Announcer:Ladies and gentlemen, please welcome our first panel, Navigating Rough Waters: Global Challenges and Trends, moderated by Gillian Tett, US managing editor, Financial Times. She's joined by speakers, Greg Ip, Chief Economics Commentator of the Wall Street Journal, Brian Moynihan, Chairman of the Board and CEO of Bank of America and V. Shankar, CEO and partner, Gateway partners.
Gillian Tett:Good morning, everybody. Good morning, everybody. Third time in trying, good morning everybody and the fact it's hard to shut you lot up shows what a lot there is to talk about and what a great time it is to be having an event like this. Even at the best of times, Fred Hochberg is a tough act to follow on stage and this first panel, won't to be filled with so much emotion, but I hope it has plenty of provocative ideas and controversy. Because the panel is entitled "Navigating Rough Waters: Global Challenges and Trends" and right now, the waters of the global economy are not just rough but potentially quite perplexing. I sometimes tell my colleagues that we live in Alice in Wonderland economic times because we live at a time when we thought globalization was going in one direction, it now seems to be going in reverse in some areas, we thought that interest rates would always be positive. Now, in many parts of the world, they're anything but and many of the assumptions we've made about the global economy are starting to falter.
We also live in Alice in Wonderland political times. We live at a time of Donald Trump. We live at a time of Bernie Sanders, that to my mind is actually emerging as one of the more interesting populism threats. We live at a time with Jeremy Corbyn, a time when the Spanish government barely has a government, we live at a time when politics in many parts of the world is also behaving very unexpectedly.
What does that mean for you as exporters, financiers, bankers or anybody else who actually has to make a living in this Alice in Wonderland world? We have a fantastic panel to discuss this. At my far-right to your left is Greg Ip, a man who is an economic luminary doyen of the economics commentary world, working for the Wall Street Journal. The Financial Times is its rival but I won't hold that against him. Next to him is Brian Moynihan, CEO of Bank of America which is of course sitting at the very core of the American financial system and economy, not to mention the global trading flows, too. My immediate right, your left, is V. Shankarr who is Chief Executive Officer and partner of Gateway Partners, an emerging markets private equity firm, but he was previously at Standard Charted in a very ... another luminary there as well.
We have a combination of developed, emerging markets world's expertise and Grep Ip, who I'm counting on to say provocative things that the other two can't and keep their jobs. I'd like to start with you, Brian, and I do hope you will be provocative. I think your job is secure. When you look at the global economy today, when you look at America, are you feeling concerned about the way things are going? I mean, we have a story on the front page of the Financial Times today, which I hope you're all clutching, which says, "Minutes Show Fed Policy Makers at Loggerheads Over Next Rising Rate" and in particular, their warning of "appreciable risks to the US economy from global turbulence". Are you worried about appreciable risks hurting the US economy and the wider global economic situation?
Brian Moynihan:The way that I think about it is there's a tug-of-war between the huge consumer-driven economy in the United States which continues to push forward, and to give you an example, our customers in

the first three months of the year spent well over 4% than they spent last year on the debit and credit cards and that's even with the 1% downdraft implied gasoline prices. The consumers are spending deposits rough borrowing continues to grow. You've seen this US consumer-led economy which is just a consumer piece of it is bigger than most economies in the world. That is a bit of a tug-of-war and with the emerging market economies and sort of ... can this economy in the US keep hanging on long enough for the other economies to catch back up? Then you have Europe which is sort of in the middle which has a fairly sizable consumer-led economy when you put it altogether which also is doing better and the question is will that hang on because it's a little more exposed to exports and things in the United States.
That tug-of-war is I think what, you can reflect in these seven minutes, as they look at the US economy, unemployment is at the targets inflation is moving up, wage growth is starting to go through there today, new claims are getting down, millions of people back and workforce, 200,000 jobs, all that implies that we should be normalizing and yet, because the globalization talked about, they have to be very sensitive, for two purposes, one, the impact to the outside world that could drag United States back and then secondly, the impact the outside what United States does on the outside world, raising rates and impact they'd have. I think, they're just trying to make that judgement and err on the side of being cautious.
If you read the minutes, that's the debate ... By the way, it's the same debate they've had for the last several meetings and I think they're very clear about. I think they've been very transparent about it, but the reality is even if they start moving rates, which they did in December, they were very low and slow to ensure that this economy keeps chugging for, well, that tug-of-war, and hopefully United States doesn't win because it's United States. Hopefully, it wins because the rest of the world can catch back up.
Gillian Tett:Just to seize on that number again, you said that consumers' spending on credit cards was at 12%?
Brian Moynihan:4%.
Gillian Tett:4%?
Brian Moynihan:Four and a half percent.
Gillian Tett:Four and a half percent. I thought that sounded too good to be true. It's four percent and a have percent growth in consumers' spending on credit cards.
Brian Moynihan:Credit and debit, both.
Gillian Tett:And debit, which of course, is really pretty remarkable, pretty striking.
Brian Moynihan:Fastest growth rate in '15 was the fourth quarter and this is faster than that growth rate year over year compared with quarter. It just is people plugging on, they're spending money. By the way, deposits are growing, too. It's an interesting conundrum because you hear all the stuff out there about more people employed and more people are spending.
Gillian Tett:Once again, the Americans consumer is back with its shopping bags powering the global economy or maybe not. What do you think needs to be done to make you feel more optimistic about the growth outlook? I mean, when you look ahead, what would you like to see to make you feel that if not in America the rest of the world is actually matching those American consumers with their shopping bags?

