

INSIGHT

QUARTERLY MARKET REVIEW

Q2 2023



A quartet of concerns



OVERVIEW

Four global issues

US

Three routes to lower rates

UK

Two long-term weaknesses

SPECIAL FOCUS

Global discord

OVERVIEW

The focus of financial markets can shift quickly from one issue to another. With a quartet of issues dominating the outlook for the rest of the year, we expect market sentiment to be volatile and highly changeable.

The first quarter of 2023 ended with the failure of two US banks (SVB and Signature Bank) and the sudden acquisition of Credit Suisse by UBS. Most likely, these were idiosyncratic events and the relevant authorities have managed, for the time being, to avoid contagion to the rest of the financial system. However, concerns have not been fully dispelled and they are likely to linger for the remainder of 2023. Meanwhile, financial markets' previous worries about inflation, the resilience of global growth (with the possibility of recession) and geopolitical tensions remain. Attention will undoubtedly return to these. In the post-pandemic world, the global market spotlight has shifted, often rapidly, from one concern to another. We expect that pattern to continue.

A quartet of concerns

This quartet of concerns – financial stability, inflation, growth and geopolitics – is, of course, nothing new. There is scarcely a year without one being in the headlines. The Covid pandemic encompassed all four. Policy, regulation and co-operation can mitigate the risks from each of these sources, but clearly there are limits to the extent to which they can be managed.

Financial stability

National and global rules and regulations are in place to support financial stability. For banks, these were tightened after the global financial crisis, requiring higher levels of capital and liquidity. Overly-burdensome regulation is often criticised by those being regulated. Yet, the structure in place was insufficient to prevent the failure of SVB in March 2023. The US Fed is investigating the causes and will report in due course.¹ It seems clear, however, that exposure to long-duration bonds was a primary reason. That was also the case with the problems faced by pension funds in the UK in September 2022.

When long-term bond yields rise, as they have done recently, the decline in their price can be substantial. The price of the benchmark US 30-year government bond, for example, was about 30% lower in March 2023 when SVB failed than it was at the start of 2022 (see Figure 1).

Inflation

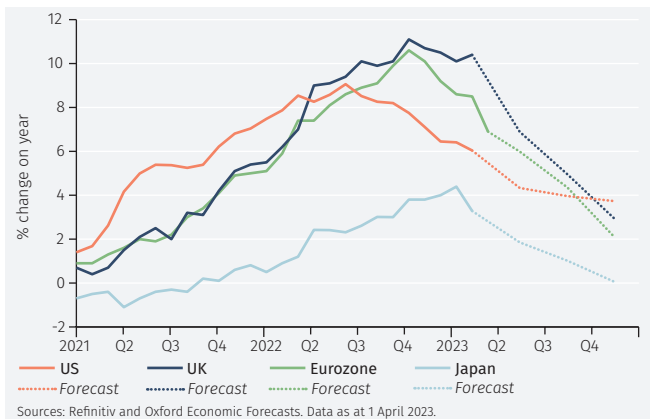
The price and yield of a thirty-year bond depends on expectations of interest rates (and, hence, inflation) over thirty years ahead. That is a long period and such expectations cannot be held with any great degree of confidence. However, such expectations were well anchored, until recently, as central banks targeted, and successfully achieved, low inflation. Their

1. US 30-year Treasury bond



commitment to low inflation remains.² In the US, a higher inflation target has been suggested by some.³ Now, with inflation rates falling in the major advanced economies and generally expected to be much lower by the end of the year (see Figure 2), it does not seem an appropriate time to move the goalposts.

2. Inflation retreating



Recession concerns

In the main advanced economies, economic growth has remained relatively stable and positive, showing no signs, as yet, of recession. That is the picture from the new weekly tracker of activity in the OECD economies (see Figure 3). China and India, neither an OECD member, are set to grow faster: by 5% and 6%, respectively.⁴

¹ The Federal Reserve Board review will be released on 1 May. <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230313a.htm>

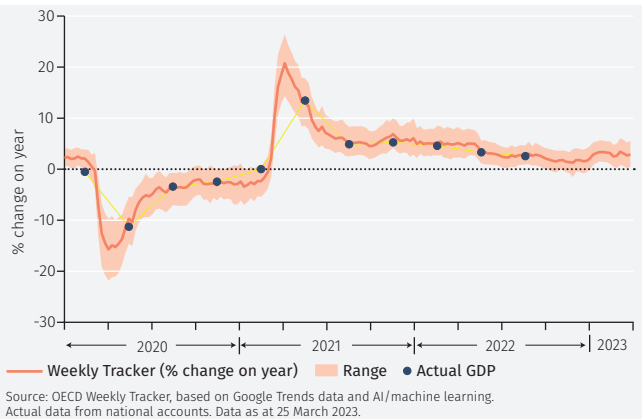
² The commitment was expressed by the ECB which tweeted, on Valentine's Day, 14 February 2023, "Roses are red, Violets are blue, We will stay the course, And return inflation to 2".

³ Olivier Blanchard, for example, has recently suggested a 3% target, lower than his earlier call for a 4% target. At a 3% rate prices double every 24 years; at a 2% rate, every 36 years. See <https://tinyurl.com/yxu6emh2>

⁴ IMF *World Economic Outlook* forecasts; January 2023.

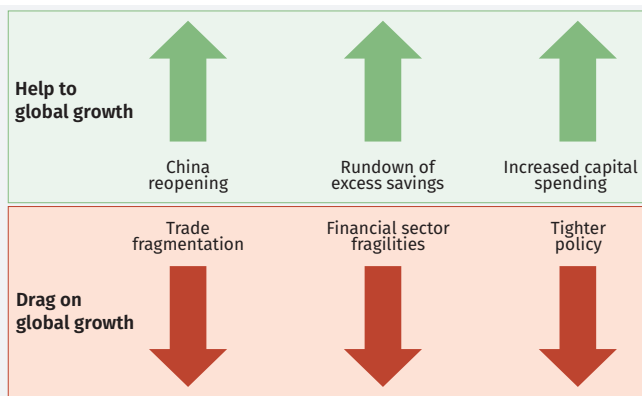
OVERVIEW

3. OECD economies' GDP growth



China's reopening is one of the three main factors supporting global growth this year (see Figure 4). There, as elsewhere, excess savings built up in the pandemic can be run down to support consumer spending, the second support for growth. Global excess savings amount to almost USD 5 trillion, according to our estimates.⁵ Third, capital spending is being increased in three main areas: on green infrastructure; defence spending; and building new capacity as production is reshored.

