

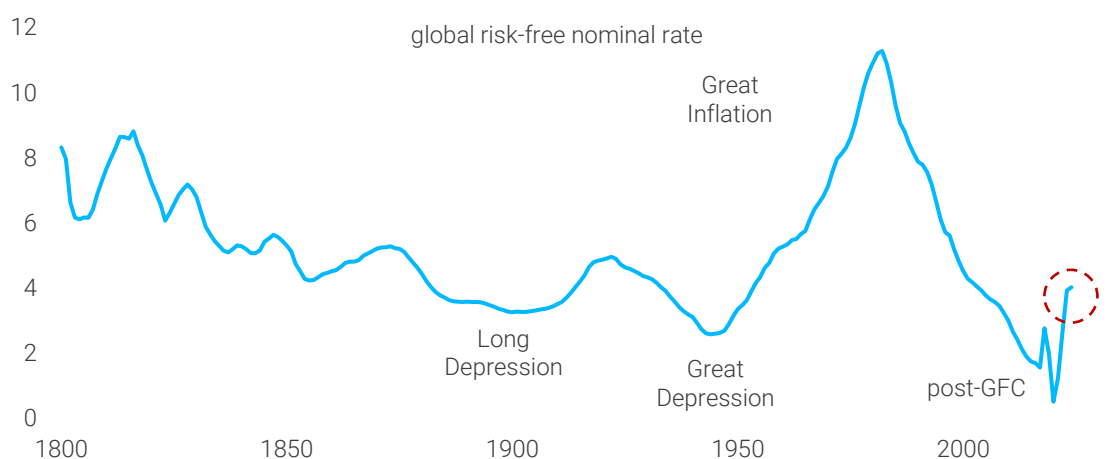
Macro Picture

IS THE NEW MACRO SUPERCYCLE ON TRACK? (Q&A)

Dario Perkins

Two years on, our macro supercycle thesis remains valid, as post-COVID normalization gives way to a new macro regime in the 2020s. But this regime shift was always going to be subtle, and recent developments confirm that the inflection point will be milder (and more bullish) than many pundits feared. Our thesis can withstand near-term election and recession risks.

Chart 1: A secular inflection point in the global macro supercycle



Source: Bank of England, TS Lombard

THE SUPERCYCLE

Two years ago, as inflation hit the highest levels in half a century, the big question in markets was whether COVID-19 would mark a secular turning point in long-term interest rates. We argued that it would but that the regime shift would be much more subtle (and a lot less bearish) than many pundits claimed. We outlined a framework to help investors understand the macro supercycle.

TWO YEARS ON

A lot has happened over the past two years. To some extent, the global economy has normalized to where it was in 2019. Inflation has eased and labour markets have rebalanced. The fake part of the cycle is over. But there have also been structural developments (incl. new technologies) and shifts in political attitudes. We examine whether these will alter the long-term macro trajectory.

HOW TO TRADE THE SUPERCYCLE

Our thesis two years ago was that the new macro supercycle would deliver secularly higher interest rates (higher highs/higher lows) and a rotation in stock markets from "growth" to "value". While our view on bonds seems to be playing out, we didn't anticipate the AI mania, which fuelled a powerful bubble in the tech sector. The "tangible 20s" seems to be on hold – at least for now.

IS THE NEW MACRO SUPERCYCLE ON TRACK?

It is exactly two years since we published our [new macro supercycle](#) thesis. Back then, inflation had just broken out to multi-decade highs and there were many who believed the world was facing [persistent 1970s-style stagflation](#). We always believed that those fears were far too pessimistic. People were misreading the [fake post-COVID business cycle](#), and it was likely that inflation would plunge even without a deep policy-induced global recession. But there was a twist. We did not think the world economy would go back to the lowflation/permazero-rate environment of the 2010s. Instead, a (subtly) new macro regime would emerge, as the balance of power between labour and capital (the main determinant of the supercycle) started to tilt towards labour for the first time since the early 1980s. [Inflation is about power, not money](#). And, over time, structural changes – such as deglobalization, demographics and a new attitude towards fiscal policy – would create a higher-pressure macro environment, which, in turn, would shift the medium-term trajectory of inflation and deliver a secular bear market in bonds. COVID-19 accelerated many of these structural trends, but they were already evident in the late 2010s.

Where do we stand today? [Post-COVID normalization is complete](#) – the fake cycle is over – and central banks have an opportunity to secure a soft landing, by recalibrating policy before something breaks. In some ways, this would leave the global economy in a similar situation to before the pandemic. But this new (genuine) business cycle would be starting with a 2% inflation floor (as opposed to a 2% ceiling) and with labour markets that are structurally tighter, in fact as tight as they were after a decade of the post-GFC expansion. Meanwhile, some of the structural developments we anticipated two years ago have been confirmed, too. [Geostrategic tensions seem permanent](#) and deglobalization has gone mainstream. The prospect of further disruptions to global supply is not going away. And the [mix between fiscal and monetary policy has shifted](#), even if the Trussonomics crisis in the UK has curbed some of politicians' worst instincts for radical fiscal largesse (at least outside the US). But there are some structural developments we didn't anticipate in 2022. We didn't expect such rapid technological developments, [especially in generative AI](#). And we didn't see the political outlook becoming so fractious, with near-term elections an obvious source of uncertainty. We don't think these forces will halt the supercycle.

Two years ago, the difficult question was [how to trade the macro supercycle](#). Short-term, immaculate disinflation and a soft landing would boost the sorts of assets that performed well in the 2010s (bonds, technology stocks, etc.). Longer term, structurally higher interest rates might deliver a rotation into different sectors, those that underperformed in the lowflation economy of the 2010s (such as commodities, EM equities and value stocks). So far, my "Tangible Twenties" thesis hasn't performed well and some people on Twitter have even accused me of "getting the macro outlook exactly right but the market implications wrong" (which would still be better than what many sellsideers achieve...). The big issue was market timing: the Tangible Twenties was always going to lose money in the short term. But it is also true that AI mania, which gained force with ChatGPT, transformed the market narrative, boosting the prospects for the US tech sector just at the point when it was flagging. While the inflection point in the macro supercycle continues to favour a secular rotation in equity markets (both inside the US and towards non-US stocks), it would be foolish to rule out another big bounce in NVIDIA and co. Given what happened after the previous soft landing, in the mid-90s, the post-COVID bull market in tech may have further to run.

