The Economist

Erdogan's assault on democracy

How the stockmarket threatens investors

Trump v the judges

What's in a baby's name?

MARCH 22ND–28TH 2025

RISE OF THE SUPERHUMAN

Business

Photograph: Reuters

The Federal Reserve left interest rates unchanged at its meeting. Markets were more interested in its latest projections for the American economy. The Fed now expects GDP to expand by 1.7% in 2025, down from a previous forecast of 2.1%, and inflation to average 2.7%, up from its projection of 2.5%. Meanwhile, Donald Trump nominated Michelle Bowman, one of the Fed's governors, to the job of overseeing bank regulation at the Fed. A critic of over-stringent rules, Ms Bowman is expected to take a lighter-touch approach to Wall Street than her predecessor, Michael Barr.

At its meeting the Bank of Japan kept interest rates on hold at 0.5%. Ueda Kazuo, the central bank's governor, gave no indication about when it might raise rates again to counter inflationary pressures in Japan, and said that "overseas uncertainty has heightened significantly", a reference to Mr Trump's trade wars.

Gold fever

The risk to the world economy from Mr Trump's tariffs and tensions in the Middle East spurred the price of gold to another record. The spot price for the precious metal rose above $3,000 an ounce for the first time, as investors turned to their traditional haven during a stockmarket sell-off. The S&P 500 is down by 3% this year and the NASDAQ Composite by 8%.

The Bank of England left its key interest rate on hold at 4.5%. Andrew Bailey, the bank's governor, also spoke about the uncertainty in the world economy, though he still thinks rates are on a "gradually declining path". A survey that the bank uses found that more firms are curbing their hiring of staff and will consider job cuts, unless the British economy picks up.

The Chinese government unveiled its "special action plan" to get consumers spending more in order to boost the economy. The plan includes increases in locally set minimum wages, expanded workfare programmes and subsidised credit for thrifty consumers. But it provided little detail on the fiscal measures that will be needed to support the new stimulus.

Alphabet, Google's parent company, undertook its biggest acquisition to date by agreeing to buy Wiz, a cyber-security startup, for $32bn. Wiz works mainly in cloud computing and its customers include Amazon Web Services and Microsoft's Azure. SoftBank, meanwhile, agreed to buy Ampere Computing for $6.5bn. Ampere makes processors based on technology from Arm, a chip designer in which SoftBank has a majority stake.

Around 25,000 developers, software engineers, academics and industry leaders attended Nvidia's annual showcase conference in San Jose. The chipmaker unveiled its new products, including Blackwell Ultra. The new chips are better at "reasoning", shorthand for the technique behind the latest generation of chatbots.

JX Advanced Metals, which makes advanced products for semiconductors from rare metals and copper, raised ¥439bn ($2.9bn) from its flotation on the Tokyo Stock Exchange. It was Japan's biggest IPO since SoftBank sold off its telecoms arm in 2018.

In a complaint filed at a federal court in New York, Ben & Jerry's alleged that Unilever, its parent company, had sacked its chief executive, David Stever, for continuing to uphold its "social mission". The ice-cream maker often strays from its business of producing tubs of Cookie Dough and Caramel Chew-Chew to call for a ceasefire in Gaza and support for Palestinian refugees. Unilever, which is in the process of spinning off its ice-cream business, didn't immediately comment.

Drowning in debt

The Court of Appeal in London dismissed a challenge to a £3bn ($3.9bn) rescue plan for Thames Water, Britain's biggest provider of water and sewage services. A group of creditors are loaning Thames Water the money with a hefty interest rate of 9.75%. Some junior creditors, who stand to lose out because of the deal, took the matter to court. Many politicians think the debt-laden company should instead be nationalised.

BYD's share price hit a record high after the Chinese maker of electric vehicles said its new battery-charging system could provide a car with a range of 470km (292 miles) in five minutes, about the time it takes to fill a petrol engine. That depends on the voltage supplied at charging stations among other things, but the new system could put BYD ahead of Tesla and Mercedes in the race for fast-charging EV solutions.

Meanwhile, Xiaomi, a Chinese company best known for smartphones but which has expanded into electric cars, raised its delivery target for EVs this year from 300,000 to 350,000. Xiaomi's EV business accounts for 9% of its revenues.

