ASSUMPTIONS

2024 YEAR REVIEW

ARGENTINA'S TIME? MILEI'S FIRST YEAR /IMPACT OF US ELECTIONS/RISE OF POLYMARKETS/SWIFT'S ERA DEFINING TOUR/IMPACT OF RUSSIA-UKRAINE CRISIS/THE DOUBLE-EDGED SWORD OF WAR/FINANCIAL IMPACT OF THE OLYMPICS/THE BUBBLE OF THE US AND GLOBAL MARKETS

ASSUMPTIONS

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EDITORS' NOTE

Welcome to the first issue of the Assumptions Magazine for the year! This edition explores 2024's most significant economic events and their potential impact on 2025. Join our Junior Editors and Fresher Representatives as they dive into a dynamic year—from political and geopolitical shifts, to the financial impact of milestones like the Paris Olympics and the record-breaking Eras Tour.

Happy reading!!!

Arun Pillai & Prarthak Sharma

EDITORS IN CHIEF

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IS ARGENTINA TURNING THE CORNER? EVALUATING JAVIER MILEI'S FIRST YEAR AS PRESIDENT

BY SAM POWELL

In the mid-1900s, Nobel prize-winning economist Simon Kuznets made a famous remark: 'There are only four types of economies: developed, underdeveloped, Japan and Argentina'.

The country's golden age at the dawn of the 20th century, which forged it into one of the world's wealthiest economies before the First World War has long since been consigned to memory. After its unification, more than six million immigrants arrived in the country, which coupled with strong international investment enabled Argentina to exploit its vast fertile land and increase exports to satisfy strong international demand for grain, meat, and wool. By 1914, Harrod's first overseas branch was established in Buenos Aires and the phrase 'as rich as an Argentine' became a popular expression in Europe, reflecting the country's remarkable prosperity. Indeed, at this time, Argentina stood in the top 10 richest countries by GDP per capita and was comparable to the likes of Canada and the US.

However, as international demand for agricultural products waned in the 1930s, Argentina's overreliance on these exports became apparent. In response to The worsening economic situation, Juan Perón was elected president in 1946, introducing welfare reforms promising to maintain the working classes' high standards of living. Instead, unsustainable spending increased debt levels which rose throughout the rest of the 21st century. Inefficient domestic policies

And subsidies coupled with a developmental ideology favoring protectionism over competition have caused Argentina to become infamously unstable, since defaulting 9 times on its debts, the most of any country in the world.

'My policies will hurt, but they will hurt for a short time'.

By December 10th, 2023, when Javier Milei became Argentina's president, the economy was in dire need of reform. With an annual inflation rate of 211% in 2023, edged by a plummeting peso, the country was besieged by hyperinflation. Despite having the smallest congressional force in Argentinian history, Milei has pushed his executive power to the limit to enact bold policies. He has been transparent in

addressing the country's perilous economic situation, and the hardships required to turn the corner. His economic plan centers around: Fiscal reform enacting huge government spending cuts to subsidies as well as privatisation and an institutional overhaul, Monetary policy to bring currency stability and reduce inflation, and further Trade and Market liberalisation to undo the damage done by protectionism.

So, after a year in charge, have his radical solutions overcome Argentina's radical problems?

<u>Fiscal Policy: Addressing The Budget Deficit and Bureaucracy.</u>

Firstly, as a self-declared libertarian, Milei wanted to reduce state intervention and implement austerity measures. Within a few weeks, he had abolished 10 government agencies from operation, halted public infrastructure projects, and cut fiscal transfers to provincial governments by 98%. Subsequently, the Ministry of deregulation was created, which over the past year has removed hundreds of pieces of regulation, like repealing rent controls, causing a 195% surge in the supply of rental housing. Public spending slashes of about 30% also meant that in his first month in office and for the first time in 10 months, the country recorded a fiscal surplus, something that was replicated every month for the rest of the year (excluding interest payments). Privatisation of state-owned companies has also been on the agenda, with 59 firms having been identified for partial or total handing over to the market. While no deals have gone through yet, companies like Argentine Airlines are actively cost-cutting to become more attractive to private buyers. These moves have been met with public resistance, especially from labour unions who fear job losses and worsened public service availability. Major protests broke out over the year, as some citizens saw themselves falling into poverty at a time where international investors were being offered tax breaks and incentives, creating a perception of inequality and prioritisation of foreign interests over domestic welfare. Another major reform, most directly affecting quality of life by causing cost of living surges, has been the removal of large government subsidies. Energy subsidies for example, accounted for a huge 3% of GDP in 2014, heavily straining public finance, despite their role in reducing household bills. Whilst GDP slumped and poverty levels rose significantly to 53% due to these reforms, Milei, as well as the general Argentine population - who under no false pretences voted him in - view these measures as necessary for any hopes of long run economic recovery.