Brian Moynihan:There's long-term structural change that's going on in these countries, but I think the key in it, the G20 reflected on this recently, the key is you have to ... The monetary policy elements have been deployed, had been out there a long time and so now you're into the question of fiscal policy and I think, the statements of the G20 in terms of austerity versus spending now waded entirely towards helping stimulate. I think it's a good thing. I think those countries need to get back in spending. They got to have a little bit of room on the debt side and things like that. But of course, the real key is to have both India and China and [inaudible 08:00] and what they've been able to do in India have that continue forward and also have China stabilize. You're seeing signs of China stabilizing, both of which shows a confidence element and also a practical ... It's a lot of people, a lot of economy. I think the key is that fiscal side is starting to be recognized that they have to move.

The big wild card in all that is what you said. You have a series of elections going on that you laid out, that are ... Maybe you can study it, but it's a series of things that you have to think through. You got prerequisite, you got votes coming up in the countries, you got Spain that hasn't that hasn't quite ceded the government yet. You got these right-left splits going on around the world and those things just keep coming at you and that affects this question of what policy will be. When I look around the world, to me, it's all about who's going to be making those decisions and will they make their decisions consistent with the way the experts think they should and that comes down to political elections.

Gillian Tett:It's a polite way of saying that actually, right now, economists aren't much use. If you want a crystal ball, you really ought to be hiring political scientists, or dare I say it, anthropologists, speaking as someone who trains in anthropology. As Brian says, it's all eyes right now on India and China. And, Shankar, you are building a private equity fund having just come from Standard Chartered Bank which is in many ways the main emerging markets bank or global emerging markets bank. You've come from the banking world and you're now trying to build a private equity fund that can spot growth opportunities in countries like India, and China, and Africa. Are you optimistic about the outlook right now for China and India, because a lot of discussion in the policy-making stage arena is about whether China's going to have a big crisis or not?

Shankar:The short answer is yes, I am optimistic in the medium to long run. In the short run, you should expect lot of volatility and lot of gyrations. It's not just China and India. It's emerging markets broadly defined. That's Africa, it's Latin, it's Middle East, it's Asia. And why am I optimistic? Really, four reasons. One, demographics. If you look at the population, two-thirds of the population's under the age of 35. That can lead to a huge demographic dividend if handled well, on the other hand, it could lead to a tremendous demographic debacle if not handled well, admittedly. The second reason I'm optimistic is urbanization. If you just take that emerging market footprint, roughly about two billion people will get urbanized over the next 30 years, and roughly three quarters of that just from India, Indonesia and sub-Saharan Africa. Demographics, urbanization equals consumption.

The third factor, therefore, is actually a growth in manufacturing and services to meet the demands of those consumers and that's going to be across the ball. The fourth reason why I'm optimistic is that despite the slow down in trade and I know you carried something on that, not that long ago, in the Financial Times, the biggest economic growth engine, it has been over the last 20 years, the South-South trade and investment flows. South-South trade has grown twice as fast as global trade, and I still see that engine motoring, if you take many of the emerging markets today, almost half of the foreign direct investment today comes from other emerging markets. Demographics, urbanization growth and manufacturing services, consumption and South-South trade and investment flows, long term and tremendously positive.

Gillian Tett:If you had to pick just one or two countries that makes you feel most excited right now, what would you point to? Or would you like to mention some company, countries you wouldn't touch with a barge pole?

Shankar:Being politically correct, I'll go for the former.

Gillian Tett:I'm counting on Greg to go for the latter.

