The Global Impact of Middle East Tensions

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Sarah Murray: Welcome to C Suite Perspectives, a, uh, signature series by the Conference Board. I'm Sarah Murray, Managing Director International and the guest host of today's episode. Today we'll discuss the economic and business impact of the ongoing conflict in the Middle east and what it means for Europe and global markets. Joining me is Alejandro Fiorito, economist at ah, the Conference Board Europe, who will help us unpack the latest developments, how markets and companies are responding and what this could mean for the longer term outlook. Welcome Alejandro.

Alejandro Fiorito: Thanks for having me, Sara.

Sarah Murray: So let's dive straight in. How have markets evolved since the conflict started?

Alejandro Fiorito: So they've swung pretty widely, to put it bluntly. Um, we had in a single day the highest rise in oil prices and the fastest drop. And I think that's an anecdote. But that sort of shows where, uh, we've been moving from. Um, there's been many phases already in just a few weeks where markets have bounced up and down a lot. Oil is currently around 100, uh, and natural gas, which is the other key price and particularly important for Europe, is around €45, uh, per megawatt hour. So that's oil is 50% higher than it was at the beginning of the year and gas is around 40% higher. So it's a very significant increase, but from a lower base than for instance in 2022. And then if we look at stock markets, they tell I think a particular, particularly relevant story when we compare across economies. And there we have Germany, um, um, across major economies, that's the stock market that has fallen the most and recovered the least since

the conflict started. And this is consistent with what we know about the German economy and some of the key characteristics. First, we knew it was weaker in terms of growth momentum than its peers. Even if, uh, there was some recovery and if there was some fiscal expansion, um, that fiscal expansion now is going to be harder with higher prices. Second, about the German economy, we knowit's a very energy intensive economy. So any shock to energy markets and particularly fossil fuels, is harsher on Germany. And third, there is a combination of the two, which is the engines of growth for Germany, uh, are industries that are highly dependent on energy. So naturally the stock market in Germany has been one of the worst performing ones. And in contrast, within Europe we have Spain for instance, where the stock market haswent down a little bit but has fully recovered. The levels of the beginning of the year, uh, and overall suffered much less. Spain, uh, has a much more diversified economy, higher Reliance on green and renewable energies. And it remains uh, one of the best performing advanced economies. And its stock market as well, the U.S. stock market, which we definitely need to discuss as well, has been particularly optimistic since the ceasefire was announced. We've seen uh, a very important recovery in stock prices which implies that US markets are somewhat more optimistic. Perhaps also that the macroeconomic conditions were stronger in the US at ah, the start of the conflict. Also that they're net exporters of energy so therefore they're less affected by energy prices. Uh, but I'm not so certain about that that uh, optimism in stock markets in recent days. And indeed if you look at other key market which is the government bonds, you see sort of a different story. Um, it's sometimes common that those two markets, stocks and bonds, move in different directions. But looking at the two year government bond yields which generally reflect a combination of inflation expectations and relatedly, um, the expectations around where interest rates are going to go, uh, central bank interest rates, you see that bond yields have increased quite a bit for all advanced economies. Uh, and those have not gone back to pre conflict levels. In some cases like in the UK they rose by 50 basis points in just a couple days, uh, in mid March which is very meaningful. Uh, and they remain around 80 um, to 60 basis points higher than they were in February. And this tells us that markets, while there are some recovery in stocks, they're still quite concerned about the impact that the conflict is going to have on prices and on borrowing costs for countries. Which means, uh, for the country's fiscal space as well.

Sarah Murray: Yeah, yeah. And um, the latest outlook for the euro area which I know you work on. How are different countries being affected and how are policymakers responding so far?

Alejandro Fiorito: Yeah. So

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Alejandro Fiorito: by the time this is out we should have the April update.

Sarah Murray: Mhm.

