TRUSTWORTHY WEALTH ADVISORS

THE ECONOMIST – MAY 31, 2025 – KEY TAKEAWAYS

1. THE COVER: AMERICAN FINANCE – NEW, UNTESTED AND DANGEROUS

- Always a haven in dangerous times, America has itself become a source of instability. The list of anxieties is long.
- Government debt is rising at an alarming pace. Trade policy is beset by legal conflicts and uncertainties. Donald Trump is attacking the country's institutions. Foreign investors are skittish and the dollar has tumbled. Yet, astonishingly, one big danger lurks unnoticed still.
- When you think of financial risk, you may picture investment-banking capers on Wall Street or subprime mortgages in Miami.
- But as the special report explains, over the past decade American finance has been transformed. A mix of asset managers, hedge funds, private-equity firms and trading firms – including Apollo, BlackRock, Blackstone, Citadel, Jane Street, KKR and Millennium - have emerged from the shadows to elbow aside the incumbents.
- They are fundamentally different from the banks, insurers and old-style funds they have replaced. They are also big, complex and untested.
- The financial revolution is now encountering the MAGA revolution. Mr Trump is hastening the financial crisis by playing havoc with trade, upending America's global commitments and, most of all, by prolonging the government's borrowing binge.
- America's financial system has long been dominant, but the world has never been as exposed to it. Everyone should worry about its fragility.
- The new firms are a magnet for financial talent. They also enjoy regulatory advantages, because the government forced banks to hold more capital and rein in their traders after financial crises of 2007-09.
- That combination has led to a spate of innovation, supercharging the firm's growth and propelling them into every corner of finance.
- Three big private-markets firms, Apollo, Blackstone and KKR have amassed $2.6 trillion in assets, almost five times as much as a decade ago.In that time the assets of large banks grew by just 50% to $14 trillion.
- In search of stable funding, the upstarts have turned to insurance, Apollo, which made its name in private equity and merged with the insurance arm in 2020, now issues more annuities than any other American insurer.
- The firm lends to households and blue-chip companies such as intel. Apollo alone lent $200bn last year. Loans held by large banks increased by just $120bn.
- New-look trading firms dominate stock-picking and market-making. In 2024 Jane Street earned as much trading revenue as Morgan Stanley.
- There is much to like about this new financial system. It has been highly profitable. In some ways it is also safer. Banks are vulnerable to runs because depositors fear being the last in the queue to withdraw their money. All things being equal, finance is more stable when loans are financed by money that is locked up for longer periods.
- Most importantly, the dynamism of American finance has channeled capital towards productive uses and world-beating ideas, fueling its economic and technological outperformance.
- The artificial-intelligence boom is propelled by venture capital and a new market for data-centre backed securities.
- Bank-based financial systems in Europe and Asia cannot match America's ability to mobilise capital. That has not only set back those regions' industries, it has also drawn money into America. Over the past decade, the stock of American securities owned by foreigners doubled, to $30 trillion.

- Unfortunately, the new finance also contains risks. And they are poorly understood. Indeed, because they are novel and untested by a crisis, they have never been quantified.
- One lot of worries come from within the system. The new giants are still bank-like in surprising ways. Although it is costly to redeem a life-insurance policy early, a run is still possible should policy-holders and other lender fear that the alternative is to get back nothing.
- And although the banks are safer, depositors are still exposed to the new firms' risk-taking. Banks loans to non-bank financial outfits have doubled since 2020 to $1.3 trillion.
- Likewise, the leverage supplied to hedge funds by banks has ballooned from $1.4 trillion in 2020 to $2.4 trillion today.
- The new system is also dauntingly opaque. Whereas listed assets are priced almost real time, private assets are highly illiquid.
- Mispriced risks can be masked until assets are suddenly revalued, forcing end investors to scramble to cover their losses.
- Novel financial techniques have repeatedly blown up in past because financial innovators are driven to test their inventions to breaking-point and, the first time round, that threshold is unknown.
- Under Mr Trump, the next upheavel is never far away. The government's excessive borrowing imperils bond markets, alarming foreign investors. Although a court has this week limited the president's powers to wage trade wars, the administration is appealing and Mr Trump is unlikey to abandon tariffs altogether.
- A toxic combination of uncertainty, institutional conflict, volatile asset prices, higher capital costs and economic weakness threatens to put the new-look financial system under almighty strain.

2. GLOBAL GEO-POLITICS/REGIONAL COVERAGE

- **Universities – How to repel talent**

  MAGA wants to remake American universities. Instead it is damaging them.

  President Donald Trump cares about America's trade deficit. So it is perverse for him to make it harder for one of America's most prodigious exporters – the education industry - to sell its services to foreigners.

  Some of its supporters imagine that foreign students are taking places that could have gone to Americans. This could be called the lump-of-college fallacy. In fact, by paying higher fees, foreign students tend to subsidise locals.

  American universities attract a wider variety of the best minds from around the world than any of their global rivals. That makes them more dynamic and innovative. And by pulling foreign elites into America's cultural orbit, they magnify America's soft power abroad.

  Unfortunately, that is not how Mr Trump and his cabinet sees it. To them, elite universities, in particular, are hotbeds of antisemitism and wokery.