4. Global growth drivers



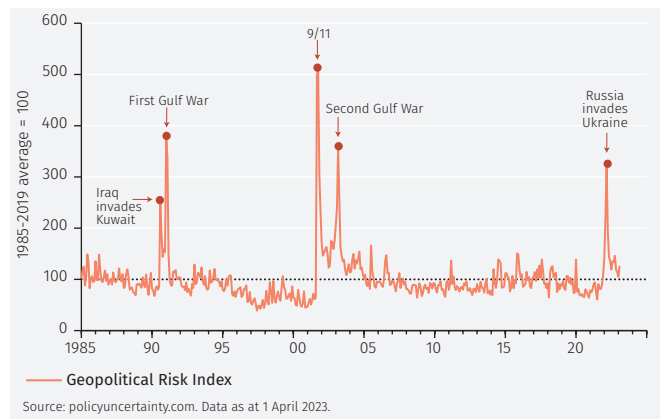
Reshoring, of course, reflects the greater fragmentation of global trade. US and European domestic production of semiconductors may well be justified on grounds of national security but is almost certainly less efficient than using highly integrated global supply chains. It is most likely a drag on global growth. With financial sector fragilities still a concern and the lagged effects of tighter policy now starting to be apparent (in the housing market, most notably) global growth clearly faces headwinds. The balance between these three

supportive and three dragging factors will determine the path of the global economy for the rest of the year.

Geopolitical tensions

Geopolitical tensions have, according to one measure (see Figure 5) eased, although they still remain above their long-run average level. Of course, future prospects are difficult to gauge, but easing tensions is one of our key themes for 2023.

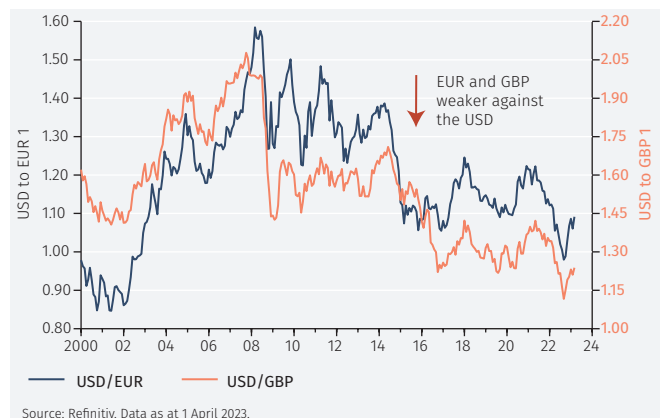
5. Geopolitical Risk Index



US dollar weakness

This quartet of concerns will play out in prospects for global currencies. The decline in the value of sterling and the euro against the dollar since the global financial crisis of 2008 (see Figure 6) has been a reflection of the dollar's general strength, augmented by specific regional concerns (the euro crisis of 2009-2015 and Brexit in 2016). In the first quarter of 2023, however, both currencies recovered against the dollar. It remains to be seen whether this marks a change of trend.

6. Euro and sterling against the US dollar



⁵ Source: Refinitiv and EFGAM estimates as at 1 April 2023. Global excess savings are estimated as those in excess of the 2018-2019 average savings rate in the period from Q1 2020 onwards.

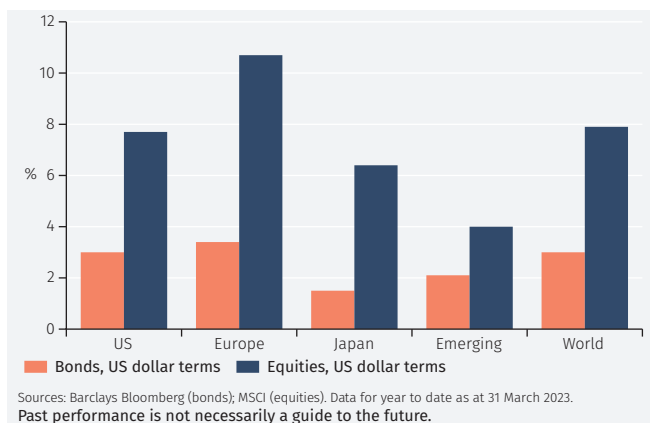
ASSET MARKET PERFORMANCE

Volatility was a key theme of all financial markets in early 2023 but, by the end of the first quarter, both equity and bond markets had produced positive returns. The US dollar was relatively stable.

Asset market performance

Global bond and equity market returns were both positive in the first quarter of 2023. Returns from bonds were 3.0% and from equities 7.9% in US dollar terms (see Figure 7).⁶ Rising inflation and actual and expected increases in policy interest rates pushed up bond yields around the world in February, with a consequent fall in bond prices. But those pressures eased later in the quarter as market expectations for interest rates softened, partly because of the banking sector problems in the US and Switzerland. The dollar was relatively stable overall, weakening against the euro and sterling but strengthening against the yen.

7. Asset market performance

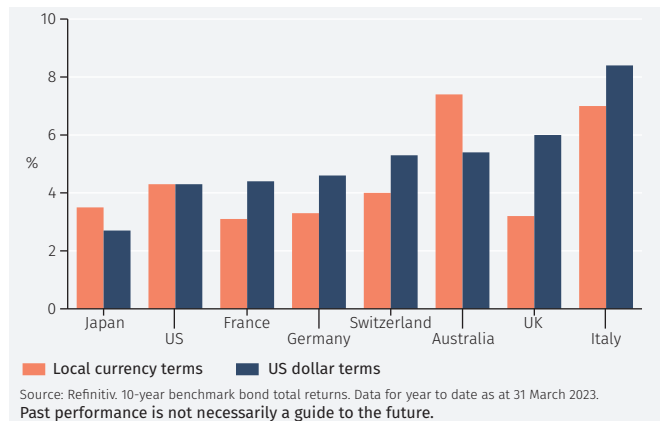


Bond markets

After a volatile first quarter, the total returns from 10-year government bonds in all the major markets were positive in local and US dollar terms by the end of the period (see Figure 8). The benchmark US 10-year bond yield reached a peak of over 4% in early March but fell back to its January lows in late March. The decline in 10-year yields was even larger in Australia (73 basis points), as markets expected the country's central bank to end its string of back-to-back interest increases; and in Italy, where concerns about the new government's fiscal stance eased.