<u>Monetary Policy: Stabilising The Plummeting Peso and Addressing Inflation</u>

Despite falling back on his original campaign promise to dollarise the Argentinian economy, facing blocks like low foreign reserves, Milei has adopted a more pragmatic approach to the situation. Access to US dollar loans is set to be expanded to non-exporting businesses and a dual-currency debit card has been planned to roll out in early 2025, to allow consumers to pay in dollars. While loss of monetary autonomy from such measures is normally considered a significant negative, after years of irresponsible printing of central bank money, Milei is content with being under the mise of the more trustworthy FED. While this provides short term stability for companies and consumers, it is important for structural reforms within Argentina's own treasury and central banking systems to restore domestic trustworthiness in the long term. He also devalued the official peso rate by 54% and implemented a crawling peg. This is where the currency's value is set to fall by a further 2% each month. Previous strict foreign exchange controls had

created a black market for more stable currency such as dollars, distorting the 'real' value of the peso as determined by supply and demand. Milei's policy brought the official and market rates closer together, increasing transparency in the currency market which has encouraged FDI.

Along with the stabilising of the peso, the tight monetary policy with high interest rates and restricted money supply, has now brought inflation down to under 3% month on month. While high by international standards, for Argentinians this is crucially lower than the average growth in wages and poverty levels have begun to drop from their 53% peak.

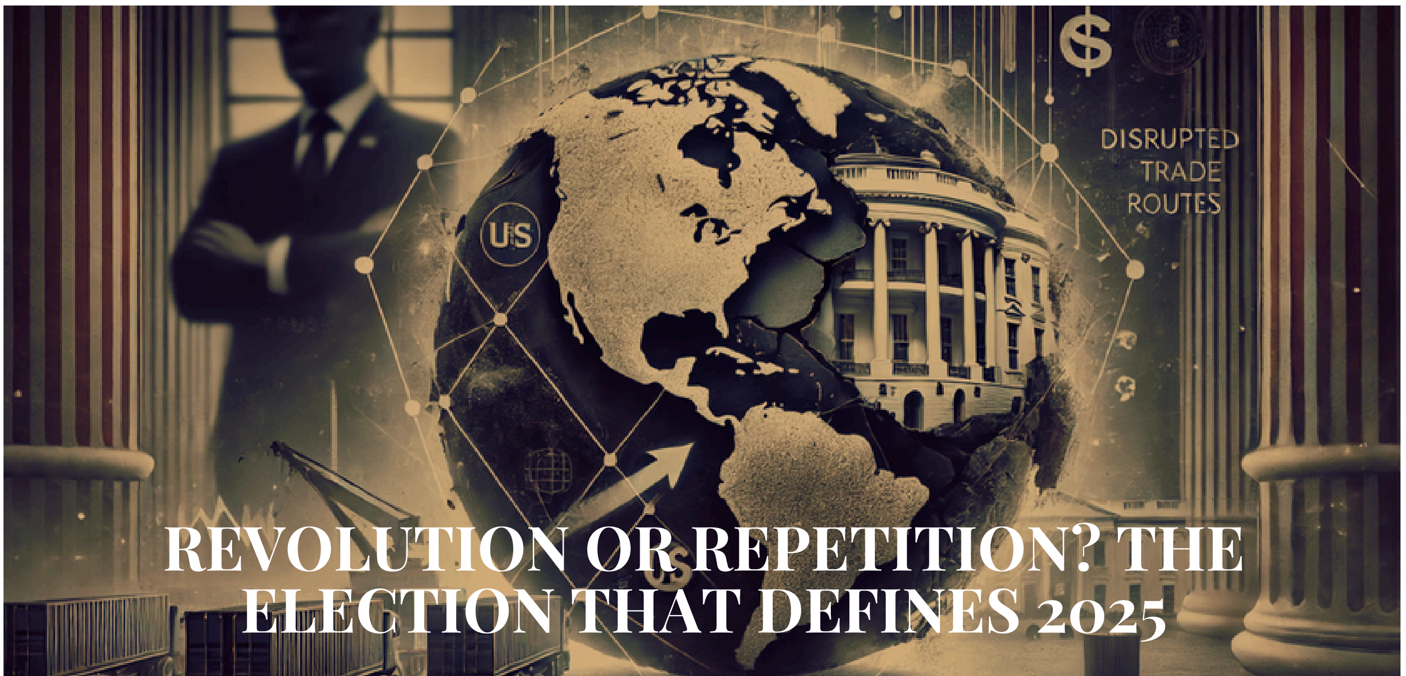
Trade: Expanding Into International Markets