- **The lesser of two evils – Turn on the air-con**

If India's awful air pollution is ever solved, the country will become even hotter.

At the end of March the India Meteorological Department predicted a warmer-than-usual April, the first month of India's hot season. The forecast was soon proved right: in the first week of April temperatures in big cities were 3^0C above normal. By the second, Delhi was suffering an intense heatwave. Even night-time minimums hit their highest in years. Heat-related illness soared.

India, always hot, has been getting hotter. The past decade was the warmest on record. Yet it has not been warming as quickly as the rest of the planet. In the past four decades temperatures over Earth's land mass have risen by 0.30^0C per decade, and by 0.23^0C at comparable latitudes. The figure for India is mere 0.09^0C.

Two things are responsible for for keeping India relatively cooler.

One is the expansion of irrigated land, the area of which has doubled since 1980s. Moisture in the air lowers temperatures, but comes at the cost of increasing humidity, sometimes to dangerous levels. In the baking Indo-Gangetic plain a combination of temperatures of just 37^0C – a nice day for many - with 90% humidity can be fatal.

The second cooling agent is horrific air pollution. During the day, particulate matters intercepts the sun's rays, absorbing heat. It also makes clouds more reflective, The combined effects lead to a comparatively cooler surface. It follows that there is a tension: If India achieves cleaner air, as unintended effect would be higher daytime temperatures.

Some call for natural, energy-neutral methods to deal with rising heat, such as painting buildings white, using less concrete, and covering roofs in reflective tiles or second roofs,

These low-cost solutions help somewhat, but they are no match for a north-indian heatwave. More air-conditioning is necessary. Those who can afford it are already fuelling a boom: annual sales doubled between 2020 and 2024. Often these machines clean air as well as cool it.

One problem is that too few people yet have air-con: just one in ten households owns a unit, whereas two-thirds do in China and four-fifths in Malaysia. Aircon also creates even more pollution. During a heatwave last year, it accounted for a fifth of power demand, much of it met by dirty thermal-energy plants which provides three-quarters of generation. Air-conditioners throw heat into their immediate environment, making conditions worse for those without them. The hydrofluorocarbons they use as coolants are powerful greenhouse gases.

What to do? The only rational path is for India to push for cleaner energy and more air-con, simultaneously. The country is getting many things right. The state and central pollution-control boards are responsible for cleaning up the air. Renewables, including hydro, make up 224GW of installed generation capacity of 472GW and there are ambitious plans for them to provide half of the total capacity of 1,000GW by 2030. There are new efficiency standards for air-conditioners.

Yet the country needs to move faster. Pollution in the northern plains routinely exceeds the maximum readings of air quality sensors. That means millions die from pollution-linked disease every year. And if the skies become clearer, temperatures will rise faster.

Speeding up land acquisition for solar projects, investing in the grid and reforming the market for purchasing and distributing power would accelerate private sector investment in renewables. And a faster roll-out of air conditioning could be encouraged by lowering the tax on machines from 28%, the highest available rate (Apple's iPhones are charged just 18%). The government should lead by example, air-conditioning offices where citizens meet public servants, not just those of politicians and elite bureaucrats.

Across Asia, the Middle East and the Southern United States air-conditioning has helped make city dynamic and more productive, There is a way for India to combine that goal with cleaner air. It should seize it,

- **Letters – Defences against Russia**

The Telegram column (Apr-26th) on the Baltic republics hardening their borders with Russia and Belarus was compelling. The countries are also using advanced technologies to enable their collective defence.

For instance, the three Baltics along with Finland, Norway and Poland want to create a Drone Wall on their eastern flank to serve as an early-warning system through an unbroken layer of aerial systems.

In addition, Estonia a hub for tech startups, is galvanizing local entrepreneurs to create solutions that boost Ukrainian and Baltic security. This includes government backed regional hackathons, where innovators from all walks of life get together for a weekend. Estonian defence companies such as Milrem Robotics and KrattWorks take organized visits to Ukraine to learn some lessons and bring their products to the battlefield.

Importantly, the government has launched a Euro100m defence fund that will invest directly in defence companies and serve as fund-of-funds for venture capitalists.

This forms part of the government's efforts to pump additional private-sector investment in the industry.

Unsurprisingly, the Baltics see themselves as next in line for Russian aggression, spurring an incredible focus on defence innovation. So the launch of new companies such as Frankenburg Technologies, which develops anti-drone missile systems for Ukraine, is designed to tackle the threat of revanchist Russia.

- **By invitation – Carl Benedikt Frey**

History teaches that protecting businesses chokes growth and innovation.

Donald Trump insists that tariffs will bring back jobs and revitalize American industry, and that short-term pain would be worth it for long-term gain. Yet history suggests they are more likely to steepen America's slide into stagnation.

Cheerleaders of tariffs argue that, as Oren Cass, one of the most vocal, put it, “Behind some of the world’s highest tariff barriers, the United States transformed from colonial backwater to continent-spanning industrial colossus.” They claim that Thomas Jefferson’s trade embargo in 1807, followed by the war of 1812 with Britain, jump-started American industrialization.