Returns in US dollar terms from European markets were generally boosted by the strengthening of currencies (the euro, sterling and the Swiss franc) against the US dollar. The opposite was the case in Japan and Australia, where currency weakness undermined US dollar-terms returns.

8. Bond market returns

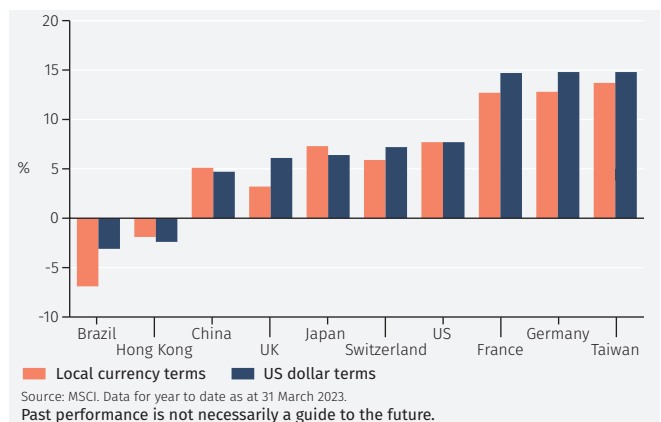


Equity markets

The overall 7.7% returns from the US equity market were exceeded by France and Germany, in both euro and US dollar terms (see Figure 9). A reappraisal of the merits of European equities was an important factor. The Taiwanese market was also strong, benefiting in particular from the global reappraisal of the technology sector.

In Brazil the currency was strong against the US dollar, partly reflecting strengthening commodity prices, but uncertainty over the direction of policy unsettled the equity market after a strong performance in 2022. The Chinese market made gains as the economy reopened and there were signs of a more pro-market approach by the authorities.

9. Equity market returns



⁶ Global bond returns are measured by the Bloomberg Barclays Global Aggregate Bond Index, which comprises government and investment grade corporate debt from developed and emerging markets issuers in 24 countries. Global equity returns are measured by the MSCI World Index which represents large and mid-cap equities across 23 developed markets.

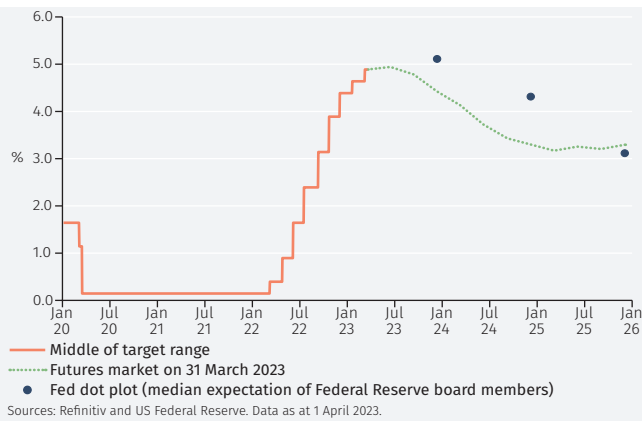
UNITED STATES

The main issue in the coming months is whether the Fed or the financial markets will be right on the direction of interest rates. The answer lies in the likelihood of recession, financial stability and the efficacy of interest rates in reducing inflation.

Who will be right? The market or the Fed?

The median forecast of Fed policy makers is that the fed funds rate will be slightly higher by the end of the year. In contrast, financial futures markets think there will be two 25 basis point cuts by then (see Figure 10). However, market interest rate expectations are often volatile and can change quickly, as they have done so far in 2023 (see Figure 11). How could the market view on rates prove to be correct and the Fed's expectations be wrong? There are three routes: two unwelcome, one much more benign.

10. Fed funds rate: actual and expected paths



Two unwelcome routes: recession and banking sector problems

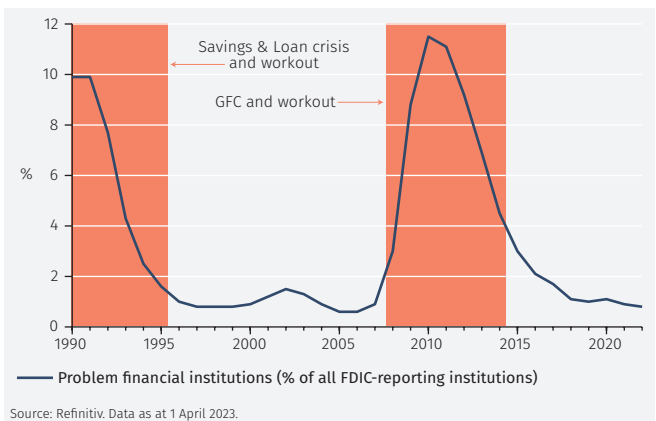
The first unwelcome route is that the economy tips into recession. Every recession since 1960 has been preceded by an inversion of the yield curve (short-term rates higher than 10-year yields). That happened late in December 2022. With the average lag from inversion to recession being around a year, the risk is clear.

11. US bond market: wild ride



The second route is further problems in the banking sector: one estimate is that asset impairment and a run on uninsured deposits could put more banks at risk of insolvency.⁷ This risk seems low, but problems in the banking sector have, in the past, initially seemed contained before spreading more widely. Moreover, they have taken a long time to resolve (see Figure 12). The savings and loan crisis started in the mid-1980s but was not fully resolved until 1995. The financial crisis which started in 2007/2008 was not fully resolved until 2014.