With the vital issue of inflation seemingly under more control, Milei aimed to diversify the economy away from reliance on domestic consumption and government spending, through export-led growth and attracting investment. This year, the country's long-distressed sovereign bonds have roughly tripled in price and its credit rating has been upgraded from D to CCC, hinting at early signs of growing investor confidence. By expanding operations in commodity exports and underdeveloped shale oil and gas fields, Argentina ran an energy surplus in 2024 and over $ 150 million was invested in domestic stocks at the rear end of the year. The halving of the peso's value helped flip the trade deficit by reducing import demand and making agricultural exports more price-competitive. Ultimately, the country recorded a $1.2bn trade surplus in November last year and this is only projected to rise, particularly after the inauguration of Donald Trump, who has a strong relationship with Milei, strengthening trade ties with the US.

Conclusion: Evaluating The Year

Indeed, after decades of mismanagement, there is no silver bullet for Argentinian recovery. Every reform creates consequences, and with some regions having over half of their workforces involved in the public sector, rising unemployment has been a key issue, peaking at 7.7%. Whilst statistics in key metrics have looked positive, policies have increased the cost of living, and many businesses and households struggled to scrape by last year. However, in 2024, Milei's approval ratings rose, and many key economic issues were addressed. His decision to prioritise inflation, currency stabilisation, and trade surplus creation over immediate domestic problems like unemployment and cost of living was understandable. Without addressing those issues first, it's hard to imagine any feasible policies which could have brought any long-term, stable prosperity back to the country.

While it may have only taken its first few steps, I think it is safe to say that Argentina is certainly turning the corner.



REVOLUTION OR REPETITION? THE ELECTION THAT DEFINES 2025

BY LILY JENKINS

Overview: Donald Trump is set to enter the White House on January 20th to begin his second term as President. However, his first term offers little indication of what the next four years might bring. Compared to a relatively 'tame' initial tenure, his upcoming administration promises to be anything but predictable. His mention of US ownership of Greenland being an 'absolute necessity' alongside his debatable cabinet selections promises a chaotic second tenure. This new chapter in American politics has the potential to not only redefine the nation's identity but significantly influence global dynamics. Though narrowly winning the popular vote, Trump's proposed tariffs and 'America first' mindset present a reduction in UK GDP, potential trade wars with Mexico and China, and a new era of protectionism.

Impact on the UK: Zooming in on the UK, Trump's drive to protect American industries, marked by the imposition of tariffs, is bound to have a significant and lasting impact. Trump has proposed a 20% tariff on UK exports to the US which the National Institute of Economic and Social Research warns could slash the UK's already fragile economic growth in half. This is set to put considerable strain on the UK-US relationship, which has long been regarded as 'special' due to their shared values and history of close cooperation. The true danger lies in the chance of retaliatory tariffs and potential escalation into full-blown trade wars. Proposed tariffs would threaten supply chains and reduce demand for UK exports, which inflicts a severe setback to the already troubled manufacturing sector which towards the end of last year experienced a 6% decrease in domestic sales from Q2. Rachel Reeves has stated that it's 'too early' to gauge the full impact of Trump's tariffs. However, the outlook is far from favourable for the UK, with GDP growth already predicted to decline by 0.7%. Additionally, Trump's sharp criticism of NATO adds further strain to the UK-US 'special relationship'. His demand that NATO allies boost defence spending to hit the 2% GDP target, places the UK in a delicate position, testing its diplomatic footing. Although not all hope should be lost. Bank of England Governor Andrew Bailey highlighted that the UK focuses on trade in services rather than goods meaning negative impacts could be mitigated for the UK. Services now

account for 54% of UK exports to the US, including finance, insurance, and education industries. These services that the UK offers, particularly UK cross-border investments into the US, are valued and therefore not susceptible to tariffs as goods would be. For now, the UK's response to the proposed tariffs is one of caution and concern.