Not so. America’s early industrial gains owed far more to private British technology and welcoming European talent than to protectionism. Though the embargo indeed encourage the rise of small-scale textile mills, trade restrictions ensured these were persistently inefficient.

These mills collapsed once trade resumed because they could not compete with superior British imports.

The real drivers of New England’s textile revolution were people who brought skills learned abroad, including Samuel Slater, an immigrant from Britain who memorized the country’s textile-machinery designs and established America’s first cotton mills, and Francis Cabot Lowell, who secretly replicated British power-loom technology. Waves of European craftsmen and engineers brought expertise that propelled the country’s 19th-century boom.

Critics today point to Chinese imports harming American manufacturing, yet not long ago similar fears surrounded Japanese competition. By 1980s, when Ford and GM recorded combined annual losses exceeding $1.3bn, Japanese car workers had become 17% more productive than American ones.

Similarly, in semiconductors America’s share of global production dropped from 57% in 1977 to just 40% by 1989, while Japan’s share almost doubled, to 50%. Japan’s manufacturing edge came not from unfair trade practices but from innovation: lean-production techniques (like Toyota’s just-in-time system) and a talent for refining foreign inventions (Sony’s Walkman and VCR were adaptations of Western innovations).

America ultimately regained its technological edge not through isolation but by embracing global economic integration. Silicon Valley, recognized It could no longer compete with Japan’s process technologies and manufacturing efficiency, pivoted to innovation, design and software development. Meanwhile, it off-shored assembly to low-cost East Asian manufacturers, especially in China, cutting costs and neutralizing Japan’s competitive edge.

In contrast, Britain’s post-war history provides a cautionary tale. While continental Europe pursued integration through the European Economic Community, a forerunner to the European Union, Britain remained out until 1973, shielding domestic industries from competition. Internally, weak competition policy enabled widespread cartelization, resulting in persistently low productivity growth. Britain fell behind more open and competitive economies like West Germany and France, both of which had overtaken Britain’s GDP per person by the 1970s.

Today despite its large domestic market, America faces similar threats from declining competition. Even before Mr Trump’s first term, three-quarters of American industries had become more concentrated than they were in the highly competitive era of the 1990s computer boom, exercising a drag on productivity. This pattern extends into the historically dynamic technology sector, where, despite a few bright spots like OpenAI, fewer startups now challenge incumbents.

Meanwhile, spending on corporate lobbying has risen by almost two-thirds in real terms since the late 1990s, increasing regulatory capture and weakening antitrust enforcement.

Compounding this, Mr Trump's selective, sector-specific tariffs have set off a scramble for exemptions, with his corporate allies well placed to win relief while their rivals bear the full duty. This environment favours politically connected incumbents, which tend to produce fewer patents than the startups snapping at their heels.

Though there are valid national-security reasons for reducing dependence on China in specific sectors, such as critical minerals, America's technological strength hinges largely on global integration. No country can hope to be technologically self-sufficient: America may dominate electronic-design-automation software but Japan produces 56% of global silicon wafers, Taiwan makes 95% of advanced chips and China processes over 90% of critical minerals and magnets. American security depends on strengthening alliances and not weakening them.

America's greatest economic strength has always been its capacity for industrial renewal – enabling new companies to emerge, innovate and grow. Century-old firms dominate in many advanced economies: the five biggest companies are, on average, 84 years old in Japan, 116 in Britain, 120 in Germany and 152 in France. In America, by contrast, they average just 39 years, and are all technology firms. Such dynamism is not guaranteed.

History shows that when competition yields to cronyism, technological leadership slips. America must choose between keeping its economy open and relinquishing its competitive edge.

- **China – Artificial intelligence – Race of the century**

China is doing AI differently, but still thinks it can overtake America.

On May 21st J.D. Vance, America's vice-president, described the development of artificial intelligence as an "arms race" with China. If America paused because of concerns over AI safety, he said, it might find itself "enslaved to PRC-mediated AI". The idea of a superpower showdown that will culminate in a moment of triumph or defeat circulates relentlessly to Washington and beyond.

This month the bosses of OpenAI, AMD, CoreWeave and Microsoft lobbied for lighter regulation, casting AI as central to America remaining the global hegemon. On May 15th President Donald Trump brokered an AI deal with the United Arab Emirates that he said would ensure American "dominance in AI". America plans to spend over $1 trillion by 2030 on data centres for AI models.

The "DeepSeek moment" in January, when the Chinese company unveiled a large language model (LLM) almost matching the capabilities of an OpenAI model, confirmed that China is snapping at the heels of America.

Yet a recent meeting of the Communist Party's leadership suggests it is preparing for a different kind of strategic race. "American firms focus on the model, but Chinese players emphasis practically applying AI," says Zhang Yaqin a former boss of Baidu, tech giant, now at Tsinghua University.

The focus on practical applications – in factories and for consumers – is how China stole a lead in e-commerce and e-payments. On May 19th Jensen Huang, the boss of Nvidia, a chip firm, warned that America is in danger of being left behind again. If American firms do not compete in China as it builds a "rich ecosystem", Chinese technology and leadership "will diffuse all around the world", he told Sratechery, a newsletter.

