

THE NEW GLOBAL ECONOMIC ORDER

A RUPTURE OR A TRANSITION?

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FOUR FORCES ARE CONVERGING TO RESHAPE THE GLOBAL ECONOMY

Between 1990 and 2020, the global economy experienced one of the largest positive supply shocks in modern economic history. The fall of the Berlin Wall and China's accession to the World Trade Organization (WTO) enabled hundreds of millions of low-cost workers to join the global economy. Rapid technological advances and the widespread adoption of new technologies, access to inexpensive energy and declining financing costs allowed companies to develop increasingly integrated production chains concentrated in large manufacturing hubs, generating significant economies of scale.

Business leaders therefore prioritized cost efficiency over supply-chain resilience. The result was weaker worker bargaining power, persistent disinflation in goods prices and low inflation volatility. Manufacturing workers in industrialized countries bore much of the cost, but consumers as a whole benefited from low inflation and broader access to a wide range of low-cost goods.

However, this regime is now drawing to a close. Four structural forces are currently operating in the same direction, reversing the economic regime of recent decades. They are shifting the balance of power from capital toward workers for the first time since the early 1980s. The question is therefore no longer whether the global economic order is changing, but how quickly. Is this a gradual transition or a genuine regime shift?

IN THIS ISSUE

Speaking at the World Economic Forum in Davos in 2026, Prime Minister Mark Carney stated that we are in the midst of a rupture, not a transition, of the global order. Is he right?



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1. DEGLOBALIZATION

The pandemic exposed the weaknesses of long global supply chains, while the war in Ukraine highlighted the vulnerability associated with relying on a single energy producer. Meanwhile, the war in the Middle East demonstrated that the world's waterways are no longer as secure and are now vulnerable to attacks. Governments have also begun to weaponize access to strategic resources in an effort to pressure their trading partners: China has threatened to restrict its exports of rare earths, while Iran has disrupted access to part of the Middle East's oil supply.

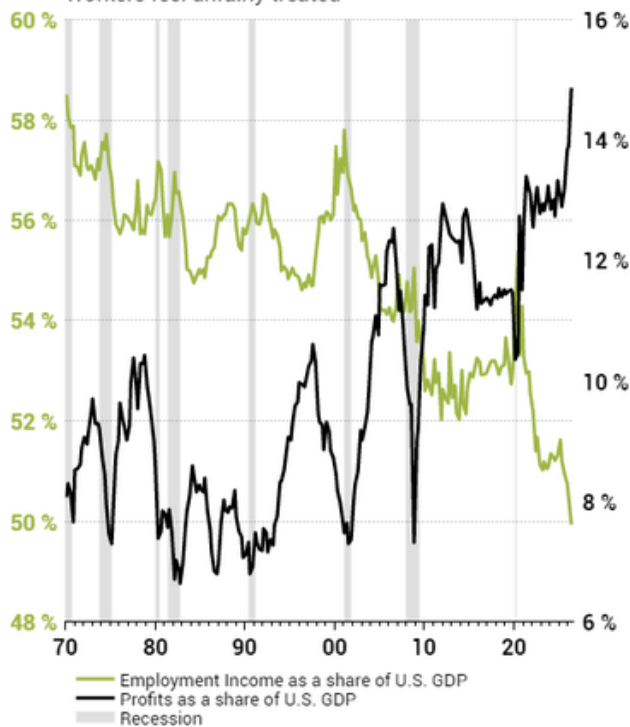
These developments are undermining support for globalization and prompting governments to protect their economies and build strategic reserves of energy, food and raw materials. Rather than focusing solely on making supply chains more efficient, companies are now seeking to secure and diversify their global production networks. This reshoring of production closer to end markets or to allied countries will lead to a partial dismantling of existing supply chains and higher production costs for businesses.

However, distrust of globalization was already present before the pandemic. Global free-trade agreements helped narrow income gaps between nations, but also widened inequalities within countries. Business owners benefited from greater bargaining power over wages and weaker unionization, allowing them to increase the share of profits in the economy at the expense of workers, who felt shortchanged and believed they were not receiving their fair share of the benefits of globalization. An economic system in which capital dominates generally tends to foster financial instability and greater inequality, which can in turn trigger a political counter-reaction and a rise in more extreme ideas. We are now seeing this unfold. Brexit is one example demonstrating that discontent with globalization was present well before Trump's election and "Liberation Day." The fundamental political divide in the United States may no longer be solely between the left and the right, but increasingly between the wealthy and the less affluent. Populist movements on both the right and the left are now seeking to attract the support of workers who feel shortchanged.