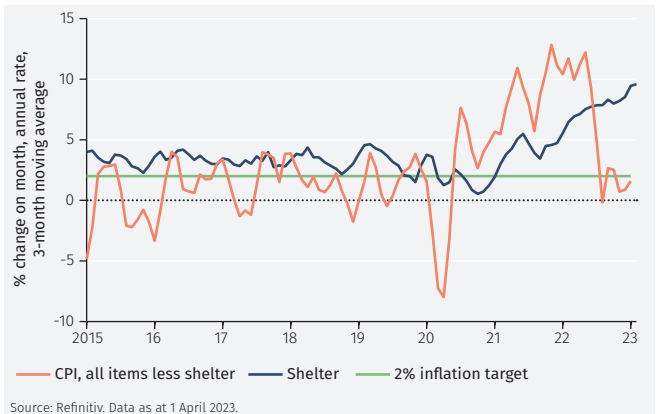
12. Problem banks



One benign route: lagged effects of tightening

A more benign, and we think more likely, route would be a sharp drop in CPI inflation. Excluding shelter, this has been around 2% (annualised) since last summer; but shelter inflation (accounting for around 1/3 of CPI) is much higher (see Figure 13). Work by the San Francisco Fed⁸ shows that a 100bp increase in the fed funds rate can reduce shelter inflation by more than 3 percentage points over 2½ years, suggesting the Fed's tightening so far is enough to cut shelter inflation to zero by mid-2024.

13. US consumer price inflation



⁷ See this piece, for example: <https://www.gsb.stanford.edu/faculty-research/working-papers/monetary-tightening-us-bank-fragility-2023-mark-market-losses>

⁸ FRBSF Economic Letter 13 February 2023, 'Can Monetary Policy Tame Rent Inflation?'

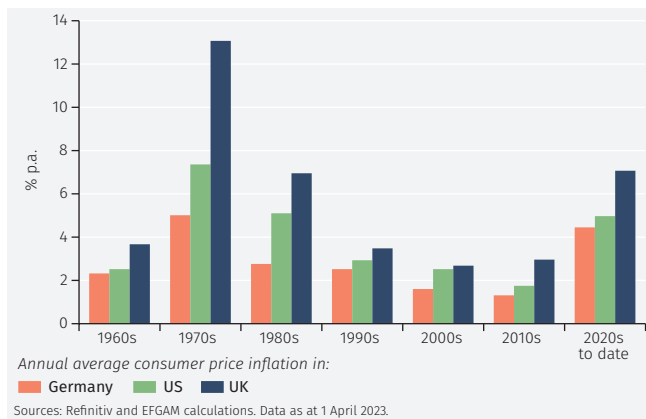
UNITED KINGDOM

With high inflation and financial sector fragility two of the dominant global concerns, the UK is in an awkward position. It has, historically, been inflation-prone; and its financial sector is large.

An inflation-prone economy...

The UK has, historically, been an inflation-prone economy. Over several decades inflation has run at a higher rate than in the US and Germany, for example (see Figure 14). That perception was partly corrected by, up until recently, the successful period of inflation targeting. But doubts still linger.

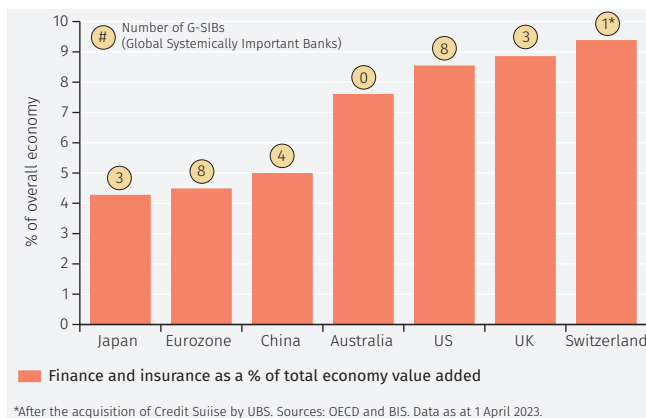
14. Inflation-prone UK



...with a large financial sector

The UK also has a large financial sector, accounting for almost 10% of the value added for the entire economy (see Figure 15). That means that periods of instability in the financial sector, whether generated domestically (the secondary banking crisis of 1974/5, for example) or globally, tend to hit the UK economy hard. In the global financial crisis, UK GDP dropped further and recovered more slowly than the US and eurozone. The UK is home to three of the world's 29 G-SIBs (Global Systemically Important Banks), whose assets amount to 166% of GDP, higher than the ratio in the US and eurozone.⁹

15. Financial sector importance



Sticky inflation, for now...

The recent stickiness of inflation is a concern. Core inflation and wage increases are currently running at around 6% (see Figure 16), conjuring up the image of the 1970s wage-price spiral. Exhortations by the governor of the Bank of England for workers not to ask for excessive pay increases and for companies not to pass on higher costs seem out of tune with the current mood. Furthermore, the Bank's forecast of a two-year long recession, made in November 2022, has now been reconsidered. No recession is now expected by either the Bank or the Office for Budget Responsibility.

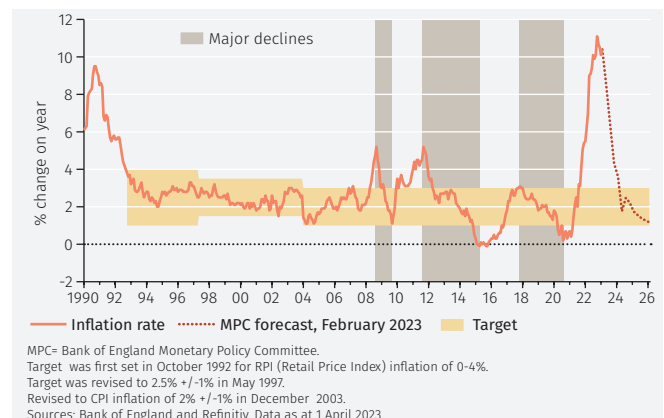
16. UK inflation: still sticky



...but a rapid decline is forecast

The Bank's forecasting credibility could, of course, be quickly restored. Its inflation projections (see Figure 17) see a rapid decline starting in the early summer, with the inflation rate back in target in the second quarter of 2024. That would be a widely-welcomed development.