Protectionist and America first mindset: Trump's mission to restore American jobs through tariffs is no secret. During his first term, he passed the US-Mexico-Canada Agreement, a deal designed to tilt the scales in favour of US interests through fair trade. This economic nationalism is a preview of what's likely to define his second term. In 2017 Trump introduced the Tax Cuts and Jobs Act, slashing corporate tax rates from 35% to 21%, a move he's hinted at expanding during his second term. On November 25th, Trump announced plans for an executive order imposing a 25% tariff on all imports from Mexico and Canada unless these nations step up efforts to curb illegal immigration into the US. This is expected to slash cross-border trade between the three nations and hike production costs for key industries. Canada and Mexico are likely to respond with retaliatory tariffs on US exports, targeting sensitive sectors, as seen previously with Canada targeting the US dairy industry. Trump's aggressive trade agenda is set to escalate tensions, affecting not just Mexico and Canada but also China. He has proposed at least a 60% tariff on goods from China, this potential expansion of tariffs including those on electric vehicles could disrupt the automobile industry. Panasonic Energy, a Japanese company that supplies EV batteries to Tesla, has already been working to move more of its supply. chain from China to North America to avoid potential cost increases and disruptions that could arise if the batteries are produced in China. This highlights how Trump's protectionist tariffs are already making crucial shifts. Trump's protectionist stance extends to his desire to acquire Greenland, despite its leader rejecting the sale. His Republican allies are pushing the "Make Greenland Great Again Act," which would authorize negotiations with Denmark starting on January 20th. Therefore, Trump's "America First" stance, demonstrated through his tariffs on China, Mexico, and Canada, alongside his bold pursuit of Greenland, is set to shape his 2025 policies and trigger global changes.

Trump's surrounding people: The cabinet nominees Trump has selected will be key players in influencing the course of Trump's policy in 2025, shaping both approaches and public perception. The republican party under Trump will have a majority in the Senate meaning Trump's cabinet nominations will be confirmed easier. Many of Trump's picks have been labelled as controversial, notably, many of his nominees have been associated with sexual offences. While sporting some controversial picks Trump has also selected significant characters including, Scott Bessent as secretary of the treasury, Russ Vought as director of the Office of Management and Budget and Pete Hegseth as defence secretary. Bessent will be the key organiser of the tariffs and tax cuts that Trump will inevitably put in place. Bessent will support Trump's aggressive trade policies, including potential tariffs on imported goods. He aims to implement a '3-3-3' plan, 3% annual economic growth, increase domestic oil production by 3 million barrels per day and decrease the federal deficit to 3% of GDP. He will need to manage relationships with international finance ministers who might retaliate against U.S. tariffs. This makes him pivotal in shaping how 2025 looks for the US and preventing increasingly high tariffs globally. Russ Vought is significant because he has growing accusations against him bfor eing a key player in the extremely controversial 'Project 2025'. Vought is a key architect and co-author of Project 2025. Despite Trump's public distancing of Project 2025, Vought was caught on video dismissing these denials as mere political tactics. A key controversial policy of his was impoundment, which allows the president to withhold congressionally approved funds, thus giving Trump much greater control over the highly important budget. Lastly Pete Hegseth, a

past Fox News presenter, is important due to his stance on NATO and its allies. He described NATO allies as ‘outdated, outgunned, invaded, and impotent’. He criticises European allies for not spending enough on their defense and relying too heavily on the US. This strongly implies that Hegseth will take large strides to reduce spending on European NATO members and a potential further strain on the relationship between the UK and the US.

Conclusion: With Trump's recent unconditional discharge freeing him from jail time, fines, or probation he is set for a guaranteed turbulent second term with policies that will potentially strain the US-UK relationship, a stray away from the Biden administration's ‘Reaffirming of the Transatlantic Alliances’. While his policies may be seen as bold and nationalistic, they also carry the risk of deepening global tensions and economic isolation through his desire for Greenland and vast tariffs.

POLYMARKETS: WHERE PREDICTION MEETS THE POWER OF THE CROWD

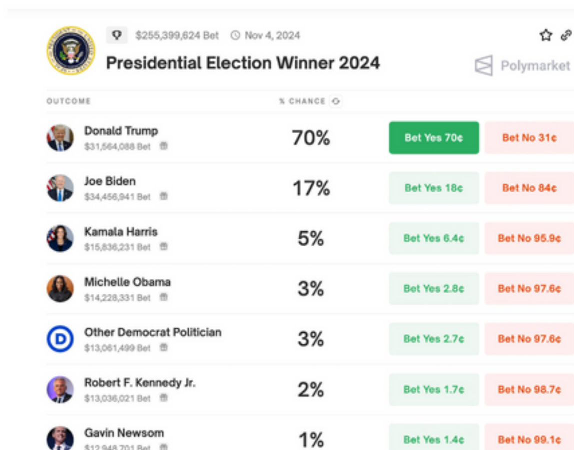
BY OLLY HUGHES

What are Polymarkets?