Shankar:That's up to Greg, because I still need to do business in a lot of countries. An excitement. As Brian mentioned, India has got a momentum under Prime Minister Modi. The question is, a large ship like India, can it be moved, tilted quick enough, fast enough and will it keel over or will it actually charge ahead? He's got a tremendous challenge but I'm positive with India. This is not a country, I'm not showing any ignorance of geography, but sub-Saharan Africa. If you just look at the tremendous opportunities there in terms of consumer, the consumer economy, the infrastructure needs of Africa, the resources and the agriculture and if you think about food security and what it means with the role that Africa needs to play with 60% of the world's uncultivated arable land being in Africa, I'm excited about Africa.

Gillian Tett:Greg, you don't have to be politically correct. Tell us what you really think about the global economy.

Greg:I actually feel better than a lot of folks out there. I was really struck by the gloom coming out of the Shanghai Summit two months ago, the need to elevate all sorts of policy tools. But actually, we've seen just from the last 4-6 weeks, I think, an inflection point and largely was driven by two things, oil found the bottom and the federal reserve essentially changed its message about how fixated it was on raising interest rates this year. If you just look at two things, the price of oil and the dollar, both of those things have moved in very constructive directions. Never make predictions especially about the future, but my prediction, which I hope I won't have to defend a year from now, is that the economy, the global economy more or less, hit bottom in the first quarter. When I hear what Brian says about consumer spending in the United States it's very, very encouraging because this suggests that notwithstanding the terrible headlines in the market volatility we went through in the last few months. It didn't really undermined that fundamental base of job and income growth that drives spending.

That's the good news, and the bad news is, for the last six or seven years I think, the narrative of the global economy is we went through this terrible recession. We're way, way below its normal capacity and what the economy, global economy, really needs is more demand, whether it's more monetary stimulus or more fiscal stimulus. I think with each passing year that story has gotten a little bit more threadbare, notwithstanding the weakness in growth performance and by the way, probably in about a week's time, the International Monetary Fund will lower its forecast for global growth for approximately the fifth time in six years.

What's striking is that even as they lower this forecast, unemployment keeps coming down. Job creation is amazing. Ten or fifteen years ago, we would complain about jobless growth, now we have growthless jobs. I think the story here is one that has gotten far too little attention right now, which is that demand is a little bit constrained but the real problem is supply. Potential growth rates around the world have plummeted in the last six or seven years, and that's not just true in the United States or Britain, it's true even in countries like Brazil that did not have a global financial crisis. There are two big drivers for this and they're largely global. One is the world is getting older. With the exception of the country, Shankar, where you work, almost every country is getting older now. China's working age population has flattened out, is now declining. In the OECD, for the first time since the post-war period, in advanced countries, total working age population is declining. That is undermining the labor supply. Even worst, productivity picture is looking pretty bad.

If you sort of ask your question, "Where do we go from here?" I am less concerned about the potholes of this crisis or that crisis. I'm more concerned that with each passing month, it looks like there is no fundamental long-term growth driver out there, and I don't think policy-makers have a good answer for this.

Gillian Tett:I love the phrase "growthless jobs". I think I fully intend to plagiarize that myself. I guess one of the practical questions which is of great interest to everyone in the room is what does this all mean for trade? Can the American consumer, with their shopping bags, power trade in-flows by themselves or are we actually going to see a continued slow-down in trade? Because, as Shankar says, at the FT recently, we had a big feature on the fact that trade has actually been slowing down. This is really quite striking given the pattern we've seen in the last two or three decades or the trade growth rate of GDP. What's doubly striking was I was up at Yale yesterday, at their business school there, and looking at some of the figures on FDI flows, and again, what you see is a real slow-down in cross-boarder FDI, when you look at the 2-3 decade trend. Is this just a short-term response to volatility, is this a response to Donald Trump and protectionism, or not Donald Trump, but rather that whole protectionist movement? Or are we seeing something more fundamental about the nature of the global economy beginning to shift? Is it the case actually or the supply chain integration that occurred at such a feverish pace 20 years ago has happened and we won't see that kind of trade increase continued? Who wants to ... Brian?

Brian Moynihan:I think what Greg said about the population demographic change, we do a lot of work for a couple different reasons, but we do a lot of work around the change in demographic in the United States or around the world and I think people forget that. The United States population and a lot of times when people said [inaudible 00:17:37] growth was 3.5% was growing at 1.5 or 2% a year and now it's growing like a 0.5%. Part of that's immigration policy and part of that's just aging and where people are. Then if you looked at Greg's paper today, which everybody should be clutching. I'll run the commercial for Greg. If you look at [crosstalk].

Greg:We won't fight over whose you should read first. As long as you read them both.