Since globalization helped reduce inflation, lower interest rates and weaken workers' bargaining power, it is therefore reasonable to expect that deglobalization will produce the opposite effect.

Profits and Wages as a % of U.S. GDP

Workers feel unfairly treated



Source: LSEG Datastream / AlphaFixe Capital

"Goeconomic fragmentation could reduce global GDP by up to 7% over the long term – equivalent to the combined output of France and Germany."

– IMF, 2025



2. DEMOGRAPHICS

Deglobalization primarily affects trade in goods between countries, but the growing distrust of foreign countries is also extending to immigration. As a result, border-control measures aimed at restricting immigration are gaining momentum in both the United States and Europe. European political parties advocating tighter immigration controls, such as the AfD in Germany, are gaining increasing support from voters.

But immigration is not the only demographic factor set to change in the coming years. Population aging is also exposing advanced economies to structural labour shortages. As more workers retire and leave the labour force, the pool of available workers will shrink, putting upward pressure on wages. Companies will therefore have less flexibility than in the past to relocate production to markets where labour is abundant and inexpensive.

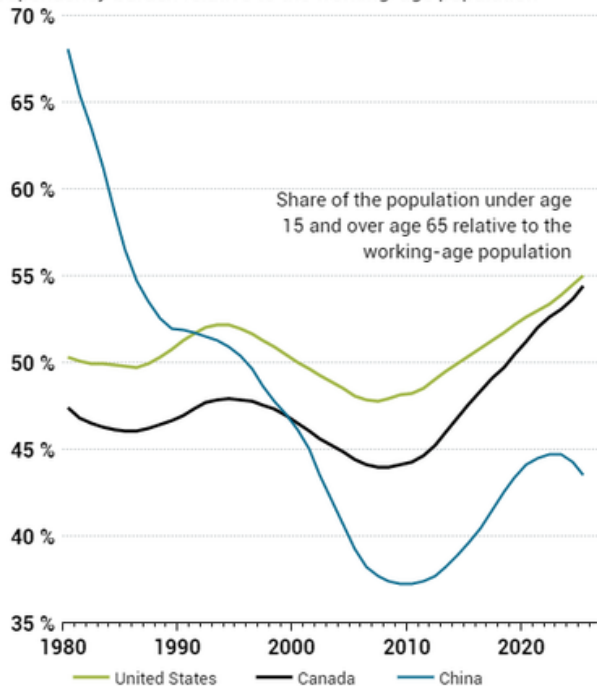
This demographic shift is also changing the balance between consumers and workers within the economy. As baby boomers retire, the share of people under age 15 and over age 65 relative to the working-age population continues to increase. There will therefore be fewer workers to meet the consumption needs of the population as a whole. An aging population also tends to consume more healthcare services, at a time when the taxpayer base is shrinking, putting additional pressure on public finances and governments' borrowing requirements.

An aging society also has a lower level of aggregate saving. In retirement, households draw down the savings accumulated during their working years to meet their consumption needs, thereby reducing their capacity to save. The largest cohort of savers, the baby boomers, is now entering a period of drawing down the wealth accumulated over their careers. The following generation, Generation X, is still in the wealth-accumulation phase, but is considerably smaller in size.

This decline in aggregate saving is occurring just as industrialized economies are entering a period of massive investment requiring substantial amounts of capital. To rebalance the supply and demand for capital, interest rates will need to remain elevated to encourage household saving.

