



Gavekal: Unfolding Paradigm Shifts

Louis-Vincent Gave, Founder, CEO Gavekal



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Louis Gave started by framing the discussion within Gavekal's foundational framework of four quadrants. Asset prices, he argued, are shaped by the interaction of economic activity and inflation, and the world moves between four broad regimes as these forces shift. Today, in his view, the global economy sits firmly in an inflationary boom. That regime is being accelerated by extraordinarily loose fiscal policy in the United States, Europe and Japan, combined with central banks taking a looser monetary stance. Markets are confirming the picture. The strength of metals, the leadership of emerging markets over developed markets and the broad outperformance of financials and commodities all point to a world that is reflating rather than cooling.

China is central to this story. Louis described the policy pivot that began in 2018, when restrictions on China's access to advanced semiconductors led Beijing to reorient its entire economy towards industrial capability and away from real estate. That strategic decision unleashed a long period of domestic deflation.

A strategic shift from property to industry has created world class capability in autos, batteries and advanced manufacturing

Consumption weakened, property markets froze and global commodity prices came under pressure. Yet the same policy also produced a rapid surge in industrial capacity. China moved up the value chain in areas such as autos, batteries, solar, robotics and advanced sensors. What once seemed improbable has become reality, with Chinese firms now competing at the frontier in multiple global industries.

China appears to be drawing a line under currency undervaluation and actively supporting its equity market

With those industrial foundations now in place, Louis argued that China is shifting again. The renminbi has risen on most trading days in recent months, a pattern he sees as a deliberate signal that the long cycle of currency undervaluation is ending. The policy backdrop has also turned decisively reflationary. With no meaningful inflation constraint, the authorities are running large fiscal deficits and directing liquidity into the financial system. Little of it is flowing into property or consumption, so it is finding its way into equities. This creates what Louis described as a genuine policy backstop for the market, analogous to the early phase of the United States equity cycle after the global financial crisis.

A weaker dollar, richer valuations and a stronger Asia are reshaping global investor behaviour.

He noted that this matters far beyond China. A stronger renminbi tends to lift other Asian currencies, including the yen and the Korean won. It also alters global capital flows. For years, investors in Asia were large buyers of United States assets because their own currencies were weakening and dollar yields were attractive. With the currency cycle now turning, those flows are fading. Combined with very stretched United States valuations, this leaves the United States more vulnerable to underperformance and creates a more favourable backdrop for emerging markets, where valuations are lower and reflation dynamics stronger.

In an inflation heavy regime, energy exposure offers protection where bonds and equities may not

Louis also highlighted the profound implications for commodities and energy. Inflationary booms often end when energy prices spike sharply enough to choke growth. While energy has firmed and energy equities have led the market this year, prices are not yet at levels that threaten activity. Even so, he sees energy exposure as the essential hedge for portfolios in an inflationary world, given that both bonds and equities tend to suffer when inflation accelerates.

*Shifting currencies,
industrial
realignment and
divergent policy
paths mark the early
contours of a new
investment regime*

Louis closed by emphasising that the world is moving through a period of rapid structural change, shaped by shifting currency dynamics, new industrial leadership in Asia, a retrenching United States and the broad reflation of emerging markets. In his view, the trends now in motion, including a weaker dollar, stronger Asian currencies, firmer commodities and the renewed outperformance of emerging markets, have genuine durability rather than noise. They signal the early contours of a new cycle rather than a temporary rotation.

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