

Macro Roundup Article

Headline: [An Update from Our CIOs: How Durable Is the Economy?](https://www.bridgewater.com/research-and-insights/an-update-from-our-cios-how-durable-is-the-economy)

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Tweet: Bridgewater views the current late-cycle expansion as "unusually durable" due to increased business spending. They note AI's deflationary potential "could hit fast," and have an even bigger impact than globalization and automation in the 1990s and 2000s.

Summary: We suspect central banks will find it very challenging to provide as much stimulation as is already priced into rate markets, and the cost of capital will need to adjust to be high enough to compensate for structurally higher fiscal borrowing and especially durable private sector demand, such that small increases in the cost of capital probably won't do much to slow the economy. One release valve might be the emergence of deflationary forces from the adoption of AI. Currently, AI spending in the near term is particularly inflationary because it is building up capacity without line of sight to the productivity payoffs, but the deflationary potential is massive—and could hit fast. There is potential for even larger and faster impacts than we experienced in manufacturing over the course of the 1990s and 2000s, when about 10% of the US workforce was displaced out of manufacturing sectors through the processes of globalization and industrial automation—which kept inflation low, led to rising inequality, supported corporate profits, and contributed to political and social shifts, including rising populism and a broad rethinking of trade and economic policies. An even bigger event is likely ahead of us.

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Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Investment, Op-Ed/Blog Post, Productivity, Weekly

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