Alejandro Fiorito: Um, so I can give you some, some of those numbers. But but first I

think it's useful to take 2022 as a reference point. Um, it was relatively similar shock in terms that, in the terms that it was a conflict driven supply side shock to energy. But there are alsoimportant differences in terms of the outlook of, in the starting points. Uh, in 2022 we were in a high, ah, inflation high growth momentum environment because of COVID We were coming out of COVID energies were rebounding. The euro area economy was almost starting to overheat. In 2026 we're almost at the opposite starting point with low inflation which was a round target of 2% and low growth. Even if there was some uh, rebounding going on. My colleague Dina Panitsas has emphasized within this context something that is particularly relevant, which is that the labor market is both stronger in the sense that unemployment is historically low right now in the euro area, but wage growth has been cooling down for several months, which signals that there is not this pent up demand, that there's not this strength in the European consumers that we had in 2022. So we, within this framework we are naturally uh, revising the outlook to decrease growth and increase inflation. Uh, as of mid April again we have growth for the euro area around 1% barely.

Sarah Murray: And that's from what, at the beginning of the year?

Alejandro Fiorito: Yeah, from 1.3, uh, just in February. So it's a pretty significant revision. 30% lower, uh, more or less, um, and with some countries having massive, massive revisions, uh, Germany and Italy were cutting pretty much by half the growth prospects for the year. And others like France and Spain, as we discussed before, more given their sort of energy, uh, sources composition,they're more resilient and we're cutting much, much less, um, on inflation. We're also rising quite significantly to 2.9, uh, for 2026 on average, uh, which would be quite farther from the target which is 2%. This is sort of uh, stagflationary, um, which is a nightmare for it's not

Sarah Murray: the best scenario at all.

Alejandro Fiorito: No, it's likely the worst for policymakers, um, in the sense that particularly for central banks, if we think they have two objectives, which is low unstable inflation and strong and sustainable growth, their inflation is being pulled up while growth is being pulled down and that puts in conflict both objectives because they would want higher interest rates to cool down inflation and maintain that low unstable inflation. But they would also want lower interest rates to boost growth. And of course they cannot have both at the same time. In terms of policy reaction, which was uh, the second part of your question, we see that central banks are taking sort of a cautious uh, uh, approach right now. Not suggesting that they're going to overreact to this shock. If you think about it, it's as we said, is a supply side disruption. Central banks cannot reopen the Strait of Hormuz, um, but they are signaling that if inflation displays some persistency, if there is what we call second round effects, a more broad based inflation, they might start uh, to tighten um, uh their policy rates, so increase policy rates. But most of the response, as it should be right now, is coming from the fiscal side. So this is mostly support to companies and consumers. And the approach most countries are taking is basically reducing taxes on Gasoline and other key fuels. This has some limitations. Many European countries,

fiscal space is quite constrained. Some like Spain or Poland, have more fiscal space, more dynamic economy. So they can accept reducing those taxes without their um, fiscal bottom line being hurt that much. But others like France or Italy don't have that space. And I think here is important to say that these policy responses are not ideal. They are, even if they work in the short term and even if they offer some important relief to consumers, which are the ones that are the most affected. If these policies are sustained for too long, um, they create distortions as well. And these are very broad based policies that target everyone and in a sense they can be regressive. So they can actually end up not helping the people you're intending to

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Alejandro Fiorito: help, which would be poor households with high energy consumptions. You might end up uh, helping high income earners that don't depend so much on energy consumption. So I think now as the conflict persists and we know that there's not going to be a swift resolution, and even if there is, in the hostilities, the prices will remain elevated for at least a couple of months. Um, the policies need to start changing to be more targeted. Um, EU commissioner, president, commission or someone earlier said that they need to improve price stability and predictability without losing the important signals that prices give us. So there is going to be some uh, calibration that needs to start happening soon. And that is going to be the trickier part for the policy response.

Sarah Murray: Very delicate, delicate kind of line to walk. Um, so when you think about um, through which economic channels are companies being impacted.

