Flash Economics

N° 139
November 13th, 2025

An incredibly uncertain environment

Financial and business investment decisions must be made today in an incredibly uncertain environment. This uncertainty relates to:

- The possibility of new armed conflicts: the spread of the war in Ukraine, war in Taiwan, etc.;
- The economic policies implemented by the Trump administration;
- Donald Trump's international (diplomatic) policy;
- The consequences of rising public debt (in the United States, France, etc.);
- The consequences of increased climate disruption;
- The effects of rising nationalism and the influence of far-right parties (in the United States, the United Kingdom, Germany, France, Japan, etc.);
- The effects of demographic aging;
- The possibility that artificial intelligence will substantially increase productivity;
- The speed of development of new technologies.

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Uncertainty hampers investment

Both business investment and financial investment usually suffer in situations of high uncertainty.

This is not yet reflected in stock market indices, particularly in the United States (**Chart 1**), but it is noticeable when looking at corporate investment rates, especially in the euro zone (**Chart 2**).

Chart 1
Stock market indices (01.01.2002 = 100)

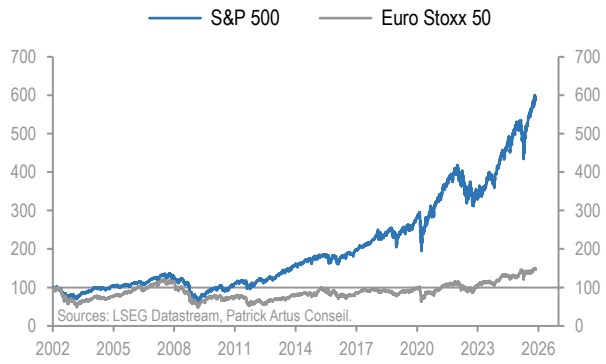
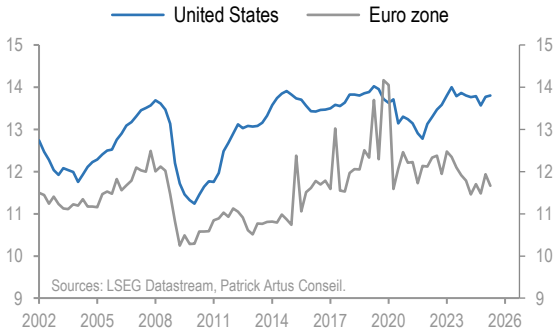


Chart 2
Investment of corporations
(in value terms, as % of nominal GDP)



There are currently many powerful factors contributing to uncertainty. We can therefore expect stock market indices to drop and corporate investment to remain weak.

Nine factors that contribute to significant uncertainty

1. **Likelihood of new armed conflicts**

We are particularly concerned about the risk of the war in Ukraine dragging on and spreading, and the risk of China launching an attack on Taiwan.

2. **Donald Trump's economic policy**

This policy creates significant uncertainty with regard to customs duties, immigration (with the rejection of immigration, including of highly skilled immigrants, **Chart 3**), and tax cuts that lead to a very high budget deficit (**Chart 4**).

Chart 3
United States: Foreign-born labour force
(in millions of persons)

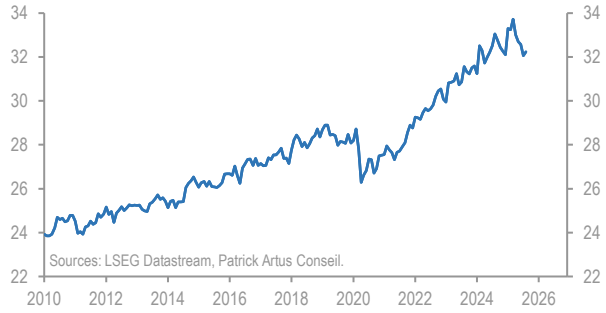
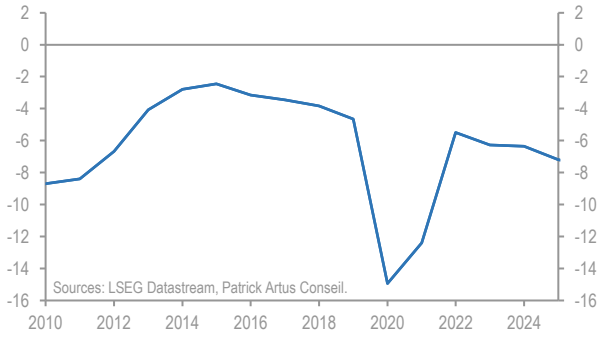


Chart 4
United States: Budget deficit (as % of nominal GDP)



The effects of this policy (on inflation, growth, productivity gains) are also difficult to estimate, although it is clear that it is unfavourable to the United States and its trading partners.