Brian Moynihan:I think in the section, the fore section ... Whatever it's called, but there was the headline where women over 40 buy less stuff.

What happens is you have this consumption change as people get older because they're saving for retirement, they're repositioning themselves, the way they consume is different downsizing how ... You pick the thing and that has impact. By the way that's going on in every developed society other than a few places: India, and Africa, and others. We have one of our analysts and I won't take credit for this, he has a ratio he calls the Demi-Ashton Ratio which is the number 40 year olds on top of 20 year olds. In that ratio he judges countries by inability to grow and in India's one of the countries. He writes this and it does ... It always gets a little giggle but the reality is that demographic change is a serious element that then affects these long-term growth rates and consumption rates that people just sort of gloss over and forget about.
Shankar:Gillian, I would say ... Brian talked about the American consumer spending. Let me just give on factoid on UAE where I live on credit card spending since he brought credit card spending. I saw a statistic that credit spending in UAE which is hugely dependent on travel and tourism and therefore it's a good indicator, has grown only by about a percent this year as opposed to ...
Gillian Tett:Slower than American.
Shankar:Slower than America and probably credit card spending was growing at about 8, 10% in the past. What is even more illuminating there is credit card spending by Chinese credit card users is down 18% and Russian's down roughly about 50%. The Chinese economy and what's happening in Chinese economy is having a magnified impact far beyond the boarders of China. You can see in the results of some of the luxury goods chains [inaudible 19:51] whether it's Burbery or others, Chinese consumers spending less. Let's not forget that the slowing China ... I'm not in the camp of saying China is going to collapse far from it, but the slowing China has got a magnified impact on the world. Let's just run the math of it.
China is 10 trillion GDP economy. A 4% or 5% slowdown in the growth of China takes away 500 billion GDP from the world. Put it the other way, that slowdown in growth is effectively the same as India's GDP in three and half, four years. It's got a huge impact. The slowdown on China and the repivoting away from the investment led economy to the consumption led economy means that it's had a huge impact on the commodity prices whether you take INO or anything else. When we talk about the slowdown in trade, we need to be careful about a few things: how much of that slowdown is volumetric and how much of it is because of price reduction. One barrel of oil exported two years ago was $100, today it's $40. Your stats shows that's $40 that's still one barrel of oil.
The second thing we need to watch out is what you talked about, the global supply chain. That's a positive and a negative ... Just think about it. In the old days, if we were producing all the stuff in one country and exporting it to another, and we exported it for $100, the trade stat said, global trade was $100. Today because of global supply trade, the way intermediate production is split up, that same thing could be happening in three countries, let's assume it's done $30, $30, and $40, you're actually showing in a good time $160 of exports of trade, but now it's $100. A slowdown has got ... You got to think for the stats of it.
Gillian Tett:I couldn't agree more. I must say my recent look at the auto sector in America and the statistics in terms of measuring what's

happening in terms of trade are very confusing often. Greg, how do you explain this slowdown in trade?

Greg:Shankar made a very good point is that just the big decline in commodity prices that we've experienced especially in oil just arithmetically really reduces the value of cross boarder flows. Even if you actually extract from the price effects and look at real trade volumes, and you look at the ratio of trade volumes to go with GDP, that number has basically flat lined since 2008. We have made no progress in that great post war story of rising globalization in this seven year window. This is actually the second time in the post-war period we've seen such a flattening. The other time was in the late 70s and early 1980s. If you want to look at this ratio as a chart, it basically arises steadily in 40s, 50s, and 60s, flattens out in the 70s and 80s, and it takes off again towards late 80s and early 90s with globalization, the fall of the Berlin wall and then of course China entry into the World Trade Organization.

What can we learn from this? What those two periods had in common was that they were both very both weak periods for global growth which raises the question, did weak global growth pull down trade or did weak trade pull global growth? Of course as always since I'm an economist, it's a bit of one hand on other hand. There is an endogeneity there. They are both going on. The point that you made Shankar that of course that there is less outsourcing to China and that pulls down commodity volumes, that's clearly having an effect. It's also the case that as we outsource less and as supply chains kind of reach their logical maximum in terms of creating efficiency, there is simply less compulsion to do more. I'm not going to make the mistake of making a big grand prediction of where either productivity or supply chains or global growth over the next 10 years goes.

