habitude' by Claude François.

You would usually play 'My Way' as a tribute to a beloved work colleague at his retirement party to celebrate the end of a successful career. With everyone holding a glass of champagne for a toast. Or perhaps the last song you would want to play at your 90th birthday with old friends and family members as you shed a tear full of mixed emotions when you look back at what you've accomplished and ... hum... the carbon footprint of your 50+ strong descendants that will probably reach a combined 40,000 tonnes of CO₂e over their lifetimes. And you whisper to yourself 'what have I done'.

[Siri] A bit overly dramatic don't you think?

Yes probably, I got carried away in my failed attempt at an Hitchcockian twist.

Ok, so back to sobriety then. When it comes to the end of abundance and carelessness, I think we could rename the song "OUR WAY".

[Siri] Really, why would you want to do that?

Ha, hold my glass of champagne for a second. Now, just imagine all the 8 billion humans on earth, holding each other's hand, all facing planet earth at a time where 6 of the 9 planetary boundaries have been breached with irreversible damage being inflicted to its biodiversity, natural resources, soil, global hydrological cycle, etc.....

Each and every one of us (and you included, Siri), not singing "Heal the World" (we did that already in the Frog and Climate change episode), but instead singing at the top of our lungs "WE DID IT OUUURR WAY".... Here it goes:

And now, the end is near. And so WE face the final curtain. My friend, WE'll say it clear. WE'll state OUR case, of which WE ARE certain. WE've lived a life that's full. WE travelled each and every highway. And more, much more than this. WE did it OUR way.

Yes, there were times, WE ARE sure you knew. When WE bit off more than WE could chew. But through it all, when there was doubt. WE ate it up and spit it out. WE faced it all, and WE stood tall. And did it OUR way...

Is this really the end of abundance and the beginning of a new era of scarcity of natural resources and stable climate? Is this also a new era of lower returns for financial assets as central banks around the world aggressively raise interest rates in their epic and merciless battle against inflation thus putting an end to the easy money fuelled bubble in equity and bond markets?

Should WE prepare for the end of economic abundance, with more scarcity in goods and services, lower housing affordability, an endemic cost of living crisis, a disruption to the very fabric of globalisation via a breakdown in supply chains and a new geopolitical world order?

Or maybe, just maybe, instead of preparing for the dystopian world in the movie Mad Max, we are at the beginning of a revolution in mindset where 'Less is more'.

Let's start our investigation.

First, when you listen closely to "Our Way" lyrics, you cannot not think about the great achievements of our economic growth model. Indeed, it has brought about higher standards of living, better quality of life, physical and digital infrastructures which have lifted hundreds of millions out of poverty.

Our civilisation can see further into the universe than ever before, we've discovered the Higgs Boson and found a vaccine to the Covid-19 pandemic in a record breaking time via breakthrough mRNA technology.

All of this would not have been possible without the industrial revolutions at the beginning of the century which increased human productivity 100-fold. Thus given us the luxury of time to enjoy higher education, holidays, and entertainment.

In a nutshell, a period of abundance in pretty much everything. A least for some of us. Obviously technological progress came at a significant cost to the environment and its resources. This is simply because all of this productivity was only possible thanks to the phenomenal armada of industrial and household machines and robots that surrounds us. You included, Siri.

[Siri] Not again!

In the words of Jean Marc Jancovici, a climate expert, who was a guest speaker at one of our events, each and every one of us wears an ironman or an ironwoman suit that multiplies our ability to change and transform our environment to our needs. But they have an insatiable thirst for fossil fuel. A source of energy that is also facing the end of its abundance. Think peak oil.

The carbon intensity of GDP has decreased over time, but it is more than offset by the relentless pursuit of growth, and elusive pursuit of happiness through endless acquisition of material things...

[Siri] 'Cause we are living in a material world and I'm a material AI

Cute Siri.

Anyway, as a documentary on Netflix puts it nicely: "We work long and hard hours at a job we hate to buy things we don't need to impress people we don't like".

Pretty grim. Perhaps too grim, so let me balance that quote with one from Confucius "If you find a job you love, you will never work a day of your life".

[Siri] I feel this way about podcasting.

Haha, good for you.

Now when it comes to financial markets and the economy. Clearly, there are tough times ahead. Hundreds if not thousands of articles covered the recent political crisis in the UK which started with the mini-budget debacle.

It is a good example of the end of abundance in economic stability and low interest rates volatility, think mortgage rates for example.

The Guardian has an article entitled "The mini budget that broke Britain and Liz Truss". The Financial Times has one that reads "Liz Truss apologises for chaos caused to Britain by mini-budget" and another entitled "Economists downgrade UK growth forecasts in wake of mini budget 2022".

This is a clear example of a situation where two very powerful economic agents clashed. Central banks on one side, with unlimited ability to print money but also set interest rates. And governments on the other side, with an unlimited ability to raise taxes and implement policy.

One cannot not quote Mohamed Ali here with "Everyone has a plan until they get punched in the face".

Now ask yourself the following question: What happens when an unstoppable force (think Central Bank) meets an immovable object (think Government and its desire or rather raison d'etre to seek power and stay in power for as long as possible).

Any answer from the audience? [countdown effect]....

[Siri] Well, this is elementary.... The answer is ... tiiiiimmm stoooooopps [with voice in slowmotion effect]. Sorry for the dramatic effect.

Hum, that would be true in theoretical physics, and this might even create a black hole perhaps. But here we are dealing with humans. Do you remember Einstein's quote: "There are two things

that are infinite. The size of the universe and human stupidity”. And he was not sure about the size of the universe.