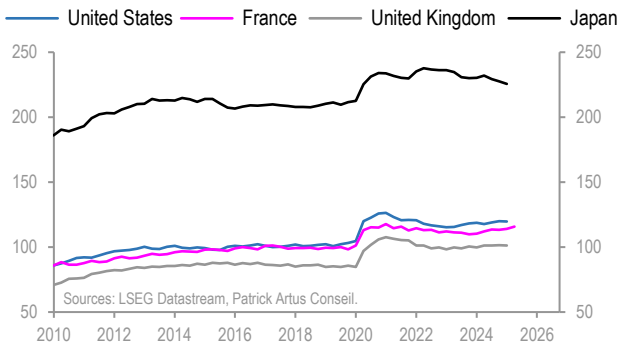
3. The Trump administration's international policy

There is considerable uncertainty surrounding the Trump administration's **diplomatic options**: support for NATO and traditional US allies (Europe, Japan, South Korea, etc.) or closer ties with Russia and China?

4. Increase in public debt

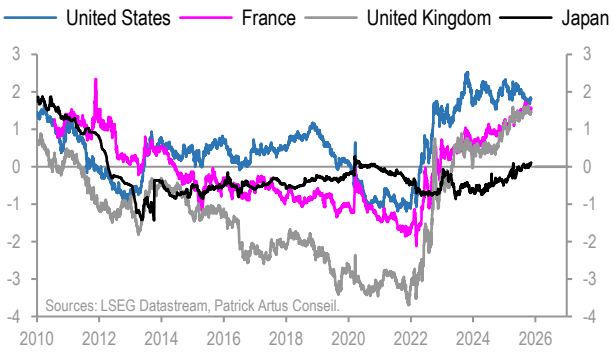
In many countries (the United States, the United Kingdom, France, Japan, etc.), **public debt levels are rising sharply** (**Chart 5**) and it is legitimate to ponder the risk of a public debt crisis (difficulty in financing public deficits, rise in long-term interest rates).

Chart 5
Public debt (as % of nominal GDP)



Since 2022, there has been a steady rise in real long-term interest rates (**Chart 6**), which is weakening investment and growth.

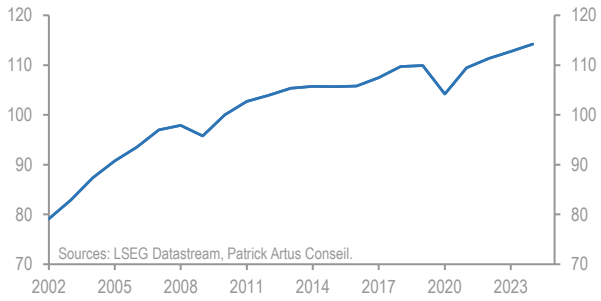
Chart 6
Real interest rate on 10-year government bonds (as %)



5. Climate turmoil

Given the trend in CO_2 emissions (**Chart 7**) and climate policies, particularly in the United States, it is certain that **the goal of limiting global warming to 1.5°C** above pre-industrial levels will not be met.

Chart 7
World: CO_2 emissions (in million tonnes)



Climate disturbances (floods, storms, coastal erosion) will therefore increase. We know (thanks to the work of Bilal and König) that a 1°C rise in global temperature reduces global GDP by 12%.

6. Political risk

In many countries (the United States, the United Kingdom, Germany, France, Japan, etc.), there has been **a rise in nationalism, far-right parties, and hostility toward immigration**. This, combined with falling birth rates and the interdependence of value chains, creates a high risk of weak growth.

7. Demographic aging

The decline in fertility rates (**Charts 8A/8B**) **and the increase in the proportion of retirees** in the overall population (**Charts 9A/9B**) are global phenomena.

