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Every forecast on the financial market has been wrong, therefore I can give you my own views without any problem. The question is, 10 years after the crisis, are we faced with a new financial systemic crisis or not? We are at the end of an economic cycle and at the end of a miracle. As a matter of fact, during the week of October 10th, stock markets have already had a severe correction of 7%. Nearly USD 3 trillion were wiped off then, and since the beginning of the year, Shanghai's stock market has already fallen by 40%. The French CAC market decreased by 10% in October.

At the same time, Nouriel Roubini, among others, has just predicted a new financial crisis. Yesterday, Olivier Blanchard very brilliantly outlined his views, which are relatively optimistic. I am less so, like Jean Claude Trichet. This is probably because I prefer to be pessimistic and have a good surprise rather than being optimistic and face a thunderstorm. In fact, in my view, we can contemplate only two scenarios. There is no optimistic scenario, but just two, which are: a soft landing scenario or a severe financial crisis.

A soft landing scenario could occur with three conditions. The first is that if the Fed increases its rates only gradually, step by step, because inflation is moderate at around 2%, we could expect just a slowdown. Second, a sovereign debt default would not compulsorily generate a systemic crisis, as financing from the IMF or banks could help and could prevent it. Third, the trade war should not be as tough as anticipated, especially following the trade agreement with Canada and Mexico. In that scenario, the stocks could stay nearly as they are in a sort of plateau or be lower by 10 20% in a very moderate way, with a lot of volatility every day, which is the case right now.

This is the ideal scenario which would make everybody quite happy.

Unfortunately, on the other hand, a much less rosy scenario could lead us to a very deep financial crisis, as many ingredients are there. There are six ingredients. First, we are at the end of a 10-year cycle, as we said, with low rates and economic growth. We are now entering into a new paradigm. Everybody shares this opinion, and this psychological impact will have many effects.

Geopolitical risks, as we see at this WPC, are huge. We have never faced such uncertainty, except maybe before the last war. The third reason is that the stock market, particularly in the US, has increased so much, by 330% in 10 years, that it can only fall down, as earnings will decrease, because of the growth decline. The nine-year bull run is finished. Until now, it has been fueled by low interest rates, fiscal stimulus and a surge in share buyback of 1 trillion in 2018. This would decrease from now on. The problem which we face now is that the US stock market has risen a lot, while the Japanese and European markets have not risen in the same way. There is a divergence, which we all know, the fall of the markets will be therefore more painful in Europe and Japan.

The fourth point is the trade war. The trade war will affect us and could affect us a lot. It would affect the growth of the US, the growth of China, which we noticed already, and of the exporting emerging countries. Trump's trade war will raise the price of imports, leading to inflationary pressure, and as a consequence, higher interest rates. The stock market will go down, thus creating a vicious circle. Again, the irony of all that is that Mao must be laughing in his tomb, because Chinese economy is threatening capitalism.

On top of that, confidence, which is key for growth and is needed by foreign investors, will reduce new investments, as companies would wonder where to locate. This is exactly what the market hates. My fifth ingredient is that the debt burden, which we all know about, has increased too much in 10 years. The emerging debt market has been multiplied by four and China's debt market has multiplied five times, in addition to its shadow banking problem.

This debt has been fueled by low interest rates, with huge liquidities coming from quantitative easing. Now that interest rates have increased, major problems could arise, and in case a crisis occurs, governments would have much less room for maneuver. This is particularly true in the US, where budget policy has already been used. This will restrict additional ammunition when it is needed in a recession.

In fact, low interest rates and high liquidities have put the world at risk. It is a much bigger risk than the subprime crisis, because the amounts are huge and could come from state defaults. The sixth ingredient is interest rates. Interest rates will be increased by the Fed. They have already increased a lot, with eight rises since 2015 and one more before the end of the year. They will do it three times next year, in parallel with inflation because of the budget deficit. This is due to tax cuts and therefore the need to attract hot money, especially at a time when China is reluctant to buy treasury bills.

The interest rates could rise much higher than expected, and there is the highest risk, because inflation could become higher. In particular, we must not forget that oil prices could become much higher in case of a war or in case of a problem in the Middle East. Due to the rise in interest rates and of the dollar as a consequence, emerging countries are badly hit, as their economies are dependent on foreign financing.

That will be very bad for the world growth, because emerging economies are key for world growth, comprising two thirds of the world growth. Growth will also be reduced, as financing will be costlier, and it will be harder to raise equity. Stock markets could slow down, as yields of bonds will be higher than dividends, and because of slower growth and increased financial cost. This rise in interest rates is done in a very bad timing, as we all expect a slowdown in the economy and a fall of the stock markets because of falling earnings due to a declining growth versus a huge pile of debt.

In addition, nobody knows how the shrinkage of liquidities due to quantitative tightening will affect us. As we know, the balance sheet of banks will shrink by USD 437 billion in 2019. In brief, we are very worried by the US situation. Although it is booming now as never, its growth will be reduced next year, and this may lead to a recession in 2020 which could contaminate the rest of the world as usual. We all know that when the US sneezes, everybody catches a cold.

To conclude, we should remember what Hyman Minsky called the “paradox of tranquility”: when things seem to go well, it means that a crisis is roaring. A civil crisis or a crash might occur. It could happen in 2020 or next year or later. Nobody knows when. We should therefore be cautious and be very worried, especially as we all know that history is tragic, and as Keynes said, “in the long run we are all dead”. Christine Lagarde said in October “that it is not just clouds on the horizon. It is a bit more than a drizzle”. I would say that we are in fact in the fog, which is the worst thing for markets. Our only hope is that we will not see a deep crisis, - but just a correction, a soft landing scenario.