Finance & economics
Beneath investors' feet, the ground is shifting

More remarkable than slumping share prices are the forces behind them

Illustration: Satoshi Kambayashi

Any time share prices are slumping, it is worth looking at a chart of America's S&P 500 index that goes back to 1987. That year on October 19th, or "Black Monday", it plummeted by 20% in a single day—a crash not equalled before or since. The shock was so great that regulators subsequently devised "circuit breakers", which automatically halt trading after a big enough drop, to prevent a repetition. Pull up a chart stretching from then to today, however, and Black Monday is barely visible, dwarfed by the scale of the subsequent returns. For long-term investors, what felt like an earth-shaking event at the time turned out to be little more than a blip.

Compared with that plunge, the recent lurch in share prices has seemed almost stately. Since mid-February America's S&P 500 index has suffered a peak-to-trough fall of just 10%. More notably, the dollar prices of Asian and European stocks rose over the same period, having already shot up beforehand, which has snapped a long streak of American outperformance. But what has really grabbed investors' attention is the feeling of the ground moving beneath their feet. Although those focused on multi-decade returns might dismiss a few weeks of price fluctuations, the reverberations from recent tectonic shifts may be felt for some time.

The most obvious change is in sentiment, with the assets that were previously hottest now being shunned and vice versa. It is not just American stocks, though Bank of America's latest monthly survey shows fund managers ditching the country's equities at their fastest clip in decades. They have also been dumping global shares in favour of cash. Tellingly, "value" stocks, which are cheap relative to underlying earnings or assets, have begun to trounce "growth" stocks, which are expensive but promise explosive future profits. This reverses the trend of the past couple of years and recalls the market moves of 2022, when central bankers raised interest rates, with the consensus being that a global recession was on the way. Investors, in other words, have gone from forecasting red-hot economic growth to a rising chance of a slowdown.

As they have made this switch, many have felt another tremor: the assets they are used to relying upon during such a "risk-off" move have suddenly let them down. Gold, it is true, has been breaking record after record. Yet so far in March, the prices of American Treasury bonds—normally a favourite bolthole—have fallen along with the S&P. Investors are worried that persistent inflationary pressure, perhaps from a trade war that sees tariffs ratchet ever higher, might prevent rates from falling much even if growth does slow. That keeps bond yields high and prices, which move inversely to yields, low.

The failure of the usual haven currencies has been more jarring still, especially for European investors. Stockmarket convulsions are often the cue for a "flight to safety" to the dollar and, to a lesser extent, the Swiss franc and Japanese yen. In recent weeks, however, the euro has soared against all three, as German and EU fiscal-stimulus plans have raised the continent's growth prospects. The pat on the back for policymakers has been brutal for investors who count their returns in euros and hold assets listed overseas. During previous stockmarket corrections, such as in 2022, a strengthening dollar acted as a hedge for such investors, cushioning their losses. In recent weeks a weakening greenback has only added to their woes. The 10% peak-to-trough fall in the dollar value of the S&P 500 index comes to 14% when measured in euros.

Meanwhile, a deeper shift is taking place that could, in time, shake markets even more violently. For the better part of a decade, Japanese interest rates were near zero or below it. This gave rise to the popular "carry trade", whereby investors borrowed yen cheaply to invest in assets with much higher yields, such as stocks. Since 2022 Japanese yields have risen fast, making carry trades less attractive; last summer the sudden unwinding of many sent stockmarkets around the world into a tailspin. Although stocks then stabilised, Japanese borrowing costs have continued to rocket, reaching their highest since 2008.

Put differently, the Bank of Japan is shutting down a funding source that has fuelled traders' bets for years, at the same time as plenty of other long-standing trends break down. The lesson from 1987 is not to spend too much time worrying about day-to-day market movements. When the forces behind them are changing fast, though, watch out.

Why rents are rising too fast

Rich-world tenants are angry, and have reason to be

Illustration: Rob en Robin

Across advanced economies the rental market is undergoing a profound change. In the years before covid-19 struck, rents were high but not growing fast: the cost of leasing a home rose by about 2% a year, according to official data. During the pandemic, rental inflation slowed and, in some cities, rents fell as landlords desperately looked for tenants.

Today it is a different story. Rich-world rents are rising at an annual pace of 5% or so, the fastest sustained increase in decades—presenting a huge challenge for the quarter of households that rent.

In some places, rental markets have gone truly bananas. French rental inflation is 2.5% year on year—not much at first glance, but a world away from the 0.3%-a-year rate before the pandemic. Australian rental inflation is eight times higher than in the late 2010s. In Portugal rents are rising by 7% a year.