Polymarkets function as a prediction mechanism by leveraging market dynamics and financial incentives to aggregate information and estimate the likelihood of future events. This predictive power comes from the collective knowledge of the population effectively placing bets on the future based on their current insights. For example, in a market of 'Will it rain tomorrow' the share price might range from $0 to $1 where 1 represents a 100% certainty of rain. If you believe rain is likely you might buy shares at $0.60 in anticipation that the outcome will pay $1 when it rains. These market prices reflect probabilities as they represent the consensus of the participants, and users are incentivised by profit to make accurate forecasts.
Furthermore, the diversity of knowledge from people with various expertise in the field means that the collective data gathered is refined and accurate. Compared to traditional prediction markets, polymarkets also function as a decentralised system to give users transparency and security. They achieve this by being built on blockchain platforms which allows them to be maintained by a network of nodes (which are many single computers that control what gets passed though) rather than a single central server. This ensures no single entity controls the market, causing there to be no intermediaries between trades and openness in joining the market. It also enables all trades and market activities to be recorded on the blockchain, making the data transparent and tamper-proof. By giving users this symmetrical data Polymarkets help to ensure an accurate probability, as even if insider information is occurring it will be recorded and accounted for in the price of shares. Below is an example from the Polymarket site on how you could bet on shares for an event such as the US inflation rates:

The US Presidential Elections

Polymarkets showed their true power during the 2024 presidential elections between Trump and Harris with a total bet volume of over $3.3 billion wagered. The morning before Election Day, the Polymarket site said Trump had a 58.6% chance of winning the presidency while Harris' odds stood at 41.4. The site's bets were a more accurate prediction than the most recent polls which indicated the candidates were neck and neck. This was because Polymarket's market driven predictions allowed information that the population was feeling to form in real time. Firstly, traders could take advantage of misplaced probabilities when new information emerged to incentivise quick trade action but also, the platform's openness allowed anyone with a digital wallet and internet connection to trade their insights. This meant that share prices were affected by both experts in the field trying to profit but also crowdsourced information from the everyman. For example, even from early October, the platform showed a spike in the odds favouring Donald Trump, with his chances rising to 53.3%, while Kamala Harris's odds declined to 46.1%. This shift was attributed to significant wagers placed on Trump, possibly influenced by public figures like Elon Musk who placed huge financial support and their social media following towards the campaign- which indicated how much these endorsements swayed people's opinions. Overall, as people were placing money behind their predictions, Polymarkets served as a real time voting simulator for the elections. With hindsight it should have been intuitive that this probability formed by the public would have been more accurate than the polls.



Challenges with Polymarkets

Polymarkets have already faced fines when the Commodity Futures Trading Commission (CFTC) filed an enforcement action against Polymarket, alleging it violated federal commodities laws and regulations by offering prediction markets in the U.S. Following this, the CEO Shayne Coplan was raided by the FBI. Polymarket is also being investigated by countries due to gambling restrictions on betting such as in France. The type of market can also face challenges for the company: Firstly, ethical questions can be raised on betting on events tied to human life- such as pandemics, war, or natural disasters, while niche markets with few participants may suffer from low trading impact with high price volatility, leading to inaccurate probabilities. Furthermore, as Polymarket is on the blockchain many new users may be fearful to use a platform that is symbiotic with other crypto sites full of technical jargon, creating a barrier to entry. However, if the company continues to create user-friendly services by simplifying these complex ideas while engaging with regulators and promoting ethical standards, the website should thrive as more people become aware of its utility.

What does this mean for the future?

Following the election, Polymarket announced plans to return to the U.S. market, citing its accurate prediction of President-elect Donald Trump's victory

as a testament to the platform's effectiveness. This new increase in transparency and accurate information for everyone will greatly change how elections are forecasted, and even under intense regulation, it is very difficult for governments to control as the platform is both public and free. The company aims to expand its operations, leveraging the growing popularity of election betting platforms. However, I believe Polymarkets could have widespread implications far beyond elections. Firms can use Polymarkets to forecast product success and optimize strategies based on crowdsourced probabilities such as the new NVIDIA CPUs which could be a key development in the performance of AI in 2025. Governments also could use them to predict the effects of new legislation, public health measures, or economic policies, especially when economic circumstances in countries such as South Korea have been so chaotic. Incentivising accurate predictions through monetisation is a simple yet effective USP that can be implemented with such versatility in our everyday lives. If ‘the growth of Polymarket in the future’ was tradable on the site I would definitely own shares.