America's view of the AI is often abstract and hyperbolic. LLMs are expected to match humans' cognitive abilities. Boosters believe this Rubicon of artificial general intelligence (AGI) will be crossed quite soon. Sam Altman, the boss of OpenAI, reckons the next step could be superintelligent systems that actually surpass human abilities in cognitive task.

Being the first to develop a model that can recursively improve itself (some call this take-off) may create a decisive advantage comparable to a nuclear bomb. Barath Harithas of CSIS, a thInk-tank notes that American planners believe, "the first country to secure the AGI laurel will usher in the 100 -year dynasty." America's export controls on semiconductors are there to ensure China comes second.

– **Greenhouse gases – A big moment?**

China's carbon emissions may have peaked

The Rapid growth of China's economy over the past few decades has come at a high environmental cost to the planet. Mountains of coal have been burned to power factories, releasing tens of billions of tonnes of carbon dioxide into the atmosphere. Still more has been belched out in the production of vast quantities of steel and cement to feed construction.

Last year China released over 12bn tonnes of the gas, accounting over 30% of the world's total emissions.

But there are signs that China's carbon-dioxide emissions are now decreasing. That is because they are becoming less reliant on burning fossil fuels for power. Coal is still the mainstay of China's grid. But the country has also been installing more clean energy than the rest of the world put together.

Solar power is being installed at a particularly blistering pace. A record 277GW of capacity was plugged into the grid during 2024 alone, on top of an existing 600GW. (America's total solar capacity is around 240GW). The speed of additions has only accelerated in 2025. Deserts and hIllsides across the country are being blanketed with dark silicon panels. All this has allowed clean-power production to outpace growth in demand.

A few things could still push China's emissions up again. One is the weather. If it gets too hot and dry, then reservoirs will run low and hydropower, which supplies about the tenth of China's power, could falter. At the same time, demand for electricity would spike as people turn up their air conditioners to full blast.

Another risk is that the renewable roll-out could start to slow down, even as power demand continues to increase, says Lauri Myllyvirta of CREA. China's power grid was set up around coal. It will require big upgrades to allow all the renewable energy coming online to be transferred over long distances or stored (since it can be generated only when nature co-operates).

- **United States – Budgeting – A big, beautiful do-over**

  The senate plans big changes for the House's spending bill.

  Whipping votes is a hard job in Congress, especially with as narrow a majority as the one overseen by Mike Johnson, the House speaker. But even the most masterful legislators can't account for everything.

  Andrew Garbarino, a New York Republican, fell asleep early on May 22nd as his colleagues considered HR 1, also known as the One, Big, Beautiful Bill Act. He missed the vote. "I'm going to just strangle him," Mr Johnson joked to reporters. The bill passed, but that was the easy part. The Senate will now negotiate its own version of the most consequential legislation of Donald Trump's second term.

  Mr Trump prefers to govern by executive orders, but the House bill addressed administration priorities that couldn't be tackled with his signature alone. Most significantly, it makes permanent his 2017 income-tax cuts, a policy broadly popular with Republicans in both chambers. Yet the multimillion-dollar legislation will also have far-reaching effects on immigration, energy production, social insurance and defence spending.

  Fiscal hawks in the Senate are upset that the House bill would add more than $3 trillion in the deficit over the next decade.

- **Unfair taxes – After tariffs, a new front**

  Donald Trump's tax bill targets foreigners with alarming levies.

  Tariffs particularly enthuse Donald Trump because foreigners pay them – at least as he sees it – and merely threatening them is an easy way to mess with other countries. Two months on from "Liberation Day", the president and his allies in Congress are trying the same trick with the tax code.

  A little past the 1,000-page mark in, HR 1, or the "One, Big, Beautiful Bill Act", sits a provision labelled Section 899, on "unfair foreign taxes". The proposal, now approved by the House of Representatives and under review by the Senate, would put punitive levies on people, investors and companies from countries with taxes Congress dislikes – like a digital services tax (DST), which mainly affects American tech giants, or an undertaxed profit rule, designed to ensure multinationals pay a global minimum corporation tax. On the naughty list would probably be most members of European Union plus Britain, Australia, Canada, South Korea and others.

Section 899 would add a 5% tax surcharge in its first year and another 5% each year after that to a maximum of 20%. That higher rate would target dividend, interest and property income flowing abroad. For, now the language in the bill leaves open a few possible gaps, but punitive rates would almost certainly hit any lending in America by banks from offending countries, dividends on stocks for those countries' investors and profits sent home from American subsidiaries. Sovereign Wealth Funds and public pension funds linked to governments that fall afoul of the Section 899 regime would also lose their existing tax exemptions.

Altogether, the move amounts to a radical act of tax protectionism, a near-unprecedented plan to use America's tax code as cudgel to knock other countries into line.

- **International students – Ivy beleaguered**

The administration's war on universities is driving talent away.

Some of America's most valuable companies were built by people who came to America as students. Elon Musk arrived to study physics at the University of Pennsylvania. Patrick and John Collison moved from Ireland to attend MIT and Harvard, respectively, before founding stripe, a digital payments company.

All told, more than half of America's billion-dollar start-ups were founded by at least one migrant; a quarter of them had a founder who arrived in the country as a student.