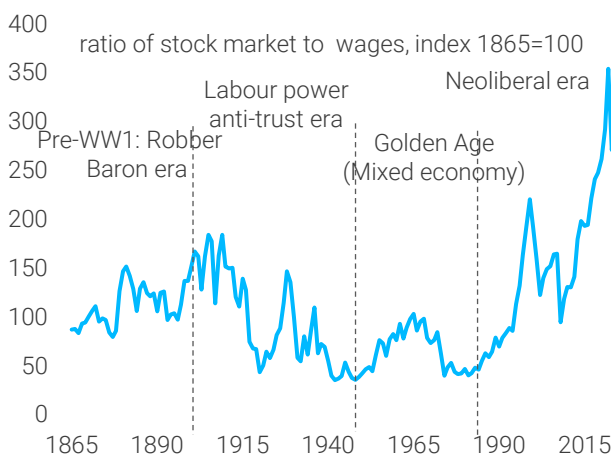
Below we take a look at all these issues in the handy Q&A format.

1. THE SUPERCYCLE

Q1: What was the context for the new macro supercycle thesis?

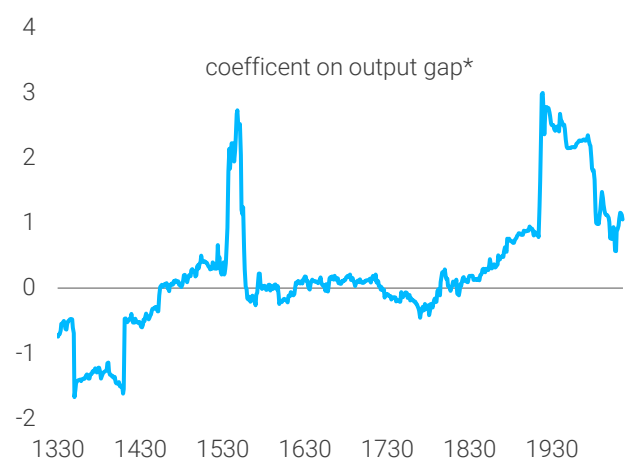
From early on in the pandemic, there was a debate about whether COVID-19 would mark a secular turning point in the macro economy (or perhaps even make the deflationary problems of the post-GFC era even worse owing to balance sheet “scaring”, etc.). Based on history, there were good reasons to think COVID would shift the trajectory of inflation and interest rates. Our analysis from the 2010s had shown that all the big turning points in interest rates had occurred alongside big historical events, such as wars, pandemics and other mortality crises. And with investors seeing macro developments they had never seen before – massive wartime levels of government spending, a surge in the money supply and inflation hitting its highest levels in half a century – there was a definite sense that something “fundamental” had changed and would shift the prevailing “macro regime”. Naturally, there was also a lot of pessimism about where this would lead. Lots of high-profile pundits warned about a repeat of 1970s-style stagflation. The combination of high inflation and weak growth would kill Goldilocks and upset asset markets.

Chart 2: Macro supercycles



Source: The Bichler & Nitzan Archives.

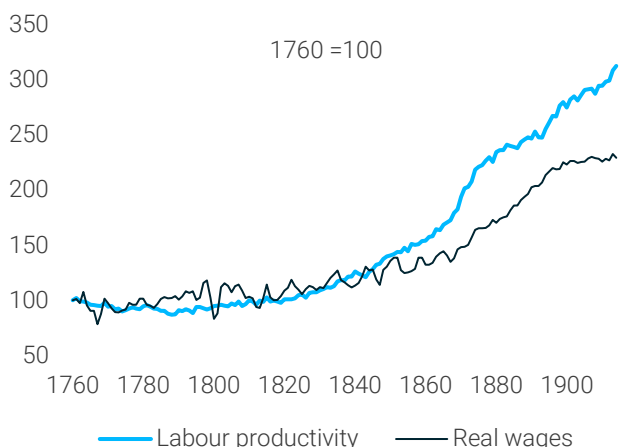
Chart 3: Inflation is about ‘power’



Source: Bank of England, TS Lombard, *rolling 25-year coefficient

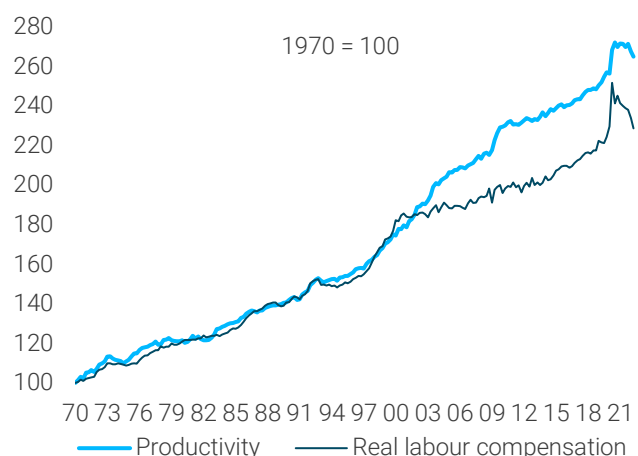
We always felt that pessimism about the “new regime” had gone too far, largely because people were misreading the fake post-COVID business cycle. Rather than worry about a repeat of the 1970s, the closest historical template was the period immediately after WW2. As in the 1940s, the inflation outbreak was the result of pent-up demand (“surge”/reopening spending) hitting broken supply chains, which meant that it would end once conditions normalized, without requiring a deep policy-induced recession (pundits would later call this “immaculate disinflation”). While we never ruled out a recession – not least because of the aggressiveness of the eventual response from central banks – we thought this outcome was by no means inevitable and any recession would mild (there was a similar “non-recession” recession after WW2). But that wasn’t the whole story. We also believed conditions wouldn’t go back to way they were in the 2010s. Something had fundamentally shifted in the global economy, and it was right to believe this would create a (subtly) new macro backdrop for financial markets in the 2020s. Again, the template of the 1940s was a useful guide. Although post-WW2 inflation was “transitory”, the conflict ended a period of secular stagnation (the Great Depression of the 1930s). While the post-COVID inflection point would be milder, it was still important to recognize this shift.

Chart 4: The long depression



Source: Bank of England, TS Lombard.

Chart 5: Capital's dominance in the 2000s



Source: BEA, BLS, TS Lombard.

Q2: What determines the macro supercycle?

We introduced the macro supercycle to provide a framework that could explain long-term trends in inflation and interest rates. Our thesis was that inflation depends on the balance of power between labour and capital, which, in turn, responds to politics, structural developments, and institutions (not just monetary policy). The insight came from a fascinating paper [by Dafermos, Gabor and Michell \(2020\)](#). Because the capitalist system is inherently unstable, policymakers create “thwarting mechanisms” to try to stabilize it. And the institutions they choose depend on the whether labour or capital has the upper hand. When labour is dominant, the system typically prioritizes full employment over low inflation (so we end up with big government, activist fiscal interventions and powerful trade unions). When capital is in charge, the emphasis shifts to low inflation (so we get fiscal austerity and independent central banks, for example). But, of course, the balance of power in the economy is also shaped by structural forces beyond the direct control of politicians, such as demographics and technology. The catch is that every supercycle contains the seeds of its own destruction. A system where capital is dominant tends to end in financial instability and inequality, which triggers a political counter-revolution. A system where labour is dominant tends to end in stagflation, which is politically unstable, too (the public hates inflation!).