Even in countries where the market for house purchases is in the doldrums, rents are rising quickly. In New Zealand nominal house prices have fallen by 15% from their peak, the worst performance by far of any rich country. And yet rents are 14% higher than they were.

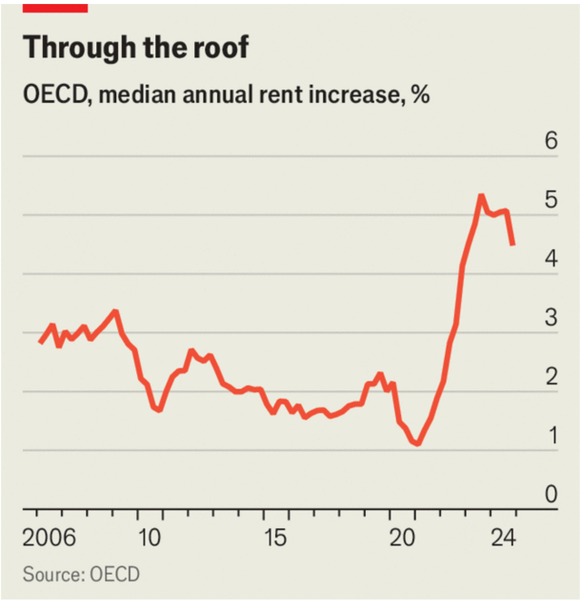

Chart: The Economist

This is tricky for central bankers, who have raised interest rates to bring down overall inflation. Rents account directly for 6% of the average rich country's inflation basket, and as much as 20% in Switzerland, where the rental population is large. They can also have a big indirect effect, since market rents are used as a proxy for owner-occupier housing costs: "owners' equivalent rent" makes up a quarter of America's consumer-price index. Moreover, rental inflation is slow to adjust to changes in the economy. Most contracts are months or years long, meaning landlords implement price rises with a lag. Even as inflation in other goods and services has come down, rental inflation has proved stubborn.

Feel sorry for central bankers, you say? What about the renters? For many tenants, especially poor ones, the surge represents an enormous extra monthly expense. A report last year by the Federal Reserve noted that "challenges paying rent increased in 2023", with the median monthly rent payment rising by 10%. Higher rents are likely to be one factor behind rising homelessness in many countries. Official data suggest that the numbers of Canadian and American homeless people have risen by 20% and 40%, respectively, since 2018.

It also feels unfair. Nearly 50% of rich-world households own their home outright; many others have a fixed-rate mortgage. Lots of these people have hardly felt the pain of higher rates. According to our analysis of American data, from 2021 to 2023 (the latest year available) homeowners lifted spending on fun things, such as hobbies and eating out, by 25% in nominal terms. Renters increased spending by only 16%. Such a sense of unfairness may be encouraging renters to attempt to overthrow the political order. A new empirical study by Tarik Abou-Chadi of the University of Oxford and colleagues, finds that in Germany "for those with lower income, higher rents constitute a significant threat to their social status, which results in a higher propensity to support the radical right".

Monetary policy has helped produce soaring rents. Because of the Fed's decisions, average interest rates on American 30-year mortgages have risen from an all-time low of 2.7% in 2020 to close to 7%. As a paper by two Fed economists in 2019 warned would happen, higher rates have priced potential homeowners out of the market. No longer able to afford a home, the rejects must rent instead—competing for a stock of accommodation that is pretty fixed in the short term, not least by regulatory barriers to becoming a landlord. On top of this, landlords with a variable-rate mortgage have been quick to pass on higher costs to tenants. According to a recent study by Jaeyeon Lee of the University of California, Berkeley, a one-percentage-point increase in interest rates is associated with a 5.5% rise in rental prices.

The rich world's recent migration surge has added to the difficulties. New arrivals rarely have the money or credit history to buy a property. In Britain 75% of those who have arrived in the past five years are private tenants, compared with 16% of British-born people. In addition, new arrivals tend to land in cities, where housing supply is most constrained. Goldman Sachs, a bank, estimates that Australia's current annualised net migration rate of around 500,000 people raises rents by 5%.

Alongside this higher demand, the rental sector also faces a supply squeeze. The pandemic prompted builders to stop constructing flats, which tend to be rented, in favour of single-family homes in the suburbs, which tend to be owned. In 2020 authorisations in San Francisco for multi-family construction fell to half their pre-pandemic peak, for instance. Even today the city centre is filled with luxury condos that were started but never finished.