17. UK inflation target



⁹ The US and eurozone both have 8 G-SIBs, with assets of around USD 14 trillion, representing 56% and 104% of GDP, respectively.

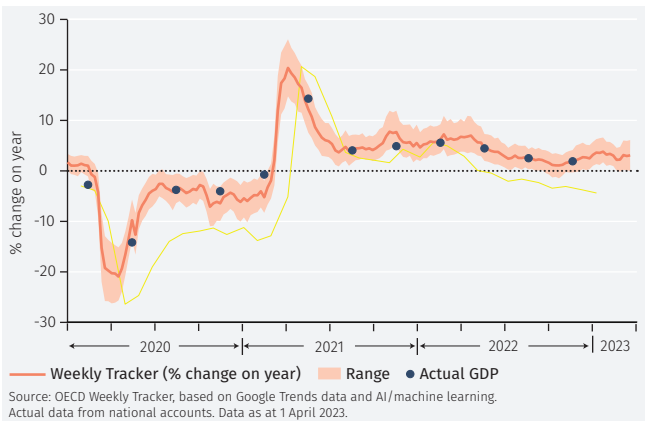
EUROZONE

The eurozone has escaped recession so far, but concerns over the banking sector cast a shadow over prospects for the remainder of the year. ECB interest rates are now aligned with inflation expectations.

Growth in early 2023

GDP growth in the eurozone picked up to some extent in the first few months of 2023, remaining positive. That is the message from the OECD's weekly tracker (see Figure 18). So far, at least, the widely-expected recession in the region has been avoided. Growth was strongest in Ireland, typically a country which outperforms the rest of the bloc. The Netherlands and Baltic states also did well (see Figure 19). France, however, lagged behind. There, activity will be hit as a result of the protests over pension reform in late March.

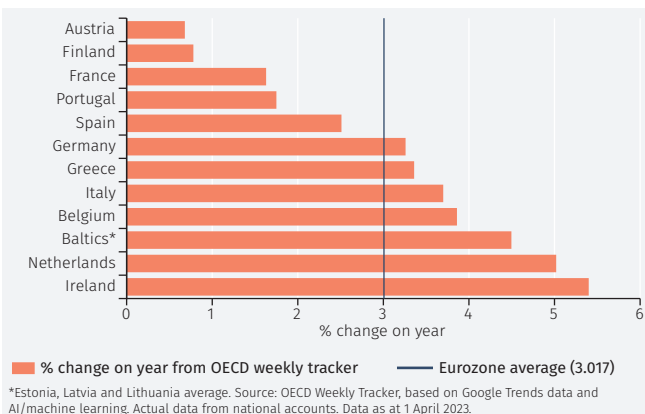
18. Eurozone weekly GDP



French reforms and the bank sector

“We all know what to do, we just don’t know how to get re-elected after we’ve done it”, Jean-Claude Juncker’s comment on economic reforms, is apposite in that context. Pension reform in France – currently, raising the minimum retirement age from 62 to 64 – has been tried before. A 1995 attempt was abandoned after widespread protests. The protests of the *gilets jaunes* in 2018 stopped a rise in fuel tax.

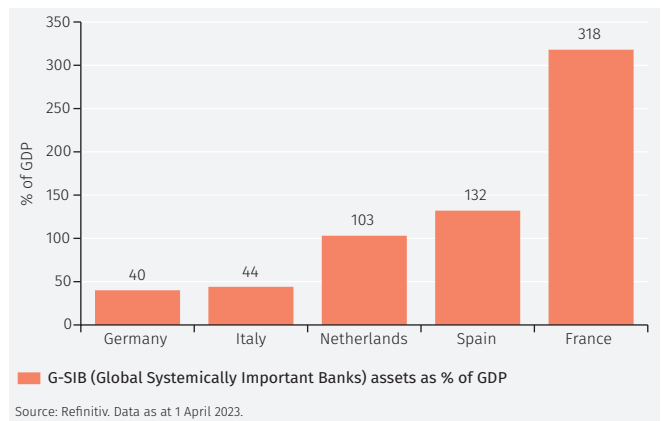
19. Eurozone members’ GDP growth



Yet, structural reform remains clearly needed when judged by the level of government spending: 58% of GDP in 2022, 9 percentage points higher than the eurozone average.

Another concern relates to the banking system. France has four G-SIBs, with assets amounting to over 300% of French GDP (see Figure 20). That is far higher than in other eurozone economies and well above the rate in the UK.

20. Eurozone: G-SIB assets



Alignment of ECB rates and inflation expectations

After the ECB raised interest rates by 0.5% in March, President Lagarde stated that inflation is expected to “stay too high for too long” and that the Governing Council knows it has “more ground to cover” in raising rates. Financial market expectations are for two further 25 basis point increases, with rates peaking in the third quarter of 2023. That would most likely take rates above medium-term inflation expectations (see Figure 21) and in that sense would seem adequate.

21. ECB policy rate and euro inflation expectations



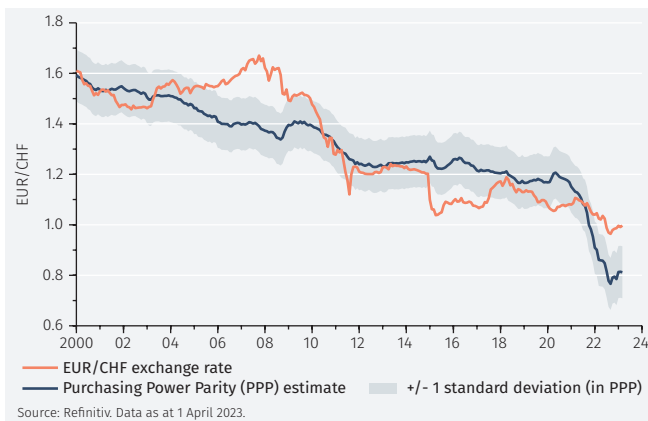
SWITZERLAND

The Swiss National Bank (SNB) has raised its policy interest rate to 1.5% and a further increase cannot be ruled out. The main reason is concern about underlying inflation trends.