Population dependency ratio

Dependency burden relative to the working-age population





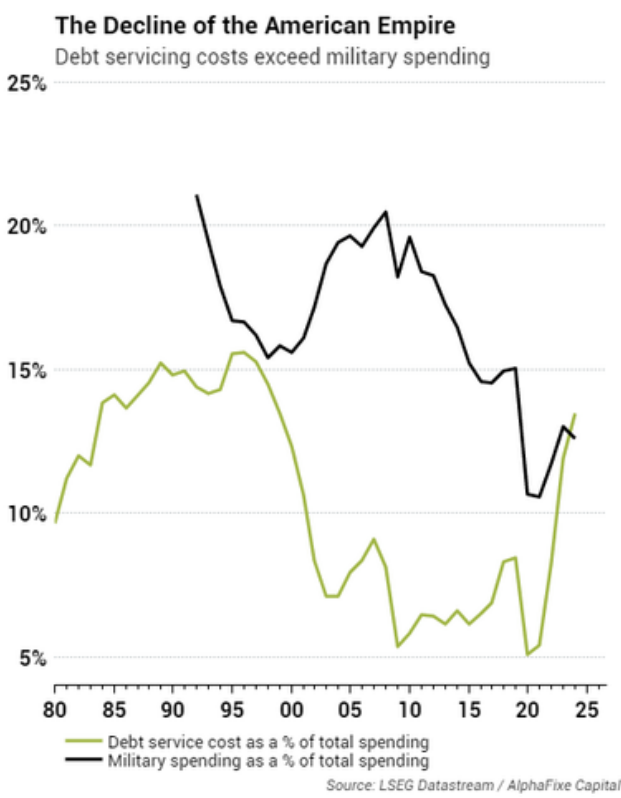
3. THE DECLINE OF THE AMERICAN EMPIRE

U.S. government debt has now surpassed US\$40 trillion, equivalent to nearly 125% of U.S. GDP, and the pace of debt accumulation is not slowing. The U.S. federal budget deficit is expected to exceed 6% of GDP in 2026, after reaching 5.9% in 2025, but the artificial intelligence boom could further worsen the federal government’s fiscal outlook.

By passing the One Big Beautiful Bill, the government allowed businesses to fully expense their investments in a single year, thereby encouraging technology companies to deploy substantial amounts of capital to build the infrastructure required to develop AI. Corporate tax revenues are therefore expected to decline significantly in 2026, but the Trump administration had planned to offset this loss of revenue with tariff proceeds. However, the U.S. Supreme Court’s decision to invalidate the reciprocal tariffs has made it more difficult for the U.S. Treasury to achieve its deficit-reduction objective. The enormous sums being invested by technology giants are also competing with the government for capital, putting upward pressure on long-term interest rates.

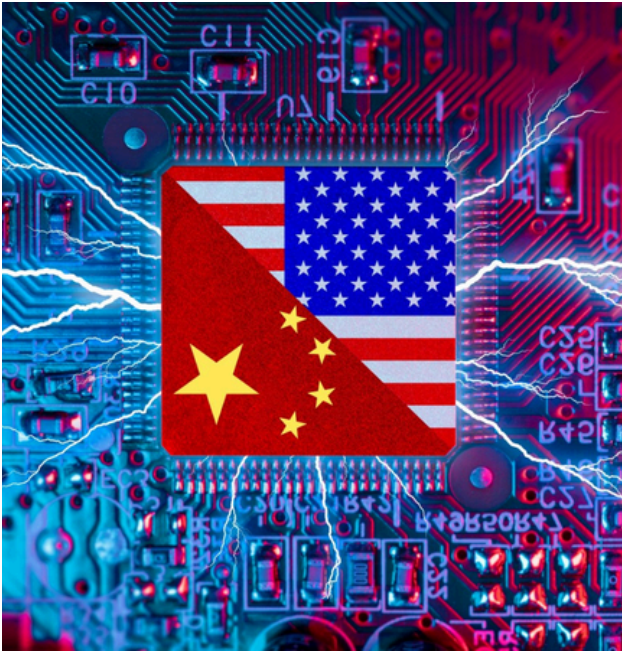
The fiscal situation is therefore more precarious than before, and the U.S. Treasury’s long-term borrowing costs have risen sharply in recent months. As a result, the share of government spending devoted to debt servicing now exceeds the defence budget, raising concerns about a potential decline in the United States’ global power.

From an economic standpoint, the United States can no longer fully shoulder its role as the “world’s policeman” and is seeking to reduce its obligations to protect its allies, particularly within NATO. The conflict with Iran has also demonstrated that the country no longer has the capacity to fight two wars simultaneously. U.S. missile stockpiles have declined significantly, while public willingness to defend Taiwan in the event of a Chinese invasion is waning as domestic social programs take greater priority.



To ensure their own security, other industrialized economies will therefore need to rearm if they can no longer rely on U.S. protection—an additional demand for capital that adds to the pressures outlined above.