There is another important parallel to the 70s and 80s which is you've gone to the end of that period of weak growth and weak trade, protectionism also became much more pronounced. We saw a big slowing in trade liberalization. That was a period when Ronald Reagan who was a free trader came into office and still felt compelled to impose things like voluntary export restraints and things like semi-conductor quotas on Japan. Today we're sort of like playing that movie once again. What's fascinating for me about Donald Trump is that it took seven or eight years for him to show up and to actually make political hay out of a trend that's been underway for sometime. Many of the things that he's complaining about actually stopped getting worse, seven or years ago as we were talking about outsourcing more less died off and illegal immigration actually ... The stock of illegal immigrants in the United States have actually been going down for the last seven or eight years. None of the less though he is obviously ... Bernie Sanders are milking the unhappiness among a lot of middle class blue color workers, but the lack of real growth and real incomes and that manifests itself as a backlash against globalization. I think for the folks in this room, I think one of the big question marks is the extent to which that find its way to the actual policies the next president implements. After a period when trade is already battling these structural head winds in terms of weaker commodity flows and less outsourcing, it will then have a third head wind of a less friendly policy environment making it harder or at least less likely to enjoy further liberalization of cross border transaction.

Gillian Tett:I couldn't agree more. Let's talk about the politics for a moment because I was on a panel like this on Monday night in New York with one of the veritable luminaries of the American Financial World. Not Brian Moynihan, but somebody else. You can all try and guess who ... Who made three predictions. Firstly, he now thinks ... It's a he. There aren't many she's around anyway. He now thinks that there is a 55% chance of Brexit. He now thinks that there is 20% chance of a Chinese financial crises or a serious round of turmoil and that there is a ... This was before Wisconsin a 50% plus chance of Trump as a nominee and non-negligible chance that he could president. I'm curious, I'd like to ask of each first starting with Brian. Would you agree with a 55% chance of Brexit today and a 20% chance of Chinese financial turmoil? Then I'll come on to Trump.

Brian Moynihan:On a Brexit, I'm told by some colleagues I was with this week who are close to it in the country. The bookies have it the other way around still and they tend to be right. I think the people of England, UK will vote. I think we've been clear that we don't think it's a good thing, but the reality is they're going to vote on it. I think that has an unpredictability that is on people's minds obviously and on the market's minds. We're preparing for either way like we do as good financial services. I think everybody tells me follow the bookies, they tend to be right on these things and they're still on the side of in so to speak. I'd say that. What was the second one? The second one was China?

Gillian Tett:Second one was china.

Brian Moynihan:Our core view of China is it's growth rate is slow, that is in six and half and our analysts spend a lot of time on that. They don't see that there is that kind of elements, and people, forget that it's an integrated economy in terms that the big banks are owned 60-70% by the government. They'll clean them up. They did before. We invested in one of those banks after the government cleaned it up, China Construction Bank, a wonderful company. I think those institutions, some of them they're making 30 billion dollars after tax. They have a lot of absorption power and they have 10% common equity so they can be cleaned up a little easier than somebody struggling. I think people forget that there's integrated, they can manage this a little differently, although there's serious problems which out of banking and all this stuff. Our experts think that it slows as she probably said, but not a crash type of thing. So I think I'd follow the bookies because who has better information? I think our experts believe China is okay.

Gillian Tett:What about Trump?

Brian Moynihan:American politics ... I can't explain.

Gillian Tett:You wouldn't like to give any prediction about the election?

Brian Moynihan:I only have 50 million customers and I follow what they tell me. They'll vote someday and then I'll figure out who they elected and we'll get on with it.

Gillian Tett:Greg.

Greg:Let's go through ... What were the probabilities again? 55% of Brexit, 20% of Chinese financial crisis ... What was the Trump?

Gillian Tett:Just over 50% where is Trump is nominee which is still a very bold bet, and a potentially a non-negligible chance that Trump is president. So curious about how you see the chance of populism rising in America. You can take them in whatever order you like.

Greg:Populism is already risen in America so that chance is approximately 100%. Thank you. That was a real softball there Gillian. I kind of wish I was like Brian and I could claim that I'm not supposed to talk about American politics, but unfortunately I don't have that excuse because I can make a prediction about Trump, but you should remember that first of all I don't do politics for a living, and second, the people who do politics for a living have been systematically wrong every turn of the way on this thing. I think there is a good chance that Trump is the nominee, but I think the odds are very small that he'll be the president because his negatives are so high because he is very weak across key demographic groups electing in this election.

If Hilary Clinton is the nominee she has very high negatives and there is lots that people don't like about her. She is largely a known quantity. She's been around for a long time. People who are inclined not to like Hilary already don't like her and know why they don't like her. With Donald Trump it's still I think a familiarization process and every few weeks more people become more familiar with him. If you trust the polls, as they become more familiar his negatives rise. I'm going to place a little game here Gillian which is I'm going to ... First of all let's say that the odds that Trump is the president are 40% which means that the odds that he's not president are 60%. Let's say that the odds of Brexit are 50% and the odds of the Chinese crisis are 20%.