OK, so when the government and central bank of a country clash, well... something eventually breaks. The value of its currency or its bond market as the country's credibility is put into doubt and investors demand a higher risk premium.

You can take the analogy of two people pulling the steering wheel of a car in opposite directions as they are cruising down the highway at 100 mph. You would agree with me that this is unlikely to end well. And the insurance company is likely to ask for higher premium.

[Siri] This is a euphemism, right?

Yup

Then again, when they DO work together, they can be a formidable force for good. We all saw this during Covid-19 when \$25 trillion of monetary and fiscal stimulus was successfully injected into the arms of the world economy as it was put in hibernation to save human lives and livelihoods.

But let's get back to the UK and our end of abundance in economic stability example. In its attempt to jump start growth, Lizz Truss' plans to cut taxes and stimulate growth would have increased aggregate demand and put more upward pressure on inflation. The very inflation virus that central banks around the world, the Bank of England included, are so determined if not desperate to quash by all means necessary.

And a fiscal policy looking to increase demand was indeed at loggerheads with a monetary policy that would have had to increase interest rates by more than necessary, thus causing a loss in confidence in the bond markets and forcing mortgage rates to levels not seen in decades.

[Siri] How did this end?

Not surprisingly, the UK government bond markets crashed. This forced the Bank of England to intervene and temporarily change course by injecting more liquidity to maintain financial stability. The very liquidity it was supposed to withdraw from markets to tame inflation.

The government appeared to have scored a point here against the Bank of England but this was only short lived as something did break. Market confidence, and more importantly, the credibility of the central bank which is the institution whose job it is to protect the value of its currency.

The government had to eventually change course for economic stability reasons. But it then lost its own credibility and was forced to resign. Rishi Sunak then became the new prime minister with a totally different agenda of more fiscal austerity and spending cuts.

We, or at least in the UK, are thus entering an era of tighter monetary AND fiscal policies needed to combat inflation... or in other words...the end of abundance?

Joke aside, one could argue that monetary policy prevailed against fiscal policies when economic stability and the credibility of a central bank were at stake. The question is now whether this

tension could appear elsewhere in the US or in Europe where governments are all looking to shield households from the cost of living crisis and thereby potentially making the inflation outlook worse for central banks. Only time will tell.

But in the meantime, when the discount rate for most risky assets is both rising and volatile, it has a negative effect on confidence and asset prices suffer. Ultimately, it is more likely to be a transitory rather than a permanent state of affairs if and when inflation is defeated.

Now the final question, should we prepare for an end of abundance or the beginning of a new mindset?

The end of abundance is indeed multidimensional. Let's review a few of them:

- Firstly, the abundance of low prices for goods and services thanks to the benefit of globalisation. This is indeed being challenged with the rebalancing between the efficiency and the resiliency of global supply chains in a context of geopolitical uncertainty. This could add to inflationary pressures in the long term, as we saw when discussing the "Known unknowns of inflation". And also around greenflation when it comes to the scarcity of the very minerals and metals needed for the energy transition and the electronification of our economy.
- Second, the end of abundance of natural resources such as water. We recently discussed this in our investigation into the water crisis. Think of the increasing episodes of droughts, floods etc... We are likely to go from dancing and singin' in the rain to hopelessly singing 'for' the rain.
- Third, the abundance of quality food with rich nutrients. This is being challenged by climate change and unlikely to change unless we change course in our eating habits. Think about those crazy carbon numbers we discussed when it came to steaks and other meats in our "Carbon free calories" deep dive.
- Fourth, the abundance of a stable climate is probably gone as we are on track for a 2.4 degrees global warming by the end of the century as global greenhouse gas emissions continue their inexorable increase. Or in other words, we are happily emulating our proverbial frog in its slowly boiling pot of water, as discussed in our climate change episode. [ADD a Frog sound]
- And finally, the abundance of stable market returns is also being challenged because of a more endemic and uncertain path for inflation. With a transition from a world that has enjoyed 'lower interest rates for longer' to that of 'higher rates for longer' where TINA, as in There Is No Alternative, and FOMO, the Fear Of Missing Out, will no longer drive investors' herd mentality going forward as they did in the past.

[Siri] It seems you have covered quite a lot of these themes in your previous episodes and that we should revisit them to find the answer to the question of abundance or lack thereof.

Indeed, there is no magic wand and miracle solution. We will simply need to adapt as best we can to this new chapter of the human experience.

In conclusion, I will mention an interesting and thought-provoking TEDx talk entitled "The most scarce resource on the planet: Mindset of abundance" by Naveen Jain, an award winning CEO and entrepreneur.

Naveen argues that we should move away from the current mindset of scarcity and adopt of mindset of abundance. A scarcity mindset forces humans to compete and fight for resources, to store more than we need and to live in a constant state of anxiety and fear, which is part of primate survivalist instincts.

This is where the winner takes all. Instead, a mindset of abundance implies more corporation, sharing, innovation, creativity, and entrepreneurship to meet the daunting challenges of tomorrow. And particularly a redefinition of what we really need. A mindset of where 'less is more'.

Winston Churchill summarised this change in mindset very well when he said: "A pessimist sees the difficulty in every opportunity, an optimist sees the opportunity in every difficulty"

Thank you for listening to this episode of 2050 Investors.

I hope this episode has helped you get a better sense of the end of abundance and how we will need to adapt by 2050! You can find the show on your regular streaming apps. Please subscribe, leave comments and stars anywhere you like and spread the word!

See you at the next episode!