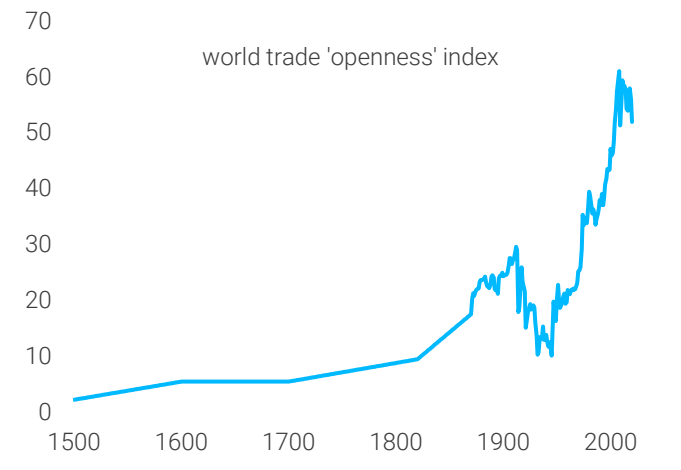
Q3: How many supercycles have there been?

Supercycles reach inflection points only very infrequently. Since the start of the modern capitalist economy (which most historians date as 1870, roughly), there have been three supercycles:

- (i) **Second half of the 1800s to WW1:** This was a period of rapid technological change and globalization. Capital became dominant, which led to persistent deflation, a collapse in the wage share, inequality, financial instability, and fractious politics.
- (ii) **WW2 – 1979:** The political reaction to capital’s dominance started in the 1890s. We saw the first socialist parties, the first trade unions, populism, the beginning of the welfare state and the start of trade union movement. Labour’s power increased after WW2 and the world emerged from the conflict with a very different political setup.
- (iii) **Post-1980 Neoliberalism** – Labour power peaked in the 1970s with widespread stagflation. The system was broken, which fuelled a powerful counterreaction in the form of Neoliberalism (Thatcherism, Reaganomics, etc.). Worker power was crushed, as the trade unions collapsed, labour and capital markets were deregulated,

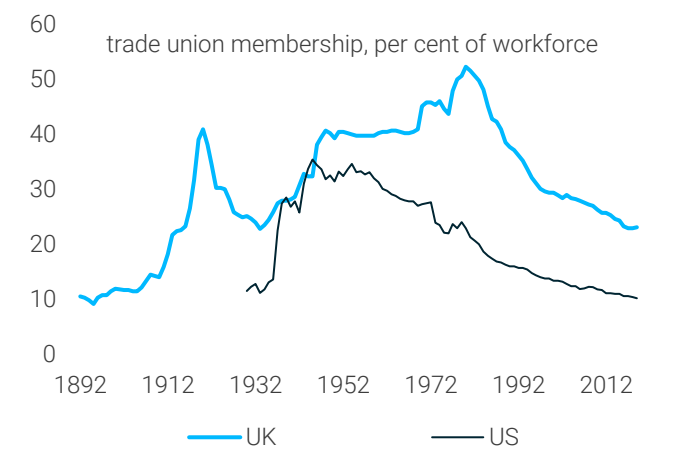
immigration surged and central banks were granted independence (and the freedom to cut expansions short as soon as labour markets became “too tight”).

Chart 6: A second wave of deglobalization?



Source: OurWorldInData, TS Lombard.

Chart 7: Neoliberalism crushed worker power



Source: national sources, TS Lombard

Q4: Why did the supercycle hit a new inflection point during COVID-19?

There were signs of an inflection point in the macro supercycle even before the pandemic, with neoliberalism in retreat as early as the mid-2010s. (Trump, Brexit and the return of populist politicians in Europe were all symptomatic of this trend). In fact, we had frequently compared the post-GFC era to the secular stagnation of the late nineteenth century (the “Long Depression”), because they were both periods in which capital pushed its dominance too far, triggering a populist revolt. They even shared some of the same structural features, including rapid technological change and brisk globalization (which clearly contributed to rising inequality and collapse in the wage share). We thought COVID would accelerate a reversal in these structural forces, tilting the balance of power back towards labour for the first time since the 1980s.

The reversal in the balance of power would be driven by:

- (iv) **Persistent labour shortages** – The pandemic had caused acute labour shortages, which would become a structural issue due to ageing demographics.
- (v) **Deglobalization** – COVID had exposed the vulnerabilities in complex supply chains, creating a powerful incentive for reshoring. Just in case, not just in time.
- (vi) **Shifting geopolitics** – “Friendshoring” provided a further incentive to reconfigure supply chains. Governments would want to de-risk their supply chains and secure strategically important resources (such as commodities, semiconductors etc.).
- (vii) **The wartime economy** – Governments would want to play a greater role after the pandemic, particularly through defence spending, strategic investments and R&D.
- (viii) **Climate change** – This would require massive public and private investment in the 2020s (while triggering more frequent supply shocks via commodity prices).
- (ix) **A new policy mix** – The combination of austerity, private-sector deleveraging and easy monetary policy was disinflationary in 2010s, but the political climate would not tolerate a return to austerity. Instead, we entered an era of more expansionary fiscal policy. This has transformed the overall fiscal-monetary policy mix.

That was our view two years ago. A lot has happened since then. The big question now is whether our analysis is still valid. Let's look at what has happened in the meantime.

Chart 8: COVID worker 'power' in context

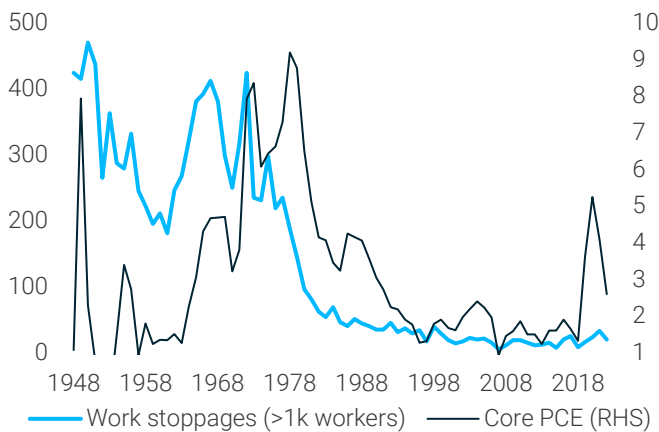
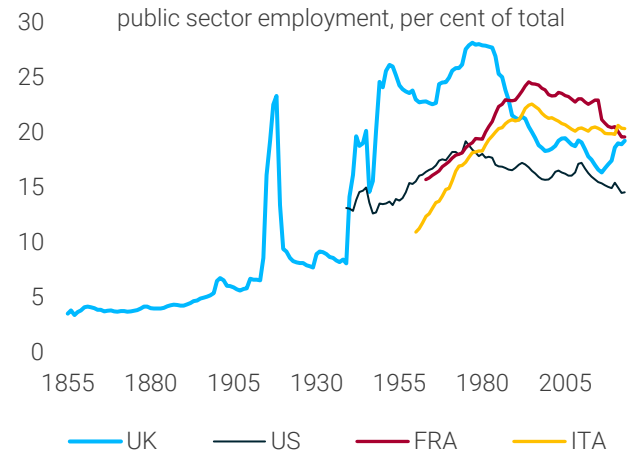


