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The Merriest Christmas On Record
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The United Nations recently released a heartening update on its "millennium goals" for the developing world, with many of its 2015 targets on the way to being met, or indeed already met. The target to halve the number of people living on less than US$1.25 per day was achieved in 2010; the proportion of undernourished people fell from 23% of the developing world in 1990-92 to under 15% in 2010-2012; more than 2 billion people gained access to improved sources of drinking water. The list goes on but suffice to say that never in history have so many people across the globe lived so comfortably. This reflects the fact that with global GDP set to exceed US$74 trillion this year, never has the world produced this much.

Some readers might be skeptical, and explain that too much of the global economic expansion has relied on ever increasing leverage provided by easy central banks. And to be sure, high leverage does add volatility, and uncertainty to the economic cycle. It is very possible that entrepreneurs would today be taking more risk, and reaping more rewards, if the uncertainty around past excesses of debt did not hang over our collective heads like a Damocles sword. Nevertheless, focusing exclusively on leverage would be needlessly reductive. Instead, the story of recent economic progress is a deep and complex one, with productivity gains arising from disparate forces. Specifically:

The unfolding energy revolution. If the numbers above do not put to rest the Malthusian fallacy that the more people there are, the less there is to go around, then the past couple of years' development in the North American energy space should. Hopefully, production gains in this arena are only just beginning, and other countries besides the US and Canada will also soon start to reap the rewards of a lower energy price?

• **Global trade momentum.** There were concerns that the financial crisis would lead to protectionism, but instead the global trade outlook is more promising than ever. Europe continues to integrate with the ex-Soviet economies (see Eastern Europe's Convergence); a freshly signed World Trade Organization deal will add $1 trillion to global trade; Japan appears ready to make concessions to join the Trans-Pacific Partnership (see A Secret Plan for World Domination); Africa is rapidly integrating into the global economy (thanks in no small part to Chinese spending on local infrastructure—see our Council on Environmental Quality on China in Africa); and China is positioning the renminbi as an alternative trade-finance currency for emerging markets.

• **The Robolution.** Along with the fracking revolution, another of our key themes in recent years has been the rapid expansion of automation in manufacturing and services (see our recent book, Too Different for Comfort) This accelerating trend allows companies to produce more with ever less; in other words, it puts capitalism in overdrive. As the purchases of robotics firms by Google underlines, this trend is growing stronger by the day (to track how robotics stocks are doing, check out the ROBO index).

• **Governments stepping back.** With some notable exceptions, governments are being kept in check: from the sequester in the US, to the anti-corruption and deregulation drives unfolding in China, to the fact that the Eurocrats have had to review their plans for shoving "more European Union" down the throats of unwilling or uninterested populations. Government retrenchment is good for equity valuations (see How the World Works); and this trend should accelerate. Indeed, if anything, the Obamacare debacle could end up being a positive if it discourages "big government" solutions in the next generation?

Not that we want to sound too Panglossian. Too many countries—including France, Italy, Brazil, Russia, South Africa, Indonesia, Turkey, Argentina, Venezuela—are not adapting to the above-mentioned changing forces, and may be stretching the patience of financial markets to breaking points that could easily be reached next year. Frustrated technocrats in the US, Europe and elsewhere have been forced to put their checkbooks away, but stayed busy through regulatory creep: hitting US banks with huge fines, often as penalties for the actions of other banks taken over during the 2008 crisis (what are the odds now that, come the next banking crisis, any bank will step up to take-over a troubled competitor?); forcing energy costs higher (see Will The Greens Gobble German Industry?) or production lower (the likely result of the UK freezing energy prices); thinking up rules on how to pay fund managers; or trying to impose financial transaction taxes (which would destroy the repo markets in Europe...).

Still, all in all, with new highs in global GDP, world equities and real estate prices in a number of key markets and, much more importantly, with the number of poor, malnourished, illiterate, malarial or AIDS-infected people around the world continuing to decline (as a % of the population), we should count our blessings. And so with this in mind, we would like to take this opportunity to thank every one of our readers for their trust, friendship and support over the past year. Here's hoping that next year continues to see all the above numbers move in the right direction. And until then, we would like to wish every one of our readers a very Merry Christmas and a happy 2014.

IMPORTANT DISCLOSURES