The rich world's rental inflation may now be peaking: the construction industry is adjusting and interest rates are no longer rising. In many countries migration has slowed, too. But it is another question altogether whether rates will fall far enough to allow people back into the market for owner-occupation—and hence whether the extreme pressure on the rental sector will truly abate. The rich world's tenants are going to feel squeezed for a while yet, with unpredictable political consequences.

Tecnology

Can people be persuaded not to believe disinformation?

AI chatbots and critical thinking courses might help

Illustration: George Wylesol

Anyone following American politics in recent months will have been treated to their fair share of bogus claims: USAID, the country's main development agency, sent $50m worth of condoms to the Gaza Strip; tens of millions of deceased centenarians are continuing to receive social-security payments; disaster-relief funding was spent on housing migrants in luxury hotels in New York City. That so many people believe them nonetheless highlights how an age of social media and political polarisation has blurred the lines between truth and conspiracy theory. Debunkology, or how to unpick beliefs once they take root in people's brains, is struggling to catch up.

The immediate approaches many reach for—argumentation and debate—rarely work, says Kurt Braddock, who researches the persuasive effects of propaganda, and how to counter it, at the American University in Washington, DC. What's more, they often have the opposite effect, further entrenching opinions, he adds. But new work is showing that persuasion may work better when the interlocutor is a generative artificial-intelligence (AI) model.

In September 2024 Thomas Costello at the Massachusetts Institute of Technology (MIT) and his colleagues published a study of what happens when ChatGPT attempts to talk self-professed believers in conspiracy theories out of their beliefs. The study, which put 2,190 believers into conversation with the GPT-4 model that underpins the chatbot, reduced the self-reported strength of their beliefs by 20% after three rounds of conversation. One in four participants disavowed their beliefs entirely.

Debater bots

Dr Costello believes chatbots work where humans fail because they offer rational responses instead of letting emotions get the better of them. What's more, they are able to comb through their extensive training data to offer precise counter-arguments, rather than the generalised ones humans often reach for in debates.

The use of AI chatbots may also help address another problem with human-led debunking. In a paper published in PNAS Nexus in October 2024, some of Dr Costello's colleagues at MIT suggested those whose beliefs are challenged often look for secret motives their self-appointed debunkers may be hiding. Of course Democrats would shoot down the notion that votes were stolen in America's presidential election in 2020, a Republican might say, because they have a vested interest in upholding the result. An AI system presented as holding the world's collective knowledge may seem more trustworthy.

Not all believers will be accommodating enough to argue with a machine on command. For those looking to stop a belief from taking root, it might be more effective to prebunk, rather than debunk. This idea has been around since the 1960s, albeit with a less catchy name: attitudinal inoculation. Coined by social psychologist William McGuire, the approach involves telling people that outlandish beliefs and outright disinformation exist, followed by showing them specific examples and suggesting strategies to avoid and overcome them. Provide someone with a refutation, says Dr Braddock, and they're more likely to resist disinformation.

A study from 2023 looking at a wider range of interventions found that inoculation of this kind had what the authors described as “medium” or “large” effects on countering such beliefs. But how long prebunking lasts is questionable, says Karen Douglas, a psychology professor at the University of Kent.

There are other ways of “hacking” people’s attention: an analysis published in August by researchers at the University of Wisconsin-Madison suggests the debunking messages posted by medical experts on TikTok are more effective if overlaid with high-tempo music. The academics believe the music helps swamp the brain’s ability to present counter-arguments, making the message more persuasive to the listener. Deploying strong narratives to accompany a particular message, including characters and rich description, is another way of overwhelming the brain’s ability to battle back against spurious claims, prior research has shown.

Many of these techniques can, of course, be co-opted by the bunk-spreaders as well as the debunkers. One notable exception is critical-thinking education, which consists of being taught how to evaluate evidence in order to make informed judgments. One study on 806 university students in 2018 found that such education had the ability to reduce belief in aliens as well as health pseudoscience. It was less good at countering, among other things, Holocaust denial and a belief that the Moon landing was faked.

But that might be as good an outcome as can be hoped for. All the scientific resources in the world can be expended on understanding how to dissuade another person, says John Synnott, a psychology researcher at the University of Huddersfield, but it is ultimately up to that person to determine what they believe.

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