Alejandro Fiorito: So in some ways this is somewhat similar to Covid. Um, this is again a pure supply side disruption where it's not just a shock to supply, where prices change, is sudden interruption of critical economic flows. Uh, and this as we said is the 20% of oil and gas that used uh, to go through the Strait of Hormuz , uh, in March, actually some numbers just came out. Um, there were 10 million barrels less per day in the world. That's about 10% of global supply. So some of the supply was recovered, but still 10% was basically lost. Uh, the International Energy Agency expects, um, oil demand to decrease this year for the first time since COVID So this is all signaling that this is um, a particularly specific kind of supply shock that also has complicated resolution because of the geopolitics of it all, but also because it's affecting other critical inputs. Um, it's been discussed that fertilizers, helium also are, um, a lot of them come from the Gulf and those key um, economic flows are interrupted and then the channels through which companies are going to be affected is not just through energy prices but through more broad based increases in input cost. And we can think of fertilizers of course impacting food prices. Actually we have some research coming out of how long it takes to, to move from a shock that affects natural gas to fertilizer prices to food prices. And it's around a six month. So we might be seeing this sort of lagged effects. And this of course is going to affect uh, cost and helium. I just want to mention because it's an interesting uh, point and affects something we've also done some research on. Helium is a critical input for semiconductors and this means that they will impact a supply, uh, limitation in helium

will impact memory, um, chip markets which in turn affect um, electronics. So phones, laptops. This was a market that was already strained in which there was already a supply crunch because of the very high demand from AI. We wrote about this in the beginning of the year. There is the complexity of this broad based shock to input costs and the fact that these are also uh, intertwined. Uh and actually we've had a couple of events and we've done some polls with companies and a small survey we had in mid March. While input cost is what is in everyone's mind. Companies told us that they saw three key channels and that was uh, a deterioration of the macroeconomic conditions. So all we've been talking about also affects companies, most likely through um, borrowing costs. Second, uh, the direct impact of energy cost. So input costs but also direct just your electricity bill. And third, the disruption of the supply chain. So not only these inputs but the fact that insurance cost, transportation cost are going up uh, everywhere. So on the aggregate the channels, there's going to be many, there's going to be different uh, impact for different companies. We are at the point where we are starting to recognize the cost impact.

Sarah Murray: Mhm.

Alejandro Fiorito: There is a later sort of a sec, as I was saying before, second round effects which is when this reaches consumers and how they react. And that's hard to tell. Uh, and there is more problematic if this becomes a demand side problem as well. And buyers, consumers, but also firms start to notice an impact on their purchasing power and

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Alejandro Fiorito: start being incapable of absorbing the increased prices. That's when growth, and again we've already downgraded growth but that's when it can become further. Exactly. Can become a real problem.

Sarah Murray: Crikey. Um, and so how do you see companies responding to these shocks I know you're talking to a lot of executives uh, every week. What are you sensing?

Alejandro Fiorito: Yeah, so we even had some data points again from mid March and some more recent. So in mid March, I think it's interesting because it also tells a story about the conflict itself. What they were telling us is that they were focusing on strengthening their supply chains, on monitoring, uh, on updating their contingency plans. So it's sort of a very tactical response to what's uh, going on. Um, and sort of trying to stay up to date.

Sarah Murray: Yeah.

Alejandro Fiorito: In April, uh, now in more recent times we started to ask about costs. Right. Because as we know they're starting to materialize. And here we got a pretty surprising number which is that uh, in a survey we did, 60% of respondents expect to pass some or most cost to consumers and responses were balanced. We asked them if it was some or most.

Sarah Murray: Mhm.

Alejandro Fiorito: It was 30% some cost. 30, 30% of respondents at most costs will be passed on. And this can mean several things, but mainly either a that European company's margins are already quite squeezed. Exactly stressed or squeezed and that there's limited room for them to absorb more cost or that they think that consumers can still absorb and the labor market is as I was saying, wage growth is not strong but the labor market is relatively strong and they can assume some of that cost. Probably in most cases both are true. And we know that there's competitiveness issue for European companies. Um, but there is a delicate balance on how much companies can pass to consumers. Um, and again I think the concern here is if companies margins compress excessively where they need to start changing production or consumers purchasing power diminishes significantly, that's where we get into a new scenario where recession fears start. We're not there yet. M fortunately, but what we are hearing from companies of these tactical adjustments are not particularly on the cost side, are not particularly optimistic. Um, in the near term,

Sarah Murray: um, how substantial do you think the impact will be? And I'd really like your kind of take on. We've talked about European economies but, but the impact on Asian economies and the less mature economies as well.