TAYLOR SWIFT'S *BLANK SPACE:* FILLING THE ECONOMY WITH RECORD-BREAKING PROFITS

BY LAVINA SHAH

Whether you admire her or not, Swift's achievements are indisputable. Encouraged by a devoted fanbase and a determination to extend her passion to perform, Swift lined up shows in 5 continents across 21 months. Each show was imminently sold out after tickets were released; the frenzy was so severe that Ticketmaster's system broke down. It set a record attendance with shows in 53 cities seen by 10.1 million fans across the globe. Aside from her talent for ballad-writing, Swift is known to be a lucrative forward-thinker and a marketing genius. She has found ways to capitalise on her fan's admiration through this extensive tour rendering her a 'mastermind' of business acumen. Her team's strategic pricing strategies and creation of multiple revenue avenues earned Swift impressive sums per night. Her success as a businesswoman was apparent throughout the last few years with the Eras Tour garnering a monstrous $2bn in ticket sales, making it the highest-grossing tour of all time. However, the tour's impacts run deeper than simply ticket sales, with Swift causing short-term 'booms' in local economies and creating multiple revenue streams.

Dynamic pricing, a strategy where ticket prices fluctuate based on demand, played a pivotal role in the Eras Tour's success. Unlike traditional fixed-price models, Swift's team utilised dynamic pricing to adjust ticket costs in real time. The prices reflected factors like venue size, seat location, and the rapidly growing demand. As tickets became increasingly scarce, prices soared, ensuring that Swift capitalized on the overwhelming interest from her massive fanbase. By implementing this strategy, Swift was able to maximise revenue, particularly for concerts in high-demand cities where the competition for seats was fierce and fans were willing to pay premium prices. Ultimately, dynamic pricing transformed ticket sales into a demand-driven, market-responsive system, mimicking those that are studied at university-level Economics. Somewhat controversially, Swift has spoken out against the use of dynamic pricing for her tour, yet it was employed by Ticketmaster, the official ticket vendor for the tour. This caused a large row between fans and

Ticketmaster especially after the site crashed during the presale. This has led to multiple fans suing Ticketmaster since the site was not prepared for the overwhelming demand and ensured that every seat was sold at the highest possible value. This model sneakily used by Ticketmaster, conveniently drove the Era's Tour to record-breaking earnings, contributing to Swift's financial success.

Taylor Swift's Eras Tour not only captivated millions of fans but also generated staggering earnings. On average, Swift earned around $13 million per night, factoring in ticket sales, merchandise, and sponsorship deals. Merchandise sales, including clothing and posters, were another key revenue stream, with fans eagerly snapping up tour-specific designed items. The merch's prominent identification with the tour landed Swift an estimated average of $2 million in merch sales per show according to Billboard. Adding to her genius strategy, Swift cleverly released her album 'The Tortured Poets Department' midway through the tour. This move helped keep fan engagement high, providing fresh content for the tour and encouraging fans to purchase both tickets and merchandise related to the new album. The inclusion of new songs in the setlist was determined by the success of the new album which went straight to the top of the bBillboard100. The release of the new album kept Swift on top of the charts as well as the stages, solidifying her successes across both domains. The release not only kept excitement around the tour alive but also boosted streaming numbers and album sales, further maximising her profitability.

The Eras Tour had a significant economic impact on the cities it visited, with ripple effects spreading through multiple sectors. Large-scale events like Swift's concerts tend to trigger a multiplier effect, where the initial spending by concertgoers on tickets and food boosts local economies in various ways. Although the impact is minor on a national scale, smaller cities like Cardiff and Gelsenkirchen in Germany benefitted greatly through multiplier effects. Cardiff saw Airbnb searches rise by 250% for the nights of the concert, reflecting the number of fans travelling from outside cities to attend the show. The influx of tourists and concertgoers led to a rise in consumer spending, benefiting both large businesses and small local enterprises. Stockholm, home to less than 2 million inhabitants, saw hotel prices double due to soaring demand and a rise in prices for various services. The 180,000 visitors produced an evident impact on the economy – inflation was 0.1 percentage points higher the month Swift visited. On average between 500 and 800 temporary positions were created per event, reducing unemployment rates in these host cities. Swift's weekend in LA generated 3,300 jobs alone, just under half of the 7000 jobs that the 2023 Las Vegas Grand Prix generated. The F1 event lasted three days with an economic-stimulation ability larger than a typical concert's, showcasing the power of Swift's LA gigs. Swift's overall effect was positive, with the tour injecting millions into local economies improving their economic image.

In conclusion, Taylor Swift's Eras Tour was not only a monumental musical achievement but also an economic powerhouse. Compared to other artists, Swift's earnings are extraordinary. For example, Sheeran's Divide Tour grossed $776 million, but with far more shows. Taylor Swift's Eras Tour stood out from previous tours by taking fans on a journey through her entire discography, with each album represented by distinct segments, costume changes, and stage setups. She included an exceptionally long setlist of 3+ hours, offering an immersive experience unlike any other tour. Swift's ability to generate such high earnings in fewer performances accentuates the financial success of the Eras Tour. By leveraging dynamic pricing and stimulating local economies, Swift's tour left an indelible mark on both the entertainment industry and the cities it touched. The financial success of the tour sets a precedent for future tours to employ similar strategies to earn record-breaking amounts per night.