Chart 9: The 'mixed economy' after WW2



2. TWO YEARS ON

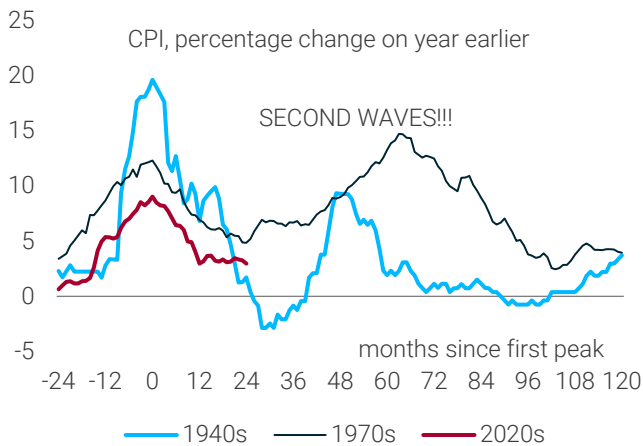
Q5: So where are we now? Has the supercycle been confirmed?

We didn't expect a quick confirmation of our supercycle thesis. In the short term, it would be swamped by post-COVID normalization, which would bring immaculate disinflation and even the odd recession scare. And that is exactly what has happened: inflation has plunged, back towards (but not quite reaching) central banks' targets, while labour-market conditions now look similar to where they were in 2019 (though some labour markets, especially in Europe, remain tighter, which is a healthy development). And as inflation has faded, central banks have started to ease monetary policy, providing relief for bond markets. These developments are not a rejection of new macro supercycle. They merely confirm our view that there was too much pessimism about the secular outlook two years ago. We were never going to get a rerun of 1970s because you can't reverse half a century of neoliberalism instantaneously. The secular shifts were more subtle.

Q6: What if there is a recession – would it derail the new supercycle?

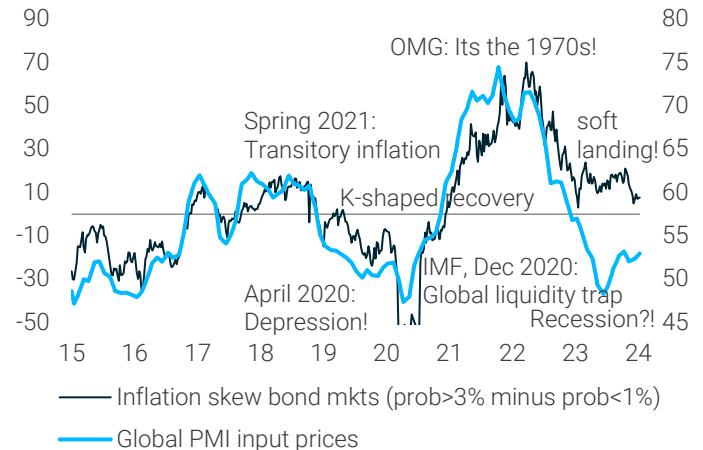
While we didn't expect a recession two years ago, we always felt one was possible if central banks raised interest rates too far or kept them too high for too long. Interest rates could overshoot to the upside, and we shouldn't forget that independent central banks are supposed to be the guardians of neoliberalism. While we do not think now that the recession risk has gone away – in fact, some economies (including the US) are now in a more precarious situation – if a global recession does happen, there is every reason to think it would be mild and reversible with a quick monetary pivot. It is important to remember that the global economy is relatively free from deep underlying macro-financial imbalances. In contrast with the early 2000s, we are not going to see a nasty/persistent balance-sheet recession. Our view is that a recession would not derail the supercycle – structural changes are still taking place – but it could postpone the inflection point.

Chart 10: No second wave – yet



Source: BLS, TS Lombard

Chart 11: COVID narrative extrapolation



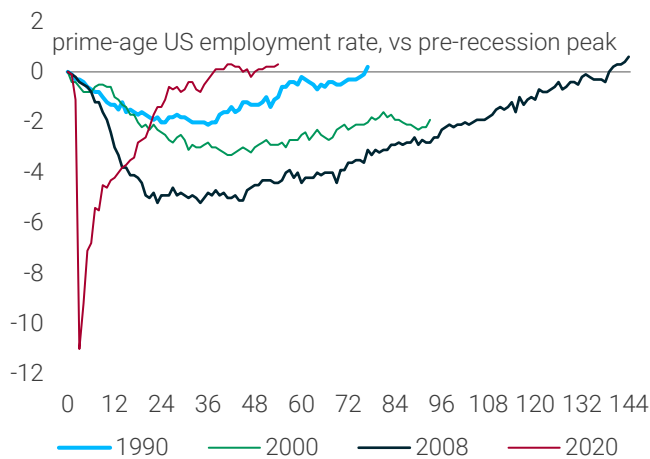
Source: Minneapolis Fed, S&P, TS Lombard

Q7: Are you sure the structural forces you identified in 2022 are still in play?

Let's take each of them in turn and look at how things are playing out:

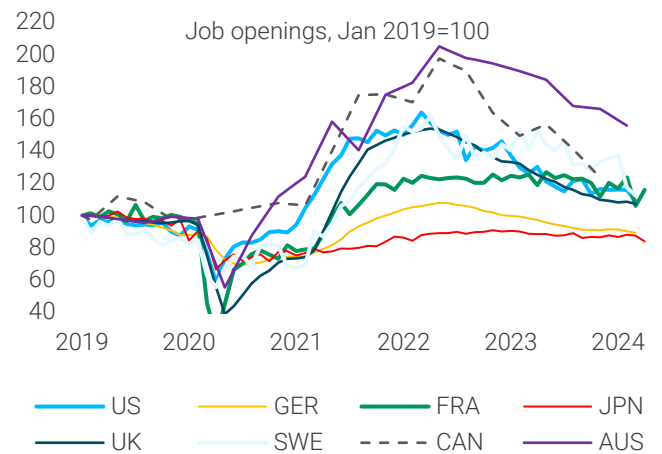
- (i) **Labour shortages:** The rebalancing of labour markets has happened faster and gone further than we expected. A one-off surge in immigration has contributed to this, something that won't be allowed to continue – because rapid immigration is once again a hot political issue. But labour-market conditions are still tight by historical standards. And even if today's situation is not so very different from what we had before the pandemic, it is important to remember that it took a decade of the post-GFC expansion to get to that position. This means that unless there is a deep recession (which doesn't seem likely), the next cycle will start with labour markets that are generally more reflationary. And we remain convinced that demographics will contribute to structural labour shortages over the longer term. As older workers drop out of the labour force, they strengthen the bargaining position of younger workers, boosting wage growth. This argument is not only theoretically sound ([see here](#)) but we are also seeing this story play out in practice – [even in Japan](#).
- (ii) **Deglobalization:** The extent to which [the world economy is "degloblizing"](#) remains a [controversial topic](#). On one level, the tariffs that were imposed before COVID have continued and there is a strong possibility of additional protectionism in the years ahead. At the same time, bilateral trade between the US and China has plunged. But we have also seen a lot of trade diversion, with Chinese exports rerouted via third markets to evade the tariffs. This has made global trade linkages longer and more complicated, not shorter and simpler. And, of course, [China is now trying to dump its manufacturing overcapacity onto global markets](#), in an attempt to revive its flagging domestic economy. This is a source of deflation. Our view is that gradual deglobalization will continue. Politics has shifted decisively in that direction and trade policy always lags politics (while trade data lag trade policy). The good news is that the China shock 2.0 means that the inflation consequences of deglobalization will be milder than many investors feared. We see China providing a deflationary draught for a global economy that would otherwise be "hotter" (flipping the trends of the 2010s).