The United States’ position as the world’s leading power is also being challenged by China’s rise as a commercial, military and financial competitor. Although this rebalancing has been underway for some time, it is accelerating significantly in the current geopolitical environment. During the 1970s and 1980s, the Soviet Union represented a formidable military adversary, but it was unable to compete with the United States on the commercial, technological and financial fronts. Going forward, China has the potential to rival the United States as a global leader.



4. CAPITAL SCARCITY

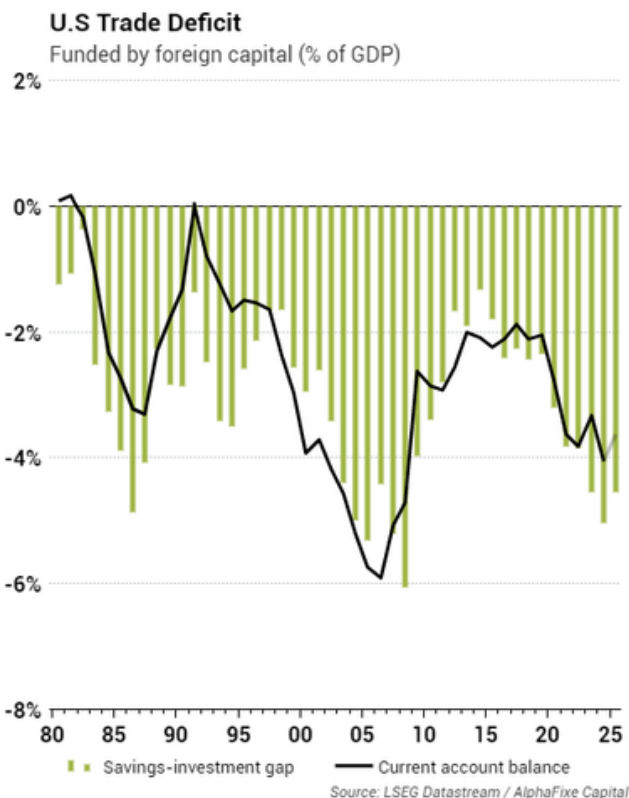
Since the early 1980s, the United States has been running a current account deficit, meaning that Americans import more goods than they export. In other words, Americans consume beyond the capacity of the domestic economy to produce.

This excess U.S. consumption has, over the years, contributed to a decline in national saving, forcing the United States to rely increasingly on foreign savings to finance its excess consumption, investment needs and government debt. Fortunately, between the 1990s and 2010, the world experienced a global savings glut that allowed the United States to sustain its excess consumption. For example, a country such as China, which runs a trade surplus, recycles its surplus by investing abroad, preventing its currency from appreciating too much and allowing Chinese exporters to remain globally competitive.

However, if Trump's objective is to eliminate the trade deficit, the United States will have to reduce its reliance on foreign financing and address its domestic savings shortfall. Foreign capital has flowed into several U.S. asset classes over the past few decades, particularly U.S. Treasury securities. This inflow of capital has therefore contributed to keeping U.S. bond yields lower over the past 30 years. This shift is taking place just as the United States needs to finance an ever-larger stock of debt, now totaling US\$40 trillion.

Capital needs elsewhere in the economy are also substantial. Investment is required to build the infrastructure needed for artificial intelligence, expand global energy production capacity, diversify energy supplies away from the Middle East, rearm industrialized countries, and secure supply chains in critical industries such as semiconductors and rare earths.

Without the contribution of foreign capital, Americans will likely have to reduce their spending and increase their savings to finance these needs domestically. However, population aging is also making this task more difficult by reducing the pool of aggregate savings. The growing imbalance between the supply and demand for capital therefore points to a structurally higher interest-rate environment until saving increases, consumption declines and the imbalance is gradually resolved.