Inflation and the policy rate

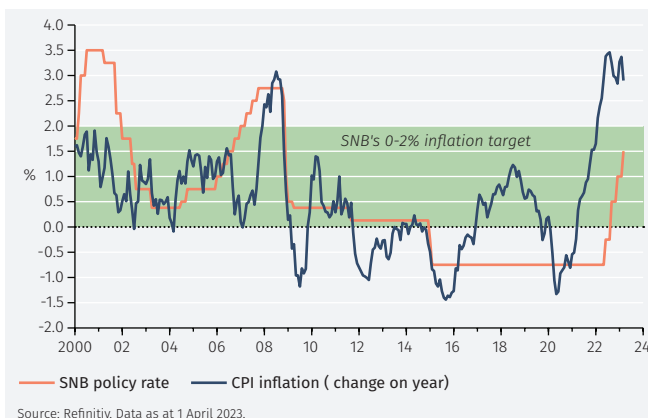
The SNB raised interest rates by 0.50% to 1.50% in March and said that additional rate increases “cannot be ruled out”. The central bank sold CHF27 billion of its foreign currency reserves in the final quarter of 2022 to support the Swiss franc (which is still weaker than its PPP rate, see Figure 22), thereby limiting imported inflation. Even so, another interest rate increase (most probably of 0.25%) in June looks likely.

22. Euro-Swiss franc exchange rate and PPP rate



According to futures contracts, the SNB’s policy rate will peak around 2% (implying a further 0.25% rate increase in September). The SNB’s hawkishness reflects the upward revision of its conditional inflation forecasts which now see inflation staying above the 0-2% target range (see Figure 23) up to the end of 2025 – it was 2.9% in March 2023. The central bank noted price increases are now ‘broad-based’, pointing to the risk that the current high inflation becomes embedded in private sector expectations.

23. Swiss inflation and the SNB policy rate



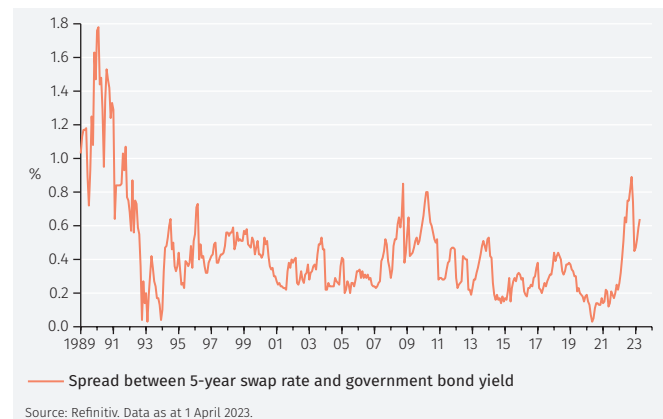
Considering the outlook, the SNB has acknowledged that recent developments in the financial sector have increased uncertainty. The central bank’s confidence in the conditional inflation projections is probably lower today than usual and a downside scenario in which the economy slows sharply, and inflation quickly returns to target cannot be excluded.

Separation of monetary and financial stability

For the time being, the SNB has separated the fight against inflation from financial stability related issues. On the latter, the central bank is providing ample liquidity to the financial system. However, financing conditions for the non-financial sector have tightened, reflecting banks’ increased cost of funding following the turmoil in the financial sector.

The spread between the medium-term interbank swap rate and the yield on Swiss government bonds has risen to levels last seen during the global financial crisis (see Figure 24), reflecting renewed concern about counterparty risk.

24. Increased banking sector concern



Swiss safe haven status at risk?

Some commentators believe that the problems at Credit Suisse and its acquisition by UBS mean that Switzerland has lost its appeal as a safe haven. It is worth noting that similar concerns were common during the Global Financial Crisis, but proved too pessimistic. Then, as now, the Swiss authorities’ quick response was effective in preserving financial stability without imposing any loss on depositors and clients.

The Swiss safe haven status will, we think, weather the latest storm.

ASIA

Economic activity in Asia has been closely linked to credit expansion, often in a boom and bust cycle. The workout of China's problems may take some time, but India seems better positioned.

India versus China

China and India are both very populous nations that have grown quickly for some time. India's growth has mainly lagged that in China since 2000, only briefly and marginally surpassing it between 2014 and 2016. However, that is set to change according to the IMF's latest forecasts, with India maintaining a growth lead for the next five years (see Figure 25). That seems reasonable to us: demographics favour India – a growing and younger population than China's; public sector capital spending is strong; and the Indian banking and property sectors are now much stronger than in the past.

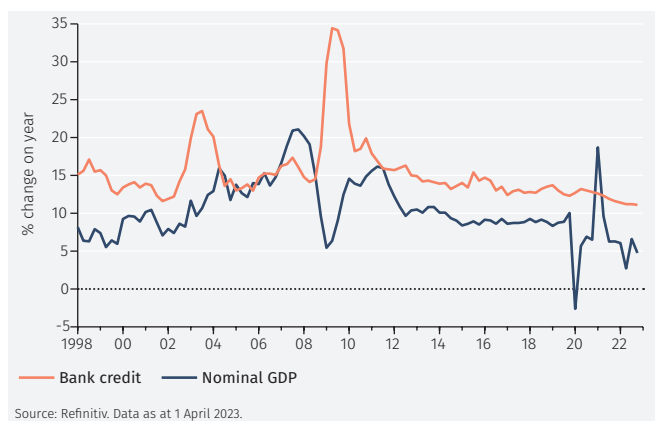
25. India vs China



Credit expansion and the property sector

For some time (see Figure 26) nominal growth in the Chinese economy has been closely linked to credit expansion. That is a pattern seen across Asian markets. But, at times, that credit expansion has been excessive. It has been an important cause of overdevelopment in the residential property sector and consequent problems. These, we think, will still take some further time to resolve. As is always the case