Chart 12: A rare, full-employment recovery



Source: BLS, TS Lombard

Chart 13: Labour-market normalization



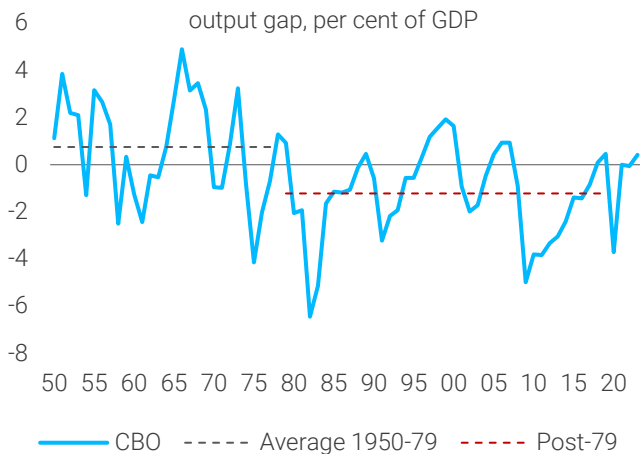
Source: national sources, OECD, TS Lombard

- (iii) **Geopolitics:** Clearly, we are now in a more difficult geopolitical regime, with frequent tensions that will, at times, undermine market sentiment, disrupt supply chains and cause commodity prices to spike. The current problems in the Middle East, which have caused international shipping costs to spike, are just the latest example of this. We think the evidence of the past two years confirms our thesis that we are in a new era of geostrategic rivalries, which will also mean higher levels of macro volatility. The Great Moderation of the 1990s and early 2000s is over. Governments will be forced to spend more, particularly on defence and in protecting or strengthening geo-strategically important industries and resources.
- (iv) **Climate change:** We thought climate change would contribute to the macro supercycle in two ways: by creating a need for big public and private investments (raising r^*) and by putting pressure on commodity markets (particularly in the short term, with various “green bottlenecks”). Since 2022, it is fair to say public attitudes have shifted against decarbonomics. The cost-of-living crisis has forced governments to postpone the energy transition in favour of cheaper fossil fuels. Yet it would be wrong to think climate change is no longer a macro driver. Not only will the physical effects of climate change continue to build (another source of periodic supply shocks), but rapid improvements in green technologies (reflected in their plunging costs) will still create a strong incentive for the energy transition.

Q8: Haven't countervailing structural forces emerged? What about generative AI?

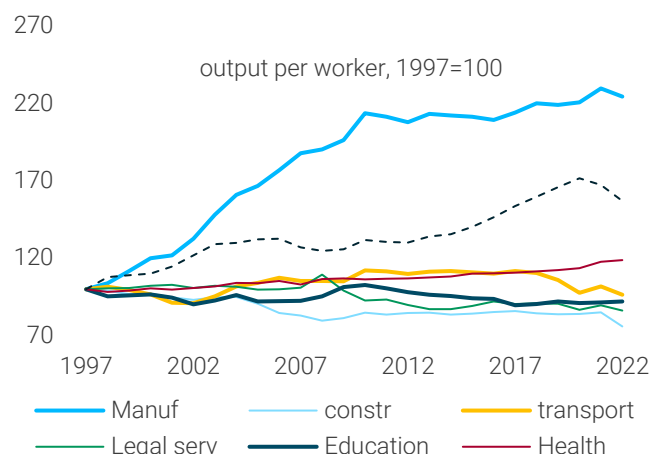
AI is an obvious threat to our supercycle thesis (as we acknowledged last year). If the tech enthusiasts are correct, it could destroy the bargaining power of workers, create mass unemployment and generate massive inequality. In short, it would tilt the balance of power in the economy even more firmly towards capital, or at least the small number of companies that have a technological edge. But we have always been rather sceptical of these claims, arguing that much of the hype around AI bordered on mysticism (see the same report from last year). While there is evidence that AI can boost productivity, the current generation of models has serious flaws and there is no guarantee their creators will be able to overcome these problems just by throwing more data at them. Artificial General Intelligence (AGI) remains out of reach. Today, we remain sceptical that AI can derail the macro supercycle. In fact, it might reinforce it, especially if these technologically can enhance the productivity/wages of the middle classes.

Chart 14: Ending the perma-cool economy



Source: CBO, TS Lombard.

Chart 15: AI to solve service-sector bottlenecks?



Source: BLS, TS Lombard

Q9: Have attitudes to fiscal policy shifted? Are we going back to austerity?

Two years ago, governments seemed willing to spend without limit. Fiscal deficits had ballooned during the pandemic, and officials were in no hurry to rectify the situation. Today, the prevailing attitude among governments is a little more circumspect. Not only are they more worried about inflation (they have discovered that the public really hates inflation) but they saw what happened during the Trussonomics fiasco in the UK, where a fierce market reaction to unfunded tax cuts threatened financial stability and triggered the downfall of the Liz Truss government. (Although the reality of what happened in the UK was more complicated, this was the lesson that many government officials took – especially if they didn't have the luxury of being the world's reserve currency.) Our view is while that the cost-of-living crisis and Trussonomics have dampened the appetite for further fiscal stimulus measures (especially in Europe), the DM world is not going to revert back to austerity. More likely, we are in an era of "fiscal prominence", with a fiscal - monetary policy mix that will be more reflationary than it was in the 2010s, without sparking another inflation problem or risking the wrath of the bond vigilantes. And far from threatening a fiscal crisis, this could be a good development for the macro economy. It will help to deliver a higher pressure environment that boosts investment, productivity and real GDP.