If you multiply the odds of none of those things happening that's 80% times 40% which is 32%, times 50% that's 16% ... Thank you. That's why you run a bank and I don't. That means that the probability of none of those things happening is only 16%. I make the heroic assumption that there is no correlation between those three things, but I make that point now which is that there is approximately 80% chance that something really unexpected and disruptive on the political front will happen this year. I think that's what policy makers, investors, businesses have to keep in mind. It would be one thing if you knew what Brexit meant or what a Trump presidency meant or a Chinese financial crisis meant.

I think what is especially intimidating about these possibilities is that we don't actually know what any of those things mean. We are sort of like ... Just to look at the US presidential election for a moment is that Gillian, you and I have watched a lot of presidential campaigns over the years and they are certainly are wild and woolly affairs and a lot of crazy things get said. They've tended to operate within guard rails that we could say are within one standard deviation of the norm of what policies a president of a major party is going to promote. We are now seeing in Donald Trump and Bernie Sanders very large levels of support for policy positions that are way outside that one standard deviation limit.

First of all we don't know specifically ... It certainly indicates that Trump ... What the actual policies will be. We also don't know what the ability of that president is to enact those policies given that they will be dealing with various constraints on them. The larger story is that I think we are dealing with a degree of uncertainty on the political front. That is probably the highest I can remember in a very long time.

Gillian Tett:It's great for bookies businesses, it's great for financial journalists ... Journalists of any stripe. It's probably very good for any traders who are trading on the back of financial market volatility. It's pretty scary for corporates who actually have to make a business from selling things. I'm curious ... Shankar, when you look at America today, what do you make of American politics? Does Trump cave?

Shankar:I didn't hear of this 50% prediction, but other 50% I heard was that Mr. Trump's running mate was going to be Kim Kardashian.

Gillian Tett:Does that scare you more or less?

Shankar:No. For most people outside looking not just American politics but politics everywhere in the world, it's become a very divided and disconnected world. It's not just Mr. Trump but a lot ... You can see that happening everywhere. People are tapping into a deep vein of anger among the population. I was talking about this to a former leader of a western country. Previously you won elections by bringing people to the middle. Today when you look at the world everywhere, the left is becoming more left, the right is becoming right and sometimes you just wonder whether there is a center. If you're a politician it's going to become far more difficult in terms of calibrating ... Where do you position yourself?

Your question on Brexit ... We had the same vacillation in terms of probabilities relating to the Scottish referendum. It was too close to call. Again the Brexit discussion is about anger, about jobs and the top 1% getting too much of the gains of the economic wealth appropriation process. I think we're just tapping into it. On China, I'm completely in Brian's camp. China is here for good. Let's not forget, China is not dependent on external funding and capital to recapitalize its financial system. If you go back to the 1997 financial crisis in Asia, whether it was Korea or Thailand or Malaysia or other places, the ones who got into trouble were those who were hugely dependent on foreign capital and foreign borrowers. China has got over 3 trillion of reserves to weather the storm.

Gillian Tett:What does this mean in tangible policy-making terms? To pick up on Greg's question because let's discount the possibility that we end up with a giant wall between Mexico and American, which would be good for the construction trade, probably not much else. What are the aspects Greg to throw the question back at you on the policy making debate that concern you? Practical policies because we've not seen a lot of it yet from Trump or anybody else, but what are the key words or phrases that people in the audience should be looking at? Either America or elsewhere?

Greg:I think it's almost easier to talk about what we cannot expect simply because what's interesting about a lot of the populist movements we've seen around the world including here and in Europe is that they're being generated by a very strong feeling about what we don't want and who we don't want to be in charge. The people who are fueling the Bernie Sanders and the Trump campaigns better understand what they're against as opposed to what they're for. They're against foreign globalization. They're against more immigration. A lot of them are against banks, nothing personal Brian. In Europe, in Britain, they're against more immigration. In continental Europe the same thing. What is troubling, now first of all there is nothing new about a lot of this populism by the way. Thomas Jefferson said a lot of nasty things about banks in his day.

Brian Moynihan:Also I hear did Alexander Hamilton you gotta admit.

Greg:Yeah, and Alexander Hamilton got the last laugh, or a musical in any case.

Brian Moynihan:I'm not sure he got the last laugh. He got the last bullet.

Greg:He went out on a high note.