The Eras Tour highlights how music can drive growth in both the entertainment industry and local economies, connecting them economically.

THE PRICE OF WAR: THE IMPACT OF THE RUSSIA-UKRAINE CRISIS ON 2024

BY MANAV BASRA

The Russia-Ukraine war has wreaked havoc on the people of Ukraine, as well as on its economy. This article aims to explore the economic impact of the conflict in 2024, focusing on the economies of Russia and Ukraine, while also providing insight into the global macroeconomic impact as well as a potential conflict resolution scenario in 2025.

Since Russia's full-scale invasion of Ukraine, Russia's economy has outperformed forecasts, defying predictions of double-digit contractions. In actuality, GDP grew by 3.6% in 2023 and 4% in 2024. However, viewing this as a depiction of economic health is inaccurate. The main driver of growth has been the rapid expansion of government spending, and this is beginning to place strain on Russia's fiscal resources. This trend is expected to continue into 2025, with the Kremlin continuing to place a strong focus on the war. Even if the conflict were to end this year, military spendingwouldl remain elevated as Russia will have to replenish depleted arsenals. Despite the substantial state spending, Putin is projecting an image to Ukrainian allies that time is on his side, so the only way to end the war is to accommodate his wishes. To accomplish this picture of fiscal security, Putin is using the Russian banking system to lend at a favourable rate to select companies, achieving mass money printing that does not show up on the public balance sheet. This privatised credit scheme has created a fiscal time bomb that ultimately means, despite what Putin projects, Russia cannot continue this conflict indefinitely, as a credit crisis is brewing.

Aggressive state spending, coupled with war-induced labour shortages significantly boosted Russian imports in 2024, as the domestic economy is unable to satisfy demand. This has undermined the Ruble, which has depreciated by 16% against the dollar in 2024, and has fuelled inflation. Official statistics from Russia suggest an inflation rate of 9% but real inflation for many households is substantially higher (potentially exceeding 20%), despite a 21% interest rate, which has failed to curb inflation. Russia's military-industrial complex is growing for now, but cracks in the economy have started to appear. If Ukraine's allies wanted to widen these cracks, the key would be to deny Putin access to external funds. The west has already blocked $300bn in reserves which has prevented Russia from spending all its foreign

earnings and easing resource constraints. If they were to continue or place further restrictions on the Russian economy, Putin would be at risk of a collapse of power.