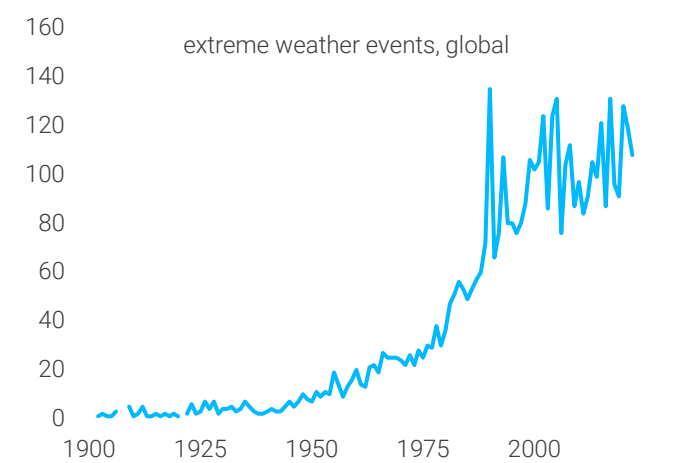
Q10: How much will the various elections – especially in the US – affect the supercycle?

The upcoming US election is obviously important and will have a significant impact on how financial markets trade over the next six to nine months (including the sectoral composition of US equities). We saw this in the week after the assassination attempt, when Trump's election odds spiked, triggering a big rotation within the stock market (although this "event study" isn't perfect because the BLS published a very benign CPI report). We think a Trump Presidency would be particularly important for three themes: tariffs, European defence (Trump would leave Europe alone to deal with Russia or demand big increases in European NATO budgets) and the energy sector (analysis from industry insiders, cited by Adam Tooze, argues that Trump 2.0 would mean deregulation for oil and gas production, lower EV sales, reduced public support for zero carbon energy supplies, and a slower phase out of fossil fuels, all of which would raise US emissions).

But it is also important to remember that the political debates of 2024 are not like the debates of decades past. Left vs right is no longer a question of "big state" vs "small state", fiscal largesse vs austerity, regulation vs deregulation or protectionism vs free trade. Instead, the big fights are over culture wars, "wokeism" and climate-change denial. In terms of the basic politics of the macro

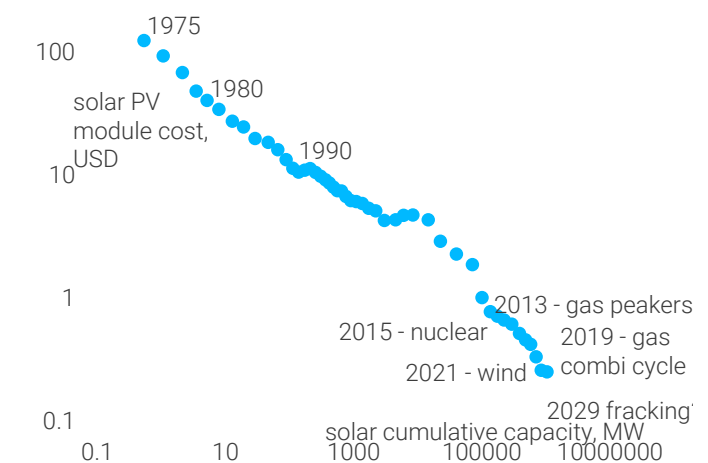
supercycle, it seems the neoliberalism of the past 40 years will continue to retreat regardless of who wins the US elections. Fiscal deficits will remain large, with only their composition in question (if Trump wins, he will cut corporate taxes.; if Harris wins, she will continue to spend, by extending "Bidenomics" to social care – the original "Build Back Better" programme.) Protectionism is not going away. Trump would ratchet up tariffs faster, but the Democrats are not exactly free-trade advocates either. And we know that global populism – which now affects both the left and the right of mainstream politics – puts considerable emphasis on strengthening worker power and improving the incomes of the middle class. Even modern conservative politicians are pro-union, which is far cry from the Thatcherism/Reaganomics of the 80s.

Chart 16: Climate change is happening



Source: OurWorldInData, TS Lombard

Chart 17: Technology will support green transition



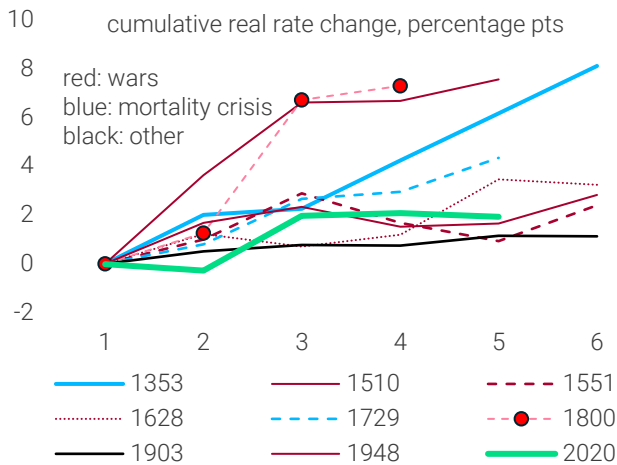
Source: OurWorldInData, TS Lombard

3. HOW TO TRADE THE SUPERCYCLE

Q11: How have market views regarding the supercycle played out, starting with bonds?

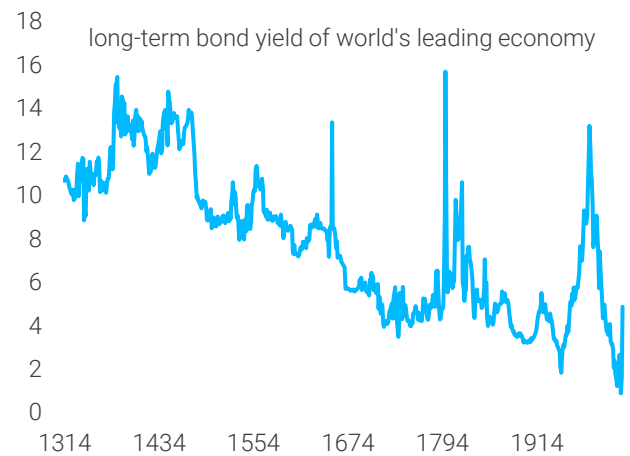
Our view two years ago was that we had entered a secular bear market in bonds but that the market had probably overshot in the near term. In fact, as post-COVID disinflation gathered momentum and various recession scares dominated the cyclical narrative, yields would experience a short-term reversal. This was why we made our structural bear market view about “higher lows and higher highs” rather than straight-line extrapolation of the situation in the autumn of 2022. We think the thesis is playing out broadly as we expected and remains valid. Our baseline is for a soft landing; but even if there is a recession, we think it would be mild by historical standards and could be remedied with a small adjustment in monetary policy. Unlike the situation in the 2010s, we do not think central banks will need to cut interest rates back to their lower bound, let alone launch new multi-year QE programmes. The ZIRP/QE era is over.