That pipeline of talent is now under heavy pressure, Attracting global talent has long been one of American academia's greatest strengths.

- **The Americas – Canada's angry cowboys**

The push for a referendum on Albertan independence is speeding up.

"THE TRUE NORTH is indeed strong and free." If King Charles's remarks on Canada's sovereignty sounded familiar, that is because officials in Marks Carney's new government wrote them. On May 27th the king delivered the throne speech in his capacity as head of state, opening Parliament – a task usually performed by Canada's governor-general. The last monarch to do it was his mother, Queen Elizabeth, in 1977.

The king was drafted in to rally Canadians to Mr Carney's banner (his brother runs the household of Prince Williams, the king's son and heir), as Canada's prime minister settles into his stand-off with the pugnacious president of the United States, Donald Trump.

But for about a third of the 5m residents of the oil-rich province of Alberta, the royal rhetoric will have rung hallow. These Albertans feel neither strong nor free but constrained, in particular by the environmental predilections of their rules in Ottawa which stop Albertan crude from flowing as freely as it might. Their dormant independence movement has been reinvigorated by fury across Conservative-voting Alberta at the Liberal Party's recent turnaround election win.

- **The war in Gaza - Crisis upon Emergency**

Binyamin Netanyahu is worsening catastrophe as Israel's furious allies bail out.

You might think it would be impossible for the inferno in Israel and Gaza to burn hotter. Yet Binyamin Netanyahu is fuelling three simultaneous emergencies, a humanitarian one in Gaza; a torching of support among European allies; and a constitutional crises over who controls the security services, army and courts.

The pressure on Israel and its institutions is almost unbearable for the country. A culminating moment is probably imminent. Whether that comes in the form of reinvasion of Gaza that finally ruptures Israel's alliances and fractures its armed forces and society, or through a U-turn or ceasefire that triggers the prime minister's political demise, remains dangerously unclear.

Look first at Gaza, where the Israel Defence forces (IDF) are poised to launch the main phase of a devastating new campaign. The IDF controls around a third of the strip. Its strikes are killing dozens of Palestinians daily. Under its plan the IDF would retake 75% of it, pushing 2m people into zones with 25% of the land. The government says that its goal is to eradicate Hamas once and for all.

Mr Netanyahu says he will appoint a messianic general as chief of the Shin Bet, the domestic security service. Mr Netanyahu has tried to blame the agency, as well as the IDF, for being caught unaware by Hamas. Ronen Brar, the outgoing Shin Bet boss, has accused Mr Netanyahu of dodging his own responsibility for coddling Hamas before the war, trying to get the service to do his political dirty work and firing him to cover up allegations of corruption within the prime minister's office. After a battle in the supreme court, which ruled in favour, Mr Brar will step down from his position of his own accord on June 15th.

His replacement is Major General David Zini, an infantry commander with no background in intelligence or domestic security. But the appointment will thrill the prime minister's hard-right base. Even his IDF comrades see him, a scion of a nationalist-rabbinical family, as messianic.

Recently he warned of "the intention of bad Muslims to kill good Jews ever since Ishmael was born and until further notice". (Some Jewish traditions name Ishmael, the eldest son of the biblical patriarch, Abraham, as forefather of the Arabs.). In a meeting of the IDF general command, he is reported to have opposed any prisoner exchange with Hamas since "this is an eternal war".

- **Geopolitics in the Middle East - The new losers**

Countries that once played central roles are now just bit players.

This is a moment of transition in the Middle East. Iran is weekend. New governments in Syria and Lebanon want to keep it that way. Gulf monarchs are keen on détente with both Iran and Turkey, their regional rivals. Mr Trump talks hopefully of a bright new day", a Middle East focused on commerce rather than conflict.

The region is a rough place for optimists: this moment may not last. Whether or not it does, it shows how the Middle East has already changed. Rich and seemingly stable, the Gulf states are at the hub of things, while some countries that were once influential are now just onlookers.

At the top of that list is Egypt, and Mr Sisi has himself to blame. He has wrecked the Egyptian economy, running up unsustainable public debts (around 90% of GDP) to pay for vanity projects and refusing the common-sense reforms that might boost a stagnant private sector.

The stateless Palestinians have been at the heart of the Arab affairs since 1948. But there is a reason to think that they too, are losing their centrality. Mahmoud Abbas, the eternal Palestinian president, has done nothing to clean up his corrupt administration in the occupied West Bank. Hamas offers an even bleaker model in Gaza: it has let Israel destroy the enclave rather than cede power.

Arab leaders still pay lip service to the Palestinian cause. In practice, though, they are trying to diminish its influence. Mr Aoun wants to disarm the Palestinian militias in Lebanon's refuge camps (and some members of Hizbullah have signalled their ascent). The new Syrian government has pledged to do the same. There is serious talk in both countries about peace with Israel: not full normalization, but at least an end to decades of conflict.

All this makes for a remarkable turnabout. A year ago Lebanon and Syria seemed like lost causes as well. The former was dominated by Hizbullah and at war with Israel: its economy was still reeling from a financial crisis that shrank its GDP by 40%. The latter was a narco-state still in grips of a resilient-looking Assad regime. Now Gulf states and America see them as the heart of more prosperous Middle East. To stay that way their governments will have to deliver results.