Alejandro Fiorito: Yeah, I think that's where the big concern is. Uh, I think even if the European numbers are going to look pretty bad with growth around 1% or below 1%, there is some resilient, there is some lessons learned from 2022 in terms of stockpiling, in terms of how policymakers are equipped to support consumers. Um, and I think the European market in a sense is more prepared particularly for emerging economies in Southeast Asia that have even higher dependencies on Gulf countries than Europe has, that's where the sharpest price increases are going to happen. We've already seen, uh, rationing in some countries, which I think that's a clear sign of them feeling the impact much, much, uh, faster than Europe. Um, and then there is, I think, of course, the Gulf countries, and that's where the massive, massive impact is being felt. And in terms of how substantial it is, it's hard to tell. But the concerning thing is that we know it will be prolonged. And here we have, uh, an example which is the Suez Canal, where, uh, they were attacked by the Houthis in 2023 and flows never recovered.They're still 50% lower today than they were in 2023. And that's even after sort of the conflict dissipated and attacks became very sparse. What this tell us is that sort of the concerns that transportation insurers, uh, companies have won't go away. So we know that this is going to be a, um, multiple months that it's going to take to resolve. And their emerging market economies, particularly those that are net energy importers, that don't have, um, the fiscal space that some European countries have and don't have the structural capabilities to stockpile that Europe has had, are the ones that are going to suffer the most. And again, those are concentrated in Southeast Asia. But there are others, um, we can think of like Argentina is going through a massive, uh, economic recovery on the side of inflation, but also downturn, uh, and others like large economies like Mexico,

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Alejandro Fiorito: which have suffered some, uh, of the trade, uh, turmoil that are going to be that this is sort of a shock on top of other shocks. So the compounding effect for emerging markets is, I think, particularly concerning.

Sarah Murray: Uh, and then in the US Obviously there's lots of reports about the price of gas at the gas station has gone up to almost 20%. But what else in terms of the substantial, substantial impact?

Alejandro Fiorito: Yeah, in the U.S. i think there is going to be quite some concerns around the fiscal stance, uh, uh, and the next cycle of renegotiating the debt ceiling. Um, and all of this puts farther pressure on an economy that's growing still very strongly, that still has a strong labor market, but that has inflation over target. I think that's also an important difference compared to Europe. Whereas in Europe it remains around 2%. March reading was 2.5, but in the US is much higher. Uh, and there is a lot of debate about whether the tariff, um, pass through is going to be seen this year. So again for the US it's also sort of a shock on top of a shock, particularly on the inflation side. And there, if inflation remains above target, if we see core inflation, uh, to increase, that's where borrowing costs, um, might increase. Where the Fed is going to be in a very tricky situation, potentially, um, forced to increase interest rates. And that interacting with a relatively weak fiscal stance, um, from very sustained high fiscal deficits might put the country in, even if there's not, if there is still dynamism and sterile growth, there might be pockets of vulnerability that are particularly concerning.

Sarah Murray: Yeah. We're going to take a short break and be right back with more of my conversation with Alejandro.

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Sarah Murray: welcome back to C Suite Perspectives. I'm your host, Sarah Murray, Managing Director International at the Conference Board. And I'm joined by Alejandro Fiorito, economist at the Conference Board. Europe, um, so just continuing the conversation, what do you think are the main structural implications of the conflict for Europe in of growth, investment and energy sourcing?

Alejandro Fiorito: So even if the most optimistic predictions materialize and we get oil and natural gas prices back to normal, uh, which means for oil in the range of 60 to $70 per barrel, the threat of our disruption, as we were talking will remain. Companies might not go back to normal, particularly, um, sort of transportation, uh, shipping companies, I mean. And um, this for Europe will mean another realization that energy dependencies need to be managed and that they need to be managed and they're here to stay. So in terms of policy making and structural decisions does not really change the priorities. It only further stresses the urgency across some key areas which here in Brussels, I know the urgency talk gets a little, uh, overwhelming and even counterproductive because everything is urgent. But it gives us also time to reassess those priorities and perhaps try to narrow, um, down even more what is absolutely necessary. And there are several areas. The most obvious one is the uh, energy matrix and the need to diversify away from fossil fuels, rely more on renewables, not only because climate change matters, uh, but also because this is the one type of energy that Europe can produce pretty much on its own at scale. Um, and this also means improving the electrical grid integration, which has been a conversation that's been going on for, for many years, um, across EU countries. Um, and then that sort of integration