Chart 18: Real rate reversals tied to historic events



Source: Bank of England, TS Lombard

Chart 19: Breaking the bond bull market

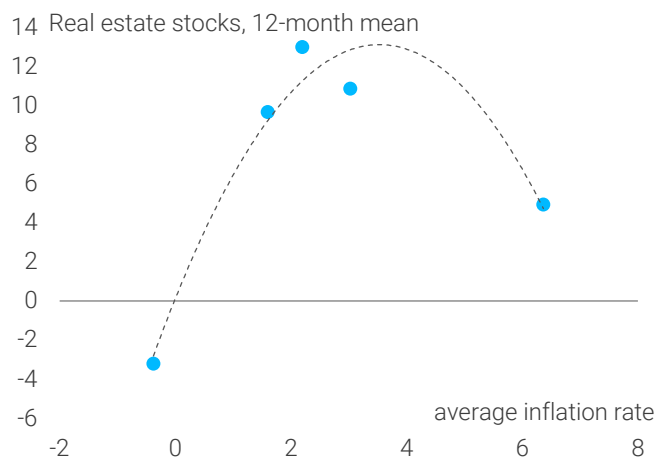


Source: Bank of England, TS Lombard

Q12: Are you still worried about the term premium?

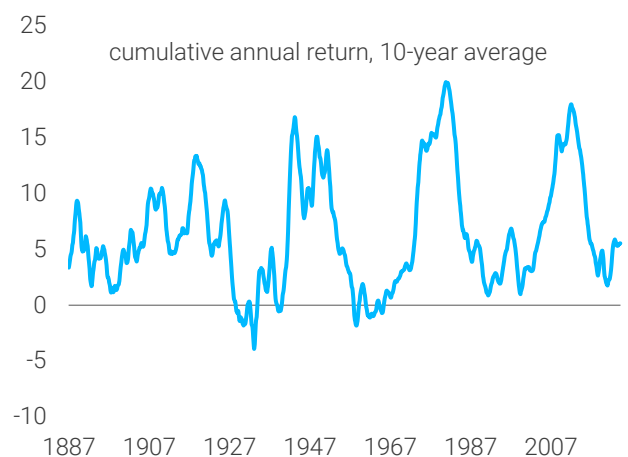
We have always felt that any further upward pressure on yields would come from a drift higher in the term premium. The reason has nothing to do with the popular market chatter, which focuses on the role of QE and the dangers of “fiscal dominance”. The term premium depends on the nature of the shocks hitting the economy and the behaviour of inflation. In a world where demand shocks are dominant (the post 1990s regime), inflation is procyclical and the bond-equity correlation is negative. This gives bonds strong hedging properties, which means investors must pay an insurance fee to hold them in their portfolios (and that makes the term premium negative). But supply shocks create periods of countercyclical inflation, which flips the bond-equity correlation positive and reduces the insurance properties of bonds (creating a positive term premium). We are not saying that the new macro regime will cause 1970s-style stagflation, but we will see *more frequent* negative supply shocks. This means that on average, the bond-equity correlation should be weaker (even if it is still negative) and the term premium should widen. Our views haven't changed over the past couple of years. In fact, the evidence has only confirmed them. Supply shocks are now a bigger threat, and the bond-equity correlation has weakened.

Chart 20: Supercycle good for real assets



Source: [Steve Hou \(Bloomberg\)](#)

Chart 21: New commodity supercycle?

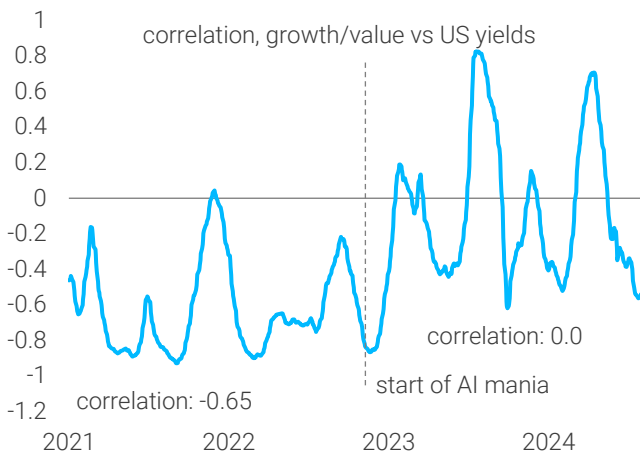


Source: AQR.com [“commodities for the long run”](#), TS Lombard

Q13: What about the structural outlook for commodities?

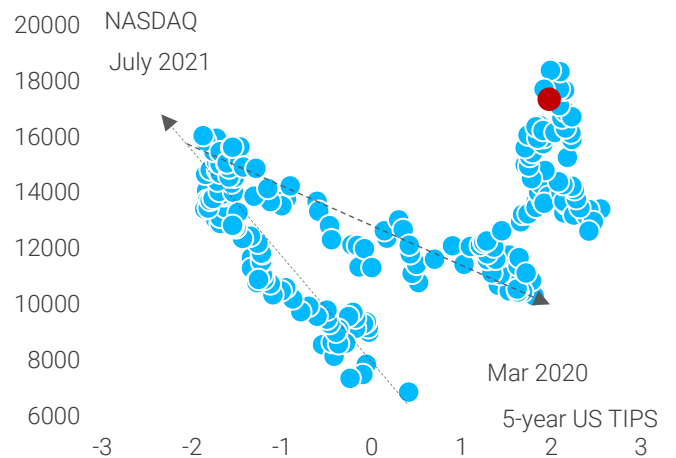
While two years of inventory overhang in global manufacturing (plus the continued threat of a more serious, policy-induced recession) has kept commodity prices in check, we continue to see significant upside over the longer term. Investment rates are going to be higher, the physical effects of climate change are likely to intensify, along with periodic geopolitical skirmishes that will disrupt supply chains and foster commodity/energy “nationalism” (another supply-side problem). The only question is whether some of these pressures are now delayed, either because the global recession happens or because Trump wins the US election and introduces a radical deregulation programme of oil and gas, which pivots the US back towards fossil-fuel production.

Chart 22: AI broke rate correlation with tech



Source: Datastream, TS Lombard

Chart 23: AI inflated tech stocks after 2023



Source: Datastream, TS Lombard

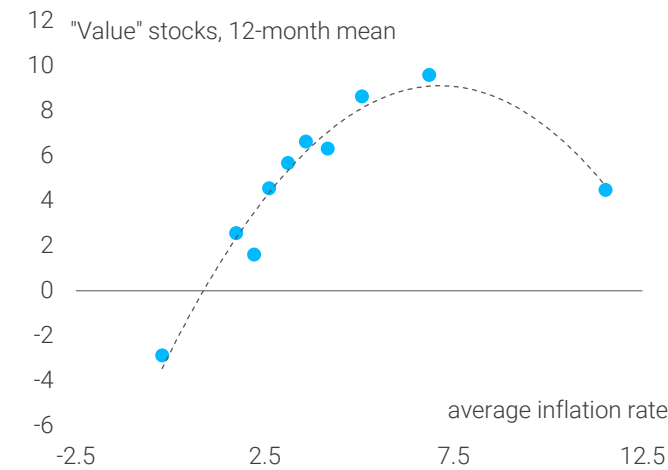
Q14: You have stopped talking about the ‘Tangible 20s’ – thrown in the towel?