Brian Moynihan:Right.
Greg:Euro-skepticism is not a new phenomenon nor is Scottish nationalism in the British context. What is new I think is that these movements have found a voice in establishment parties, or in parties that are about to break into the establishment ranks. David Cameron has had to essentially to a greater extent than perhaps than even he anticipated had to incorporate the views of the Euro-skeptic caucus in his party. We had Ross Perot run as a populist third-party candidate twice in the 1990s. That candidate is now Donald Trump and he could become the leader of one of the major political parties. One of the things that's driven these things is I think that voters themselves, the establishment if you will doesn't have a good counter argument about why the voters should stick with the, again the conventional main stream policies that they have run with for the last ten or twenty years.
Here in the United States the average American voter has had eight years of a republican presidency and eight years of an Obama presidency and the median household income is still roughly in real terms where it was in the early 1980s and they might be taking the attitude, well we have nothing to lose. By the way I did my numbers a little bit wrong. I think there's a 25% chance that none of those bad things will happen. For the people in this audience I think, some of the things that you hope would be really good like business friendly tax reform or a ratification of the TransPacific Partnership become much less likely because the traditional parties that were advocates of those positions are significantly weakened and even if, just look at Hilary Clinton who ran to the left of Barack Obama in 2008 and now has Bernie Sanders running to the left of her is going to be invariably pushed further in that direction and even if she would like to do some of the things that the business community would like to do it's a question mark whether she would have the political capital to do so if she's the president next year.
Gillian Tett:Well, if you think Bernie Sanders is left wing you haven't seen Jeremy corbyn yet in the UK. Politics indeed is becoming very broadly spread.
Brian Moynihan:This is where you get to the fundamental difference between the two-party system and the parliamentary system. At the end of the day what's happening in the United States with the dynamics as Greg said of some of the pieces of these parties have gotten big enough they've actually created more of a parliamentary system that you're trying to actually get a coalition. In a way even though there's two parties there's major fractions in each one of them. That's created this interesting dynamic but the reality when you go back to real policy decisions is if you go back and look at for example what President Reagan ran on, I think he was going to get rid of four cabinet positions at the time, four departments were going to be gotten rid of, the Department of Education. None of that happened. Because the methodology of the US requires congress and requires a lot of people to agree. The real question is when you have alignment between both houses of Congress and the presidency is when you see massive policy changes.
That's the thing if you really want to watch for massive policy that you have to watch out for because then something could happen. Absent that, as Shankar said the middling effect and not in a negative way but driving towards the mass of the middle happens because you basically have no ability to get anything done unless somebody agrees and it's been a little bit of a science lastly not to get stuff done, but even the last

year you're starting to see that thaw a little bit with the budget getting taken care of because people realized that was not a good thing. Remember, whatever a person says in the election cycle the dynamics of having two parties in different configurations, house, senate and White House means that there's a middle of the road effect that goes on. The interesting thing is could they ever align again and that was '08 to '10 and that quickly changed.

Gillian Tett:Just to get practical and talk about something that it is your job to talk about, what probability will you give to the chance of you as Bank of America facing calls within the next five years to break up the banks?

Brian Moynihan:We've been facing them for the last eight years.

Gillian Tett:Or actually facing, actually break up the banks.

Brian Moynihan:I really don't think it's the right thing for customers and clients in America, in the world. The fact of the matter is, if you look out in this room and what this institution represents is trade and flows and global nature and if you think about the supply chain that Greg referenced earlier, midsized companies $300 million companies in the US, $400 million companies in the US have global connectivity and they need people to help them do it. The reason why we're in these interesting places. The reason why we do it is because our clients demand us to, both investors and corporate clients. They do it because the world is the world. We have some clients that [inaudible 00:40:43] McDonald's and I had dinner with a couple of them. They never would have thought 20 years ago they were going to have factories in Poland and places like that to supply the McDonald's chain. These are not huge companies. They're not and so globalization has had this impact that you need banks that can actually serve companies around the world.

From a public policy standpoint the stability of the institutions when they're combined the way they are is actually much more stable than the Lehman's and Bear Sterns and Country-wides and all these people out on their own quite frankly. We have $220 billion of equity. That's more equity than all those companies had combined by a lot. Yet, we're a lot smaller than the implied aspects of this thing. I think even Merrill on its own was very unstable. I think the stability and the customers drive it. I think it will take a long time for people to agree with that, but the reality is we only do this because our customers demand us to do it. If the customers didn't want it we would get out of it.

Gillian Tett:So you don't want to break yourself up because guess what Turkey's dont' vote for Christmas, but if you had to put a betting probability on it, on you actually facing pressure or actually facing demands to break yourself up what is it? 5%? 10%? 50% 0%?