- **Ukraine – The war in the air**

Russia is raining hellfire on Ukraine, pushing its defences to saturation point.

A year ago, for 30 drones to hit Ukraine in a single night was considered exceptional. Now Russia is saturating Ukraine's air defences with hundreds of them. On the night of May 25th the Kremlin pummelled the country with what Ukraine called a "massive strike" against Ukrainian cities, featuring 355 drones, a record. It is firing more missiles, too - at least nine that night.

Donald Trump called Vladmir Putin "crazy", but has still done nothing about it. So Ukraine is again stepping into the unknown. If the current ceasefire talks fail, which seems highly probable, air-defence units will need to start rationing their interceptors. More Russian missiles and drones will get through to hit towns, cities and critical industry.

- **CHARLEMAGNE – Airbus of everything!**

From chips to satellites, dreams of European champions are taking shape. Can the idea fly?

What do fertilizers, artificial intelligence, small cars, microchips, vaccines, nuclear plants, streaming platforms, cloud computing, satellites and green technology all have in common? Trick question, to which the answer is not that the European Union would ike to regulate them to oblivion (though there may be that, too). What links them together is that they are all sectors some in Europe think could be transformed by One Neat Trick: to create an "Airbus of". Merging a lot of sub-scale European companies so they stopped competing against each other and took on Boeing instead worked wonders in the 1970s: from a standing start Airbus went on to outsell its jet-making American rival.

Could the same strategy be used to help Europe in the 2020s take on the likes of Google, Nvidia, Space X and Chinese carmakers? Politicians in Brussels and beyond want to believe. As the pilot of a wayward Airbus might exclaim "Brace for impact".

3. GLOBAL BUSINESSES/ ECONOMICS

- **Big business – The new economies of scale**

It has never been better to be a corporate giant. Can it last?

For all the unwieldiness it entails, scale has always brought enormous benefits in business. Fixed costs are set against more revenue, raising profits and supporting investment.

Heft brings greater bargaining power with suppliers and financiers. From the early 2000s, the advantages of scale became even more pronounced. Intangible assets, including software and intellectual property, gave the upper hand to companies that could afford to invest in them. Globalisation provided big companies with more room to grow, as well as access to larger – and cheaper – pools of labour. In America, the gap between big and small firms widened. Economists began to speak of "superstar" firms racing ahead of the competition.

Now size is conferring advantages in new ways. Artificial intelligence (AI) is reinforcing the dominance of big firms over small ones. So is the presidency of Donald Trump, which has raised the importance of resilience and political sway. Yet these same disruptions could spell danger for America's corporate giants. Already companies from Apple to Walmart are discovering how their size can make them a target of Mr Trump's wrath.

Start with AI. You might imagine that lumbering leviathans would be too tied up in bureaucracy to make use of the technology. In fact, their scale allows them to ivest far more in it than smaller rivals.JP Morgan Chase, America's biggest bank, says it has rolled out AI tools to most of its 320,000 employees. UnitedHealth the country's biggest health insurer, claims to have 1,000 different applications for the technology.

Sanjin Bicanic of Bain notes that getting AI to work well is proving more expensive than for other types of digital technology, as it requires companies to organize their data and tinker with models. Big firms have the added advantage of large data sets that can be used to refine the AI systems they build.

It is not only technology, but politics, too, that is making it even better to be big. Although many of Mr Trump's tariffs now face legal uncertainty, those that remain will hammer sales and profits for businesses.

Big firms, though, tend to be more resilient to such shocks. Among listed American firms, those in the top quartile by revenue have fatter operating margins and a healthier ratio of debt to operating profit than average, and hold a lot more cash, too.

- **Business in Europe (1) – Eastward ho!**

Will European companies turn away from America?

If the European Union was, as Donald Trump claims, formed “to screw the United States”, nobody told its companies.

The stock of foreign direct investment in America held by EU businesses reached more than $2 trillion in 2023, accounting for nearly two-fifths of the country’s total, up from a third a decade before. That is far more than from any other source.

European companies employ around 3.5m people in America, more than American ones do in the bloc.

Based on figures from Morgan Stanley, a bank, companies listed in the EU rely on America for almost a fifth of their sales on average. For companies such as EssilorLuxotica, a Franco-German maker of spectacles, and Novo Nordisk, a Danish manufacturer of weight-loss drugs, the share is much greater. Even European firms that produce in America often rely on inputs from abroad. As America threatens to become a more costly and volatile place to do business, some may be tempered to shift their attention to another market that has lately fallen out of favour: China Should they?

European companies have poured money into America in recent years, attracted by the spritely growth of its economy and, for some industries, the generous subsidies introduced by the Biden administration.

At the same time many European firms have dialled down their investments in China in response to slowing growth, fierce competition from domestic rivals and concerns over the country’s increasingly fractious relations with the EU. Over the past few years, the share of listed EU companies’ sales generated in China has stalled at below a tenth, while the portion from America has gradually ticked upwards.

