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How will this economic Goldilocks story end?

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Thanks to central banks' coordinated efforts, the global economy has not only recovered from the financial crisis, but enjoyed a good run of solid growth and low inflation. Take a closer look at this "Goldilocks moment" for insights into the cast of characters at play – and the surprises that may be in store.

A modern cast of characters

Thanks to the strong performance of financial markets since the financial crisis, our economic Goldilocks story features a family of Three Bears who have had quite a bullish run.

- **Goldilocks.** For years, the global economy benefited from the free-spirited monetary policy of central banks around the world, which have created a "just right" environment. Financial repression has kept interest rates artificially low and asset classes artificially high.
- **Papa Bear.** The United States has the biggest, strongest economy around, but it may be top-heavy: for years, the US economy has been pumped up by low interest rates, excessive fiscal stimulus and unfunded borrowing.
- **Mama Bear.** The European Union's economy is closely tied to the United States', but it has its own personality and bad habits: negative interest rates and bank subsidies have kept zombie companies alive, and the EU has little appetite for real economic or fiscal reforms.
- **Baby Bear.** Asia's economy has long been the heir apparent to its Western relatives. Although Asia's markets aren't as mature, they are growing – and the region's work ethic is strong. With the right state reforms and long-term policies, she'll have a bright future.



Key takeaways

- Goldilocks would find this global economy "just right" for supporting today's equity valuations, credit spreads and volatility levels
- In our modern twist on the classic fairy tale, the Goldilocks economy has enjoyed a good post-crisis run in the Three Bears' house – but it's "Baby Bear" (Asia) who has the most attractive vision for the future
- No one knows how the global economy's Goldilocks story will end, but central banks' successful post-crisis policies have caused enough large-scale dissonance that this "just right" moment probably won't last forever

An uncertain setting

In our adapted fairy tale, the economic Goldilocks has been enjoying a good run in the Three Bears' house since the financial crisis, living off their resources and enjoying their services. Yet eventually, she finds that the world she's thriving in isn't quite as warm and welcoming as she once thought.

- Goldilocks discovers that Papa Bear (the US) has grown a protectionist streak and is threatening to seal up his house – limiting the global trade that has been keeping everyone warm and well-fed.
- Mama Bear (the EU) is having an internal battle; parts of her want to stay, others want to leave and outsiders want to move in. Much of her time is spent trying to quiet her internal voices – Italy is currently expressing the loudest discontent – while getting along with her increasingly cross spouse.
- Baby Bear (Asia) has an attractive vision for the future – one built on nourishing growth, hard work and reform. Although she's still young, she hasn't yet inherited her parents' fondness for excessive consumption and borrowing.

An unknown ending

At some point, depending on the telling, the classic Goldilocks fairy tale ends up taking different turns: some versions show her getting frightened and running off into the woods; others find her being eaten by the Three Bears.

Our global economy's fairy-tale moment is similarly uncertain – we don't know how, if or when this story will end. But we do know that central banks globally have abused the hospitality of economies and savers instead of forcing proper capital and market reallocations. This has caused dissonance and misallocations on a scale not seen since the global financial crisis. So while it's possible this Goldilocks moment will continue happily ever after, it's more likely the global economy won't stay "just right" forever.

The classic Goldilocks fairy tale has different endings, and our global economy's fairy-tale moment is similarly uncertain

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