Chart 8A
Fertility rate (births per woman)

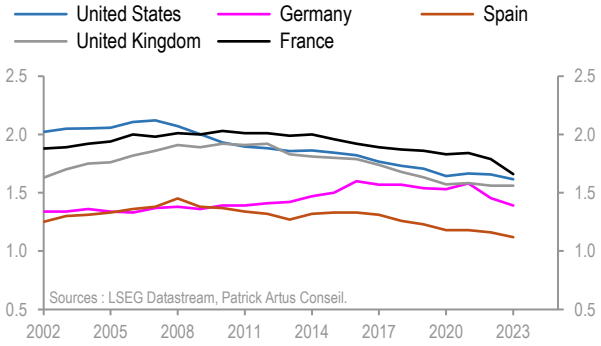


Chart 8B
Fertility rate (births per woman)

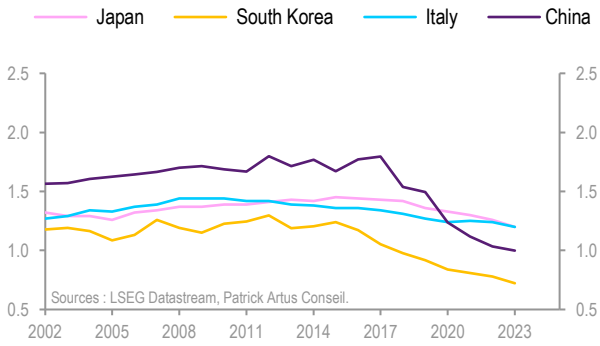


Chart 9A
Population aged 65 and over as a percentage of the population aged 15 to 64

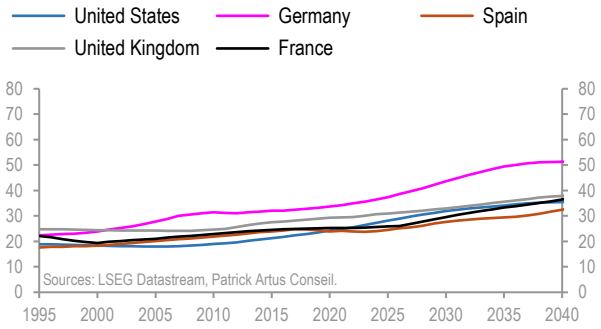
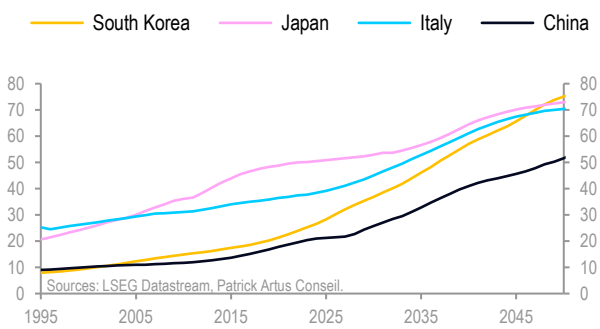


Chart 9B
Population aged 65 and over as a percentage of the population aged 15 to 64



The **economic policy response to aging** is an additional source of uncertainty: will there be a reduction in the generosity of social protection, an increase in the tax burden? The **effect on the economy** is also uncertain: will there be increased robotisation, or a decline in productivity gains and even more so in growth?

8. Effects of artificial intelligence

While it is clear that artificial intelligence will increase productivity in a number of areas (healthcare, coding, translation, legal services, etc.), some of its effects are uncertain: the size of the sectors affected, the extent of job losses by skill level, and the possible consequence of shifting employees who lose their jobs due to the development of AI to low-skilled jobs.

This uncertainty explains the **huge differences between the various estimates of the effect of AI on GDP levels**.

9. Speed of development of new technologies

Examples include nuclear fusion, quantum computers, batteries of the future (solid-state batteries, sodium batteries), new vaccines (messenger RNA, DNA), industrial uses of captured carbon, etc. The timing of when these new technologies will be mastered is uncertain, which disrupts investment planning.

Summary: inability to make a medium-term forecast

Since uncertainty relates to all areas (risk of conflict, economic policies and their effects, international relations, the effects of public debt, global warming, the rise of nationalist parties, demographic aging, the consequences of the use of artificial intelligence, and the speed of development of new technologies), it is virtually impossible to make a medium-term forecast.

Such unpredictability usually weakens long-term financial investment and productive investment.

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