Redirected – Now some European businesses are rethinking their westward turn. Although, a few such as Sanofi, a French pharma giant, and Siemens, a German machinery-maker, have announced big investments to boost production in America, many others are being put off by Mr Trump’s chaotic policymaking.

“The uncertainty is making big strategic decisions very tricky” says Alexander Lacik, boss of Pandora, the world’s largest jewellery-maker by volume. Around 30% of the Danish company’s sales come from America. Most of its production is not in Europe but Thailand. Pandora also ships wares destined for Canada and Latin America to its distribution centre in Baltimore, which it may stop doing as a result of American tariffs. The boss of a Dutch multinational company likewise laments the volatility of America’s trade policies. Every new tariff announcement has potentially big ramifications for its supply chain and pricing.

Meanwhile, some European companies are turning their gaze back eastward. “There is an appetite among European business leaders for re-engagement in China.” Says Max Zenglein of MERIC, a think-tank based in Berlin.

– **SCHUMPETER – Korea Inc steps up**

Asia’s faded corporate star gets another chance to shine.

South Koreans, would rather forget most of the past 12 months. Thousands of doctors and teachers took to the streets to air assorted grievances. Catastrophic summer floods ravaged swathes of the country. The president launched a coup, failed, was impeached and, after some constitutional confusion, removed from office. BTS remained disbanded while its K-pop heartthrobs complete their mandatory military service.

Investors in South Korean businesses, too, have had little to sing of lately. Even before Donald Trump liberated the world from level-headed trade policy on April 2nd, the benchmark KOSPI 200 index of large companies had fallen by 3% relative to the start of 2024 as rival Asian bourses rose. Japan’s NIKKEI 225 had gone up by 7%, and mainland China’s CSI 300 by 16%: Hong Kong’s Hang Seng and Taipei’s TWSE Taiwan 50 each leapt by nearly 40%. Between mid-July 2024 and early April 2025 shareholders in Samsung Electronics, South Korea’s corporate superstar, saw a third of its market value, or some $160bn, melt into oblivion.

As summer approaches, however, the national mood may be brightening on the streets and in boardrooms alike. Doctors and teachers are back at work. A snap presidential election on June 3rd promises to usher in a modicum of political stability. Better yet, later that month BTS are planning their post-conscription reunion. Bankers and equity analysts are, for their part, beginning to hum one of the boy band’s smash hits, “Go Go”.

On the surface this corporate optimism seems unwarranted. Relative to both forecast earning and the book value of their assets, South Korean companies’ share prices continue to trail those of their rivals in the rest of the rich world, often by some distance.

Stocks in more than half of the KOSPI’s 178 non-financial constituents, and the index as a whole, trade at a discount to book value. That includes Samsung Electronics, two other of its parent conglomerate’s eight listed offspring and six public subsidiaries of Lotte, the country’s most troubles *chaebol*.

Still, the optimists may be on to something. For one thing, large South Korean businesses are clustered in industries exposed to the trendiest of 21st-century megatrends.

Samsung Electronics and SK Hynix, the KOSPI’s two largest members, manuf-acturing high-bandwidth memory (HBM) chips critical to the artificial intelligence revolution. Samsung Biologics, ranked third by value, is a biotech powerhouse. LG Energy Solution, number four, makes batteries for the green transition. Two of the top ten manufacturer electric vehicles (EVs) and two others build weapons for war-wary governments (Hanwha Aerospace and HD Hyundai Heavy Industries).

Hopefully, the South Korean firms' competition in many of these areas is limited. Given the sky-high barriers to entry in HBM manufacturing, Samsung Electronics and SK Hynix are mainly up against established producers – which is to say themselves. European allies questioning Amerca's trustworthiness under Mr Trump are looking for alternative suppliers of material. In March Poland said it would buy another 180 K2 tanks from Hyundai Rotem for $6bn, doubling its feet of the vehicles.

Korea Inc also benefits from the even greater geopolitical rift between the West and China. South Korean companies may struggle to compete head to head with Chinese EVs (from BYD), batteries (from CATL), shipyards (like CSSC) or contract drug-making (like WuXi Bilologics) on price, quality or both. But thanks to growing Western unease over hastening China's rise by patronizing its businesses, they don't have to. And non-Chinese competitors are either weak (think American and European EVs) few (Japanese shipbuilders and battery-makers) or nonexistent (in medical contracting).

There is one other, less flattening reason to hope for improvement in Korea Inc's prospects. These had been looking so bleak for so long that the country's political ad business leaders could not ignore it any more and finally took action.

A year ago the government launched the "Value-Up" programme of corporate reform. It is modelled on a similar effort starting in the early 2010s to spruce up Japan Inc. At the time the Nikkei looked as knackered as the KOSPI does now. Barely 85 of its 200-odd non-financial stocks traded above their book value. A typical one had a highish net debt, of 1.7 times operating profit and free cashflow running at just 1.7% of revenue – figures close to KOSPI's results today.

Then a mix standards and laws prompted Japanese firms to disclose more information, set performace targets, curb related-party transactions, unwind cross-shareholdings, appoint more independent directors and become less hostile to activist investors. Today the Nikkei's price-to-book ratio averages 1.5 times or so, its companies are a third less indebted and generate one and a half times as much free cash as in 2012. In February 2024 the index at last surpassed its previous peak set in December 1989. No less discerning an investor than Warren Buffett is a fan.