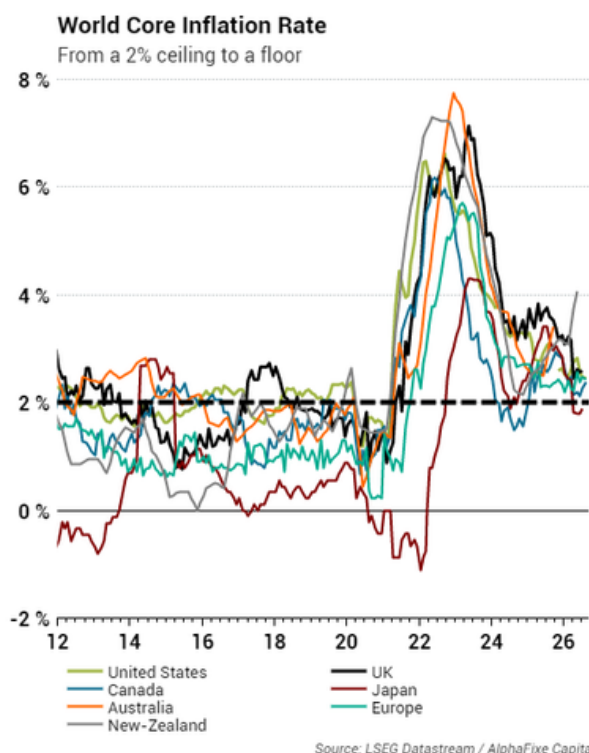


CONSEQUENCES FOR INFLATION AND FINANCIAL MARKETS

For the first time in forty years, workers are regaining structural bargaining power vis-à-vis holders of capital. Contrary to Milton Friedman's assertion, inflation is not always and everywhere a monetary phenomenon; it is also a matter of bargaining power. Under globalization, companies held the upper hand in wage-setting because of global competition, while consumers had the power to purchase at the lowest possible prices by instantly comparing prices worldwide through technology. The forces currently at work could reverse this deflationary trend. This shift is not cyclical but structural, difficult to reverse in the short term, and likely to have profound implications for inflation, profit margins and monetary policy.

Deglobalization, population aging and tighter immigration controls at the borders are likely to create a structural labour shortage that will shift the balance of power from capital toward workers for the first time since the early 1980s. All of the forces of change outlined in this document are moving in the same direction: they will generate more frequent supply shocks, resulting in higher and more volatile inflation, as well as structurally higher interest rates.

In the past, central banks' 2% inflation target was a difficult floor to reach. Going forward, monetary authorities are more likely to struggle to bring inflation back down to their target. Structural changes could keep underlying inflation persistently above 2.0% and trigger a repricing of assets, as the risk-free rate used to discount future cash flows will now be higher.



According to its most enthusiastic proponents, artificial intelligence could lead to widespread job losses, increase corporate profits and further erode workers' bargaining power, thereby reversing several of the effects of deglobalization. However, it is more likely that AI will act as a mitigating force rather than reverse these trends. If governments genuinely want to reshore production, they will need to automate production processes using AI to avoid severe labour shortages. Moreover, before fully realizing the productivity gains associated with AI, workers and businesses will have to go through a period of learning and adapting to this new technology.

This technological revolution will also have implications for sector valuations. Labour-intensive sectors—such as healthcare, restaurants and construction—could face sustained pressure on their profit margins. Conversely, companies capable of substituting technological capital for labour, particularly through automation and AI, will gain an increasing competitive advantage. This divide will reshape relative valuations across sectors.



ARE WE IN RUPTURE OR TRANSITION OF THE GLOBAL ECONOMIC ORDER?



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U.S. hegemony, the foundation of the global financial order since 1945, is entering a phase of structural challenge. We are no longer living in the relatively peaceful, unipolar world that characterized the past 30 years. For the first time since the Cold War, the United States faces a major rival capable of challenging its position as the world's leading power. China now accounts for nearly 19% of global GDP on a purchasing power parity basis, compared with less than 4% in 1990. In addition to being a military adversary, China is also a commercial and technological competitor, and potentially a financial one—an across-the-board rivalry that the Soviet Union was never able to mount to the same extent.

Defence spending is also once again becoming a significant budget item in advanced economies. In Europe, the target of allocating 2% of GDP to defence is now a floor rather than a ceiling. This shift in budget priorities is reducing the fiscal room available for productive investment and the maintenance of social programs.

This trajectory is not cyclical, but structural. It reflects a deliberate repositioning of production chains, global trade and cross-border capital flows. The world that is emerging is not the result of a temporary cyclical adjustment. It is an accelerating transition that could ultimately lead to a regime shift. The four forces of change identified in this document—deglobalization, demographics, geopolitical rebalancing and capital scarcity—are mutually reinforcing and converging toward the same outcome: the end of the low-inflation, low-interest-rate and low-volatility environment that has prevailed over the past three decades.

For investors, this calls for a fundamental reassessment of long-term assumptions. Historical correlations between equities and bonds are being weakened, while valuation models based on low discount rates need to be recalibrated.