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Alejandro Fiorito: moves to another very recurring discussion which is a more um, increased integration and a stronger single market. And this is important. So the domestic market is more dynamic. We were talking before about why the US is more resilient. These are the two key factors. A better or a more efficient energy matrix or less energy dependence and a more dynamic domestic market. And related to this there's the capital markets union, um, that still needs to be completed. And here there might be some um, interesting structural movements on the savings front, uh, because European consumers are very cautious, more than uh, the US again in particular. So in crisis like this we see precautionary savings to that increase a lot. That's not necessarily bad, it's just a choice. But there is a number that's not discussed enough, I think, which is that saving rates in Europe are in the double digits on average around 14%. I think in the US that number is 4%. Wow. So that means that more money is being put into the U.S. economy. And that would not be a problem if those savings inEurope we're being invested, we're being channeled through financial markets to um, any kind of productive investment. But what we see is that large amount, I think more than half of it just stays on deposits, uh, in bank accounts. Right. So the mobilization of these savings is very important. It becomes even more important when there is this sort of precautionary um, increase in savings. And I think here the key is not so much it is on the capital markets union, it is in the integration, but it's also on finding those productive investments. And there is a very important part that actually this one might be a little missed in this whole turmoil. A, uh, priority that we need to emphasize, which is focus on productivity and uh, not necessarily on competitiveness or rather get to competitiveness through productivity improvements. Don't get to competitiveness, and this is external competitiveness. So you can think about exporters through giving subsidies to companies that are not efficient, but try to give support, market based support, temporary support, targeted support to

companies that have the possibility to be more efficient and be more productive. Um, and this has very important implications, particularly because the fiscal space is limited at a Time when we're going to see support to certain companies. And you need to do that in a healthy way where you're encouraging innovation, where you're promoting uh, productivity. I think this distinction in the middle of a crisis might get lost and we might focus on not losing competitiveness when we need to be focusing on strengthening uh, productivity. And just if I can give you one number there, uh, we do this exercise called the Global Economic Outlook every year which, uh, the conference board with teams in the US and Asia. And we project growth for the next 15 years and across major economies or economic powers. The euro areaactually has a negative contribution to growth from total uh, factor productivity.

Sarah Murray: And why is this, why is there such a difference between Europe and America for example?

Alejandro Fiorito: Well, there are multiple explanations and this is where everything is a little bit, uh, intertwined and related. Big part of it is the inefficiency in energy, big part of it is the internal barriers. And there are also cultural issues around the savings and the more precautionary nature of the European system. There's also um, technology is the big sort of driver of this difference and how you create an ecosystem that adopts technology faster. Um, and there are things that can be done, but there's also a lot of first mover advantages that the US has and has had for many years. So there is this big discussion about how Europe needs to catch up, uh, in technological terms. And that is where I think more effort should be done and more resources should be getting to really increase productivity. And maybe it's not so much about catching up, but it's about finding complementarities with high growth, um, partners in the US but also elsewhere on different industries and realizing what's the comparative advantage that Europe, uh, can find on that. But yeah, the numbers are quite striking where they're mildly negative. They're not,

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Alejandro Fiorito: it's not like productivity is a headwind for Europe, but it's basically zero contribution to growth. And not even the U.S. in countries like Canada or Australia you see, uh, total factor Productivity contributing between 0.5 and 1% wow. Of growth per year. Sothat's quite meaningful if we think about, uh, current growth rates for Europe.

Sarah Murray: And when you think about the broader implications for global financial markets, what are they over the medium term?