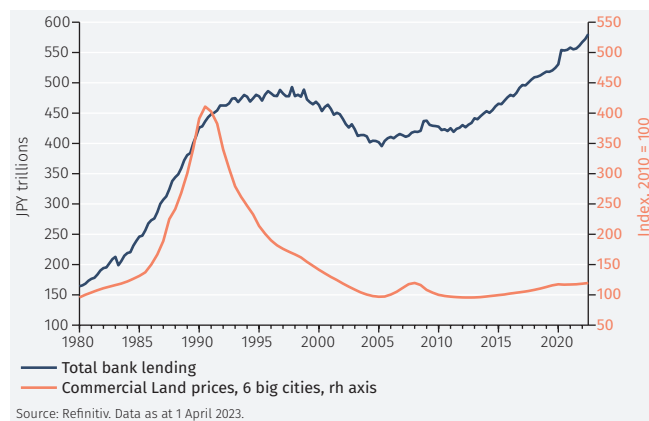
26. China: bank credit and GDP



with Chinese indicators, the situation is somewhat opaque: property sales have fallen, for example, but prices have held up, with land sales by local authorities playing an important role. In comparison, the Indian property sector is currently characterised by strong sales and rising prices, with a banking sector able to provide credit.

It is to be hoped that China's correction after its credit-fuelled property expansion does not take as long as that in Japan. There, the aftermath of the 1980s boom in bank lending and land prices took several decades to work through (see Figure 27).

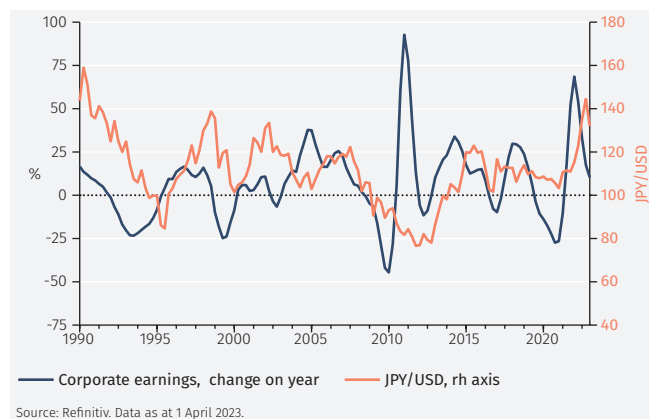
27. Japan: bank lending and land prices



Japan: the yen and corporate earnings

Now, the corporate sector in Japan has healed. The strength of corporate profits remains an important theme in 2023 and we think an additional support for corporate earnings will come from the delayed effects of the yen's weakness in 2022 (see Figure 28).

28. Japan: corporate earnings and the yen



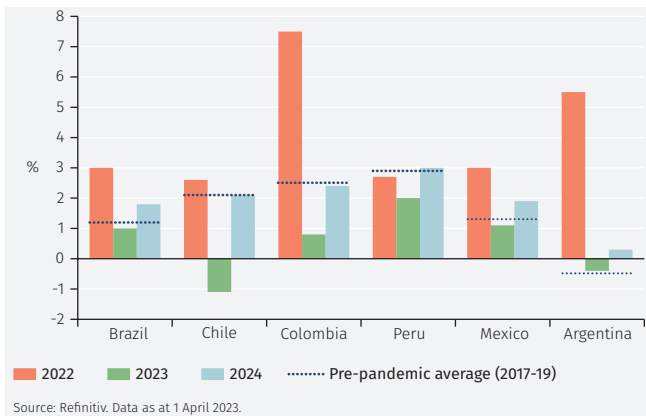
LATIN AMERICA

Short-term issues – weaker growth and high inflation – are putting pressure on Latin American economies. The key question is whether managing these jeopardises longer-term reforms.

Short-term issues

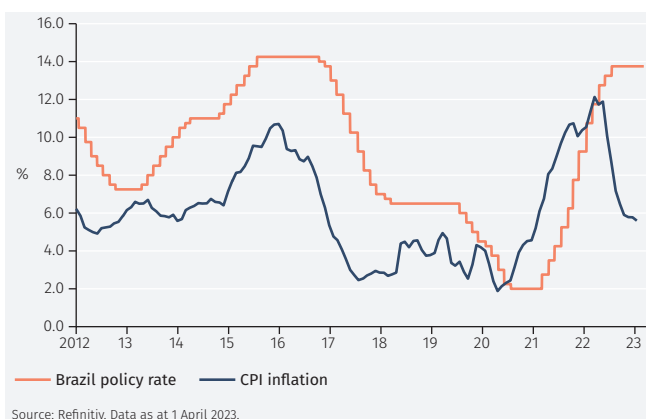
Most Latin American economies will see weaker growth in 2023 than they did in 2022 and in the pre-Covid period (see Figure 29).

29. LatAm GDP growth pattern



The two main headwinds are higher interest rates and potentially weaker commodity prices. In Brazil, the policy interest rate was raised to 13.75% in August 2022 and has been maintained at that level (see Figure 30). Inflation is above the central bank's target, although not by as wide a margin as seen in most advanced economies: it was 5.6% year-on-year in February compared with a target of 3.25%. There is some pressure on the central bank to raise the inflation target. That would reduce the urgency of keeping interest rates so high. President Lula has described the high real interest rates as unjustifiable.

30. Brazil: inflation and policy rate



High real rates reflect, however, the risk premium on Brazilian assets. This has been pushed higher by concern about the direction of fiscal policy. Even before President Lula's term started on 1 January, a one-year exemption of the

fiscal spending cap (which limits increases in spending to inflation) was approved by Congress. The cap had also been lifted during Covid. So, there is some concern that government spending will not be as tightly controlled. Admittedly, with the favourable winds of higher commodity prices, Lula's first two terms of office (see Figure 31) saw government debt levels fall substantially. That seems unlikely to be repeated, according to the IMF's forecasts, but help in reducing the ratio will come from higher nominal economic growth.