- **Expensive debt – Tightening the screws**

Soaring bond yields threaten trouble for rich-world governments.

Round numbers should not matter in financial markets, but they do, How many people pay attention to where 11-year Treasury bonds are trading? So seeing yields on America's 30-year government debt hovering near 5%, as they have been for the past few weeks, have given investors the shivers. A particularly large jump came shortly before the House of Representatives passed President Donald Trump's "big, beautiful" – and deficit-widening – budget bill by one vote on May 22nd.

It is no wonder investors are reassessing the risk of long-term lending to Uncle Sam. Even before the budget bill cuts tax revenues, America's government has borrowed $2 trillion (or 6.9% of GDP) over the past year. Combined with the chaotic policy-making of recent months, and Mr Trump;s threats against America's institutions, that has put the once-unquestionable haven status of Treasuries up for debate. And for money managers in search of safety, there is another problem. The debt of other governments looks newly risky, too: long-term yields are rising across the rich world.

As American yields leapt, Britain's 30-year borrowing cost hit 5.6%, its highest since 1998, aside from a spike in April. Germany's got to nearly 3.2%, almost its dearest since the euro crisis of the 2010s. In intraday trading on May 21st, the yield on Japanese 30-year government bonds rose to nearly 3.2%, reaching a new record.

– **Tightfisted tycoons – No capex please, we're Indian**

The country has a rare chance to cure its investment malaise.

India, should, on the face of it, be enjoying a capex boom. Its home market is large and getting larger. The state is dishing out manufacturing subsidies. And the economy is growing at over 6% a year, the fastest of any big country. Yet corporate sentiments remain tepid.

When Mr Modi took office in 2014 gross fixed capital formation which includes investment by households was 25.3% of GDP. Last year it came to 25.1%. Business investment has only once surpassed that year's 12.6% of GDP, which was itself well below historical highs. Last year it was a mere 11.5%.

The government has thrown everything it can at the problem. At forst, India's lack of investment was blamed on the country's "twin balance-sheet problem". Firms were indebted and banks' books were stuffed with bad loans. So the government stepped in to clean up the mess. Balance-sheets are now healthy, financing is no longer a bottleneck and interest rates are declining, having risen after covid-19 pandemic.

A national goods-and-services tax, introduced in 2017, unified India's markets and erased most of local taxes, making it more straightforward to do business across state borders. In 2019 a whopper of a corporate-tax cut slashed the effective rate from 35% to 25%. And the government has indeed splurged on capex, especially on infrastructure, in the hope that it will entice private firms to do likewise, by creating new opportunities for investment.

To little avail. According to JP Morgan Chase, companies' operating profits have surged since the tax-cut, yet capex has barely budged. A recent survey by the National Statistics Office suggests it will fall outright this year.

That points to one reason for India's malaise: consumption is not growing fast enough to persuade firms to invest in new facilities. Existing factories have operated at only 70%-75% capacity over the past decade, excluding a dip during the pandemic.

As Vikash Kumar Jain of CLSA, a broker, puts it, "You can't put money in something that won't give a return".

The government has urged firms to raise wages, and has belatedly, made its move to boost consumption, too. It announced a big tax giveaway for middle-income earners in this year's budget. That could increase demand and allow firms to use up some spare capacity, says Ajay Chhibber of George Washington University. All the same, he adds, "the macro effect is quite small". Salaried workers make up just a fifth of the labour force. Developing economies typically see workers move from farms to factories. But in India the share of workers in manufacturing at 12% is the same as it was two decades ago. Half of the jobs created since the pandemic have been in agriculture.

Could exports inspire capex? Even without the uncertainty of President Donald Trump's on-going, off-again tariffs, India has struggled to sell abroad. Ministers have spent years trying to woo firms from China, hoping they will build factories in India – a strategy that has paid slim dividends, in part because the government has recently also raised tariffs and non-tariff barriers. The average duty, at 16%, is a over a fifth higher than when Mr Modi came to power.

Corporate concentration is another worry. Since 2016 the five biggest conglomerates have gained more of the market, notes Viral Acharya, a former deputy governor of the Reserve Bank of India. Protectionism helps such firms dominate at home, and thus reduces the incentive for them to seek profits abroad. Government policies are "pro-business rather than pro-market", says Ritesh Kumar Singh of Indonomics, a consultancy.

Investors considering putting money into India require assurance they will not be punished. Volkswagen, a German car-maker, was recently charged by the tax authorities with misclassifying imports. It could face a penalty of $2.8 billion, which a lawyer for the company has described as a "matter of life and death" for its Indian operations. Samsung, a South Korean telecom firm, has been asked to pay $520m for similar alleged offences. Whatever their merits, the cases send a chilling signal to investors with memories of legal battles over back taxes involving Vodafone, a British mobile-phone network, and Cairn, an energy firm from the same industry.

In other words, India now has a reason to open up its markets, enable competition and bolster consumptions. "There is a golden moment right now because the pressure is coming from outside", says Mr Acharya.