Alejandro Fiorito: Yeah, here I think the hottest topic and the most controversial is the international role of the dollar. Um, and there is a big discussion about petrodollars and what they mean and what role they have played. And sort of here we discuss the exorbitant privilege that the US has, which means that the US by providing the international, the main international currency, which is the dollar, receives some benefits from doing that. Um, this is basically the ability to borrow at lower cost than other

equivalent countries. And the way oil trade is um, done sort of support this, right? It, oil is paid in dollars. Therefore countries that sell oil receive US currency. And then of course to not lose purchasing power, they invest that US currency. And one thing in which they invest is in US Debt, right? So that's where there is a lot of demand for U.S. debt. And the U.S. sort of gets what we call the convenience yield. So sort of some sort of premium because people want your debt so much. And there is discussion about oil markets moving away from the dollar, about Iran selling, uh, oil, um, denominated in renminbi or Bitcoin even. Um, I don't think this is that meaningful. It's still pretty anecdotal. Uh, but there are some things that we need to pay attention. There are some structural changes on global financial markets. One is that China, the international promotion of the renminbi is just natural. As the Chinese economy grows M. The US economy is 25% of global GDP and its currency, it's 50% of international, uh, reserves. So there is sort of an imbalance there. Um, and there's also the part of uh, geoeconomic turmoil on top of uh, the current, uh, war in Iran, tariffs, trade disruptions, all that discussion. But I think it remains highly unlikely that the world is going to move away from the dollar in part because

Sarah Murray: the US there's no alternative.

Alejandro Fiorito: Exactly. I was going to say part because the US Remains so strong, but mainly because of what you just said. The alternatives are just not there. There's a lot of inertia in these markets. And when you look at this, Europe, um, could be an alternative. And it has some of the, the key elements you need for a reserve currency, including a very independent central bank, good institutions, a strong currency, uh, a currency that is tradable, something that China does not have. Um, um, for large transactions, it's really hard to access a lot of yuan. It's not hard to access a lot of Euros. Um, but the problem goes back to the debt and the fact that the US dollar is so popular because US Treasuries are so popular. And there is a reinforcing, um, dynamic there. This is sort of, again the sort of a first mover advantage in a sense. So holding Euros is relatively less attractive because to put it simply, there is not, um, that many things to buy with them. There's not that much high quality euro denominated debt.

Sarah Murray: Mhm.

Alejandro Fiorito: Emerging markets don't issue Euro bonds at scale at least.
So that's where we go back to deeper market integration, expansion of even common debt, which is a very controversial topic in Europe. Would uh, be things that could move uh, Europe forward, the Euro forward, but they're not there yet. Um, and as I said before, the Chinese renminbi is not a freely traded currency. It's a currency that is really affected by policy choices from China, a lot of them around competitiveness. So you do not want to be holding a currency you think might depreciate for reasons that are not purely market driven. Um, to put it that way, what is meaningful is that even there's no alternatives. Right now both the ECB and Chinese authorities are making a push and I think they're making a push because they see an opportunity um, to a large extent and because they see the benefits in having a larger role, I want to say displacing the dollar because again I

think that seems too unrealistic but of having a more being more proactive uh, which from the European side I think it's very, very welcome. Uh, I think there is opportunity

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Alejandro Fiorito: to do more business in euros with Gulf countries in the future that might want to diversify with any country that wants to diversify, um, which is nothing per se against the US dollar but it's more of a diversification, a strategy that just companies will mhm also do.

Sarah Murray: Right, but what time frame do you think that that will take?

Alejandro Fiorito: I mean I think there can be meaningful M movements in the next few years. There is a very meaningful development that's not been discussed that much which is that the European Central bank has um, basically established what we call repo lines which are liquidity lines to other central banks that can borrow ah, euros from the ECB given collateral. That collateral is euro debt mainly can um, be other things but mainly you can think of euro debt. So central banks that might, you can think of emerging countries but also their advanced economies that don't have the euro. Swiss central bank um, could borrow euros and many of them already can without collateral through other types of agreements. But what this does is it lowers um, the risk of holding Euro assets. Right. And in a sense I think we might start seeing some movements in, in the next few years in part because of policy choices done from Europe that are very positive because just getting a little bit wonky here. But what the repo lines do is that when a country needs liquidity they know they can Access Euro liquidity. So instead, um, um, in times of stress we sometimes see what we call flight to safety. And the flight to safety is usually buying U.S. treasuries because you know they're highly liquid, because you know you can uh, invest in them and they're safe and trade them. That might mean for some countries selling actually European debt, which is bad for European uh, debt markets. When you give access to a repo line, to a liquidity, um, coming from the central bank that is safe. In times of stress. What you might actually get is that countries want to hold European debt so they know they have access to that liquidity.