The “Tangible 20s” didn’t exactly catch on, except among wine investors, who used the idea to market their funds (I’m still waiting for the royalties!). My thesis was that an era of faster inflation and structurally higher interest rates would boost *tangible* assets and those stocks that had struggled in the age of lukewarm economic activity, permazero interest rates and endless QE. We thought “value”, EMs and resource/commodity equities, and other “real” investments would do well, not just US tech and other “growth” sectors. It is important to point out, however, that this was a thesis about the next 5+ years. When we set out the macro supercycle, we made very clear that the story would not be profitable in the short term, because disinflation and rate cuts would dominate any longer-term themes. And, of course, we didn’t expect the hype over ChatGPT and AI, which took off in 2023 – not long after we had published our views on the supercycle.

Where do we stand? As I explained in a recent Chart Story, the hype around AI is self-reinforcing and somewhat circular. When the big tech companies invest in AI, they inflate the earnings of their suppliers (primarily NVIDIA), which only cements the idea that AI is truly transformative. The semiconductor industry is volatile, and has always been prone to powerful boom/bust cycles. Recently, after a spectacular 18-month mania in anything AI-related, the Mag7 stocks have started to struggle. NVIDIA is under pressure, even as it continues to beat analysts’ expectations. From a risk-reward basis, it is tempting to think this pattern of underperformance will continue – and we will finally get the rotation out of US megatech. With other parts of the equity market priced for a recession, a soft landing could favour those sectors that have struggled most over

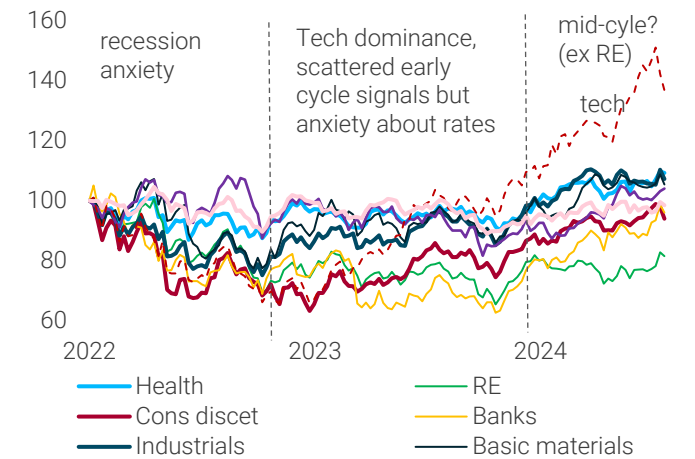
the past couple of years. But our level of conviction in the rotation thesis is not high. And we wouldn't bet against a rebound in NVIDIA and co. Bubbles are hard to call, and it would not be surprising if the monetary pivot injected thresh enthusiasm into the US tech sector. (One investor even suggested I make these stocks part of the Tangible 20s thesis, because "semiconductors are hardware and the data centre/energy buildout are very much Tangibles" – I'm tempted!)

Chart 24: New supercycle is good for value stocks



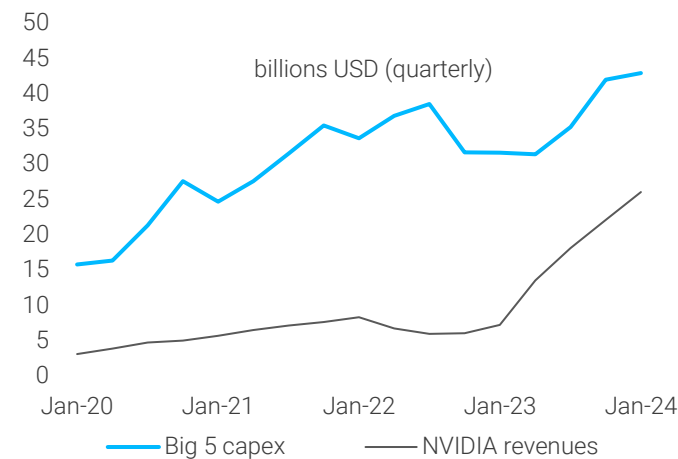
Source: [Steve Hou \(Bloomberg\)](#)

Chart 25: Narrative toggle in stocks



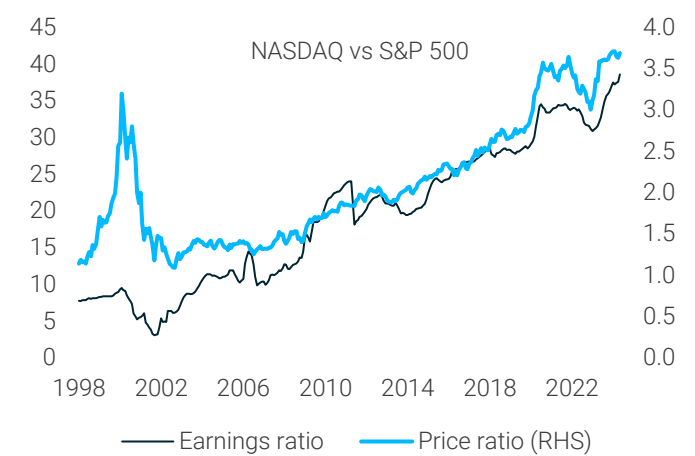
Source: Datastream, TS Lombard

Chart 26: More capex – more semis – more hype



Source: Bloomberg, TS Lombard

Chart 27: Earnings- not price-bubble?



Source: Bloomberg, TS Lombard

Bottom line

Two years on, we think our new macro supercycle thesis remains valid. Although inflation has eased and labour-market conditions have normalized (as we predicted they would), the world economy is not going back to the zero-rate perma lowflation environment of the 2010s. Two percent inflation is now the floor rather than the ceiling: and even if central banks cut interest rates in the short term, we are still looking at higher lows and higher highs in yields through the

2020s. The important point is that this inflection point in the macro environment was always going to play out gradually – particularly relative to some of the inflation/rate hysteria of two years ago. And this reflects slow-moving structural changes in the world economy such as deglobalization, geopolitics, climate change and demographics. Over time, these forces will erode the neoliberalism of the past 40 years and tilt the balance of power in the economy back towards labour for the first time since the early 1980s. Recession is the biggest near-term threat to our view, but this is likely to postpone the inflection point rather than totally derail the supercycle.

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