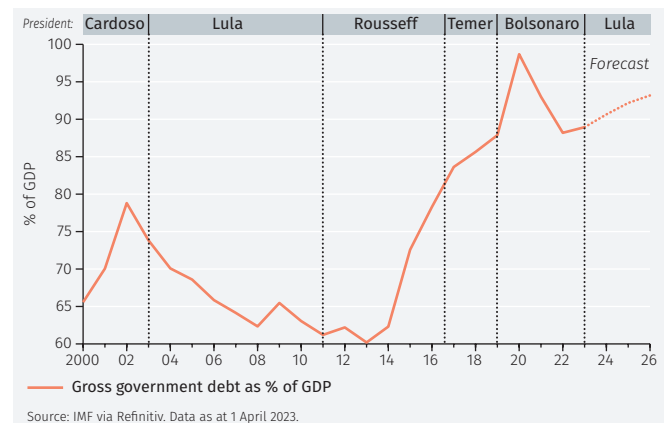
Soy and malbec dollars and pesos

In Argentina, strict capital controls and pressures on the agricultural sector, recently aggravated by drought, have seen the introduction of parallel exchange rates. The "soy dollar" and "malbec dollar" provide more favourable exchange rates for exporters of these products. Dual exchange rates of this nature, however, produce distortions by manipulating relative prices in an economy and favouring particular sectors. Eliminating dual exchange rates generally leads to a more efficient allocation of resources.¹⁰ With a general election in 2023, however, any change will not be imminent.

Long-term opportunities

Latin America, with its rich resource endowment has, of course, enormous potential. Moreover, that potential can be tapped to meet the needs of the modern global economy. President Lula, two weeks after being elected, attended the COP27 climate summit and environmental protection issues are high on his government's agenda. Argentina has huge scope to expand tourism (notably eco-tourism) in the post-Covid world. The discussion of a potential currency union between Brazil and Argentina, even though ambitious, reflects a new spirit of cooperation between those two economies. Longer-term opportunities, however, often come up against the need for shorter-term expedient measures.

31. Brazil: debt burden stabilising?



¹⁰ See <https://blogs.worldbank.org/allaboutfinance/what-countries-need-consider-when-dual-exchange-rates-are-problem>

SPECIAL FOCUS: GLOBAL DISCORD

Global Discord, the title of Paul Tucker's new book, was the subject of his presentation for EFG in Zurich on 8 March. The theme is certainly in tune with current world developments.

Institutions of cooperation

Global schemes of cooperation depend on the underlying political cultures and the shared norms of the key states involved. In the post-war period international policymaking and its institutions have been predicated on peaceful coexistence. The institutions of collaboration, such as the IMF, World Bank and the World Trade Organisation (formerly GATT) were constructed in the post-World War 2 period.

In the late twentieth century these institutions had an underlying American liberal orientation. So, as states with different norms, notably China, have come to prominence in the twenty first century, this has been challenged. The clash between China and the west is an ideological one, in Paul's view. It is unrealistic to think that the philosophy of the Chinese Communist Party (CCP) will change fundamentally as a result of China's economic success and greater integration with the rest of the world.

Four scenarios

Four scenarios for the future of the international order are seen by Paul:

1. a lingering status quo
2. a superpower struggle
3. a new cold war
4. a reshaped world order.

Initially, when writing the book (between 2018 to 2021) Paul considered that we were between scenarios 1 and 2 – a lingering status quo and a superpower struggle (predominantly between the US and China). After Russia's invasion of Ukraine, Paul sees us as between scenarios 2 and 3.

Paul views the tensions between China and the west as lasting a long time. Searching for the closest historic parallel for this situation, he settles on the 'long eighteenth century' from 1689 to 1815. That was one marked by continued tensions and war between Britain and France, the two dominant world powers. After that, the Concert of Europe provided a new model of international cooperation.

One other parallel which is often made when trying to understand current tensions is the Thucydides trap: the inevitability of war when a rising power challenges an incumbent one. In the Peloponnesian war which Thucydides describes, the rising power of Athens challenged the incumbent power of Sparta. Work by Graham Allison¹¹ has found that over the past 500 years, these conditions have occurred sixteen times and war broke out in twelve of them.

Global interdependence was highlighted by Covid, with the reliance of western economies on supplies from often distant countries (notably China for PPE and India for pharmaceuticals). The Russia-Ukraine war has highlighted the dependence of western Europe on Russian gas.

These are indications that we already have key elements of Paul's second and third scenarios (a superpower struggle and a new cold war) in place.

Three theories of international relations

Paul looks at the three main theories of international relations. These are based on the work of Hobbes, with an emphasis on power; Kant, stressing the importance of norms and values; and Grotius, with the primary emphasis on institutions and interdependence.

Individually, each of these provides an inadequate framework for understanding the current situation. Paul, alternatively, sees the work of David Hume and Bernard Williams, which embrace power, value and interdependence issues, as providing a better insight.

Paul looked at whether the superpower struggle – between China and the US, but more broadly the West¹² – might be exaggerated. Could it be that China's economic integration into the global economy – and its undoubted success in generating economic prosperity – lead it to become more 'western'. Paul is sceptical. He points to the PRC's seven 'no's (in Document 9 of 2013). These include 'no' to the promotion of: constitutional democracy; civil society and individual rights; neoliberalism (total marketisation); western ideas of freedom of the press; and any questioning of the nature of China's 'socialism with Chinese characteristics'.

International organisations of co-operation are inadequate to deal with China's rising power. In 2013 the WTO ruled on a case the US brought against China, claiming that its state subsidies to exporters were not allowed under WTO rules. These were made by China's SOEs (state-owned enterprises), which the WTO ruled were not public bodies, a decision Paul describes as ridiculous. As every member of the WTO has a veto, any solution in such circumstances is hard to reach. The most likely way forward is for different concentric circles of international relations, based on values, geography and history, to develop. The fact that the UK is joining the CPTPP, made up of 11 Pacific nations (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam) is one demonstration that the new arrangements are capable of being surprising.

¹¹ Graham Allison, *Destined for War: can America and China escape Thucydides' Trap?* (2017).

¹² The 'West' includes any state that runs by the rule of law and some form of representative government. Japan, South Korea and India are included, in Paul's view.

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