Barbara Mendes George: Mhm.

Alejandro Fiorito: And not only they don't sell it to get access to other currencies or to increase their uh, liquidity, butthey actually the demand might increase. So I think we might start seeing some meaningful changes. It's hard to tell at what scale. There is here a little bit of competition with China doing something similar with swap lines and lending a lot in emerging markets. So I think we will see some very meaningful changes in the next few years. Something structural where the US dollar movesfrom being 50% of international reserves to 40 or even lower than that is something that would take I think much longer.

Sarah Murray: But 10 years ago was it 50% or higher?

Alejandro Fiorito: 10 years ago it was around 60. In the early 2000s it was around 70, but in the 90s it was 58. So I think as long as it remains above 50, I think there's a lot of noise around, oh it's gone down from 70 to 56 or 58. I think it's now. But it's important to remember that in 90s it was at similar levels. So I think the breaking point is lower and that's where it's hard to go down. Relative prices become distorted and frictions come up and market stop, uh, working. Well there's market inefficiency and the implication for companies of all this is that they struggle more and more to predict, anticipate prices, anticipate consumer behavior or really know what the macro conditions are going to be, which all is bad for long term planning and investment planning. Um, I mean there is this anecdote going back to the oil markets of oil producers in Texas. Broadly paraphrasing a quote from one of them said we would be expecting to invest more with high oil prices, but because we don't know if in one year oil prices are going to be 150 or 60, we don't know what to do. And what that anecdote tells you is that the market is not able to adjust when there is high uncertainty because what would be tail events sort of extreme. So oil being extremely low or extremely high are more probable and your baseline therefore is less likely. It's harder for you to make a decision. So I think what we are seeing is more difficulty to make decisions around a baseline. We are not yet seeing sharp changes I think because to some extent the natural thing to do when there's noises to keep course. And that's I think what companies are saying. Making tactical adjustments, but not strategic ones.

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Alejandro Fiorito: Um, in the latest CEO confidence survey last year we saw a continuation of dynamic from European companies or European based CEOs of increasing investment in the US

Sarah Murray: m outside of Europe and sort of.

Alejandro Fiorito: Yes. And being either maintaining investment in Europe or, or decreasing a little bit. That is a trend that is continuing. At some point that might change. But with this very very high uncertainty, I think we are not yet in a position to say this is how companies uh, are reshaping. We have the next edition of the CEO Confidence survey coming up in more or less a month. So we will be asking about that.

Sarah Murray: It'll be interesting to see the results.

Alejandro Fiorito: Uh, perhaps they have some, perhaps they start to indicate that there are some long term changes. But how they're thinking, it's quite hard for me to tell and for them to say, I think for European. To make sort of a final point for European companies. I think there is something interesting happening where is as uh, countries are realizing the importance of uh, domestic priorities or what we discuss about economic security, strategic autonomy, that means investing more domestically. So that isvery hot discussion topic here in Europe. And that puts European companies in an interesting position because on the one hand you're going to have the fiscal support that we've been talking from fiscal uh, expansion in Germany, all the defense spending that's going on that might

want to make you look inward a little bit more. And at the same time Europe I think has sent a very positive signal with trade agreements, with an openness to maintain a rules based system and uh, to remain open for business pretty much. And I think European companies can sort of play on that duality of we are looking at Europe for critical uh, investment, for strategic autonomy investments. And we know we're going to get some support there, that's important. But we remain global businesses and
we remain committed with free trade and other partners. And I think that is an interesting position to be even if there's high uncertainty around all potential outcomes.

Sarah Murray: Indeed. Alejandra, I could talk to you for hours and hours. Thank you so much, uh, for this, um, but our time is up, um, and I very much look forward to welcoming you back, uh, in the not too distant future, because as you said at the beginning, this is kind of changing by the hour. Um, but it's just been really, really helpful to the listeners to get your perspective on this. So just thank you.

Alejandro Fiorito: Thank you very much for having me,

Sarah Murray: and thanks to all of you for listening to C Suite Perspectives. I'm Sarah Murray, and this series has been brought to you by the Conference board.

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