Brian Moynihan:I'll tell you what our shareholders said last year. We had a resolution to form a committee to look at this and it got 4% of the vote. There are business model questions and can you make fixed income prop- all that stuff people talk about, but the core business that we have is driven by the front to back nature of the simple question of a client that supports a real economy and generates massive amounts of jobs and growth in this country or in another country needs to raise money. They need banks that can take them to the markets and get it done. If they want to move money, banks, and by the way, from a policy standpoint would you rather have banks which can actually get this right over time doing it as opposed to a bunch relying on it. If you think about the

biggest issue in the rest of the world is they don't have a capital markets like the United States.
We have a duty and an obligation as a large financial institution to develop that in Europe and other places. Everybody looks at us and says we wish we had a capital market like yourselves. It takes large institutions to do it because it takes tremendous investment. $900 million in systems we spend in markets a year, in banking. Think about that. $900 million. It takes more revenue than that to be able to afford it. Those things, I think when people look around the world and I go and talk to governments and policy makers we love to have the United States' capital market. Well to that you have to have pan country companies that help you form it. Then you have to have big pools of capital. You have to have big investors. That's the piece that has to get done or else Brazil can't get to where it has to go to. Europe can't get to where it has to go to. China can't get to where it has to go to. India can't get to where it has to go to. Africa can't get to where it has to go to. That's the role of the large financial institutions and that's what we're here to do.
Gillian Tett:Right. Shankar, I'm not going to ask you about banks, but you are in the private equity business straddling borders, what worries you about the [inaudible 00:43:46] climate? A curious example, we're seeing as part of the populist move increasing focus on offshore tax havens, on taxation issues. Are you concerned that, you won't face calls to break yourself up, but are you going to face calls to stop using offshore tax havens, things like that as part of this populist movement?
Shankar:I think it's happening, it will happen. We should expect it. In any event, we are not in this business to manage taxes. We are in this business to make profits for your investors and shareholders. What I would just add to what Brian said is and this is where the conundrum I see. The whole world, we are talking about globalization of trade, commerce and investment and how globalization of trade and investment flows is good for the world. Yet, when it comes to the banking industry we increasingly talk about balkanizing it and making them just national. I just find a huge contradiction in this debate.
Gillian Tett:Yes, but that's politics.
Shankar:Absolutely. I think it's more important to understand politics than economics.
Gillian Tett:As a former anthropologist I agree, but that's my personal job creation scheme. Greg?
Greg:I think one thing we need to keep in mind is that again the populist impulse is not new. It's been around for a number of years a lot of this. That populist impulse has manifested itself in some of the legislation we now have in place. Dodd Frank does provide a lot of tools and the regulatory climate has been very tough on banks for the last seven or eight years, similar to the TransPacific Partnership. Forced a lot of concessions on things like human rights and labor and so forth from other signatories. My point here is that before the next president decides to go that extra step and tear up trade agreements or break up the big banks they're going to look at the landscape and decide whether most of what they want can already be done within the existing framework. Other than Bernie Sanders I haven't seen a presidential candidate making a big deal about wanting to break up the big banks. The fact of the matter is a lot of tools at their disposal right now and these policies and agreements develop a lot of institutional inertia and tearing them up turns out to

be to break a lot of china and not many politicians, especially new ones, have an appetite for picking a lot of fights with a lot of people.
I think the odds today are still greater that we get gradual as opposed to convulsive change on either front.
Gillian Tett:I think that's Greg's way of telling Brian and Shankar they don't need to worry too much yet. It's been a fascinating discussion. Thank you all very much, indeed. I guess I have three key takeaways. Firstly, that the global economy is something of a mixed bag right now. Glass half full is that the American consumers are still spending, 4% up on credit card usage. It's striking. Glass half empty is that the emerging markets are troubled and I think it was -18% or -15% the Chinese and I think Russian consumers is a sign of some of the weak spots. Second point is politics is not just unnerving but profoundly unnoble and I think we're dealing with an age when people who run companies, who are trained as economists, who have MBAs are used to putting the future into nice little spreadsheets and algorithms and charts and trying to come out with numbers in terms of where the future is going. Right now what's happening in the political sphere is profoundly difficult to model, predict or to even forecast in any way whatsoever. That's worrying.

My third conclusion is even if it's bad for business, as I said earlier, it's fantastically good for pundits like Greg and myself. We are entirely confident that we're going to have plenty more to write about over the next year. Good luck to all of you in figuring it out. Thank you very much, indeed. [Applause]