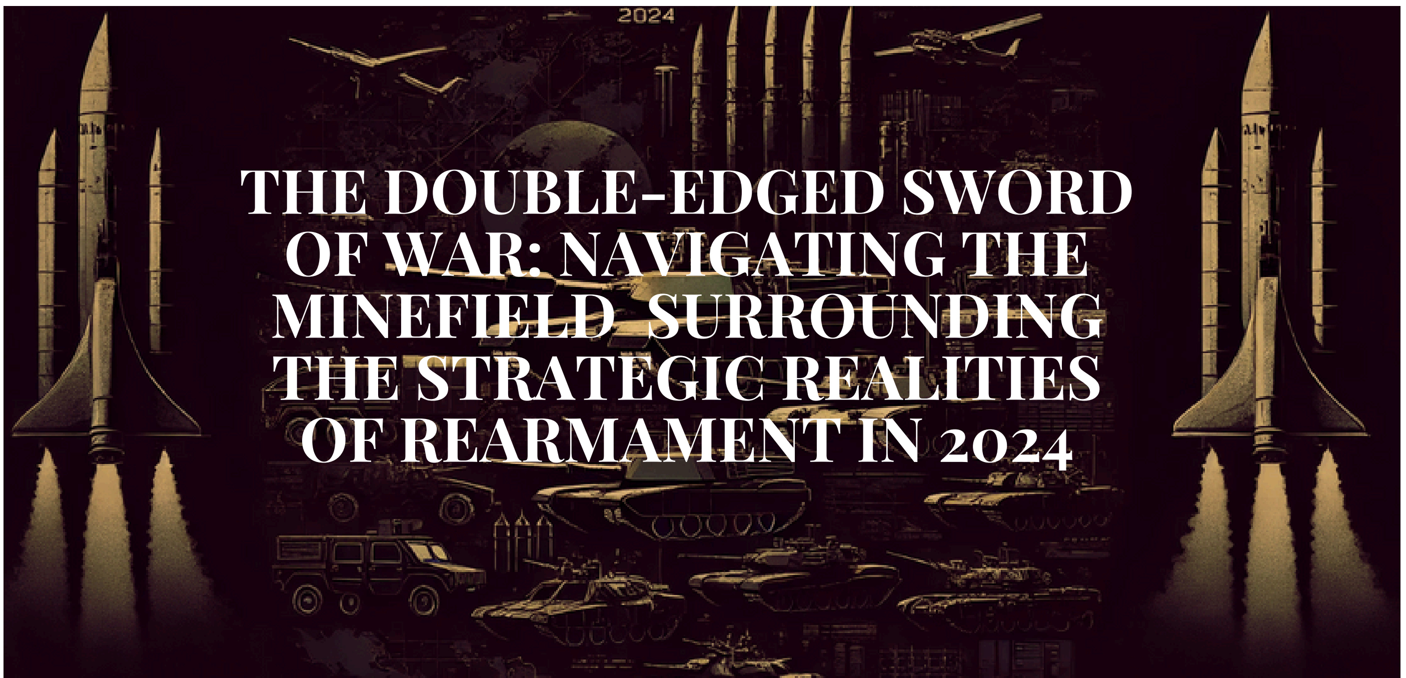
The Ukrainian economy has suffered immensely due to the war. The country experienced a GDP contraction of 29% in the first year of the conflict, but growth has since recovered with the economy expanding 4% in 2024. This was supported by defence spending and agricultural exports. However, similarly to the Russian economy, emigration and mobilisation of troops have led to severe labour shortages. Employers increased wages significantly in response toattractingt labour, but this has contributed to rising costs, with inflation reaching 11.2% in November (its highest level in 2024). The economy is expected to suffer in future due to substantial infrastructure damage and extensive electricity disruption due to attacks, with economic growth forecast to slow to 2% in 2025. This along with Ukraine needing $486 billion over the next decade for reconstruction, highlights the crucial role international aid must play in supporting Ukraine's economy and its people.

The costs of the Russia-Ukraine crisis have not just been confined to these two countries. The conflict has taken a heavy toll on the global economy. Commodity markets have faced greater volatility since the war began. In developing nations, food and energy crises fuelled by the war have pushed over 75 million people into extreme poverty since 2022. This is partly due to Ukraine and Russia accounting for 30% of global wheat exports before the war. Therefore, the collapse of the Black Sea grain initiative in 2023 caused wheat prices to spike by 15%, disproportionately affecting low-income countries reliant on imports. This is evident in Kenya and Egypt, where Russian and Ukrainian wheat once accounted for 85% and 67% of wheat imports respectively.

This alongside many other African countries being affected by fertiliser prices, has pushed millions into food insecurity. Europe has been especially impacted by changes in natural gas prices. The cutoff of gas supplies via Ukraine, which historically transited 40% of Russian gas to Europe has forced the EU to rely on liquified natural gas (LNG). Gas prices have soared 44% in 2024 and with Ukraine recently having closed its final remaining pipeline carrying Russian gas to Europe, the price rises are likely to continue into 2025. This will be driven by Europe competing more with Asia over supplies of LNG. This illustrates how Europe's attempts to cut off dependence on supplies of Russian gas have failed (as Russian LNG exports to the EU hit record highs this year) which has exacerbated the impacts of the conflict on EU nations. Not only will the outcome of this conflict have vast consequences on European economic performance, but it will also have a profound impact on the long-term security of the continent, as well as others. If Russia were to emerge victorious or gain favorable concessions in future peace talks, it would set a dangerous precedent regarding Russia's future ambitions and may even embolden other autocracies like North Korea and China to pursue similar measures to exercise their imperialism.

Looking ahead to 2025, a peace treaty appears to be a likely scenario. Since President-elect Donald Trump has repeatedly stated that he will end the war within a day of his inauguration on January 20th, a resolution to the conflict may be on the horizon. Although Trump is very unlikely to achieve peace between Russia and Ukraine in his envisioned timeline of a day, he will likely threaten tougher sanctions on Russia to persuade Moscow to seriously consider peace. However, Trump's campaign rhetoric suggests he could try to force Ukraine to accept a peace deal that is highly favorable to Moscow or abandon Ukraine altogether. On the other hand, there does appear to have been a shift from election

rhetoric to more serious policy talks with Keith Kellogg, Trump's Ukraine envoy, welcoming Biden's green light for Ukraine to use long-range weapons and his recent decision to provide Ukraine with $6 billion in fresh military and budget assistance. Despite this, scepticism remains over the US's future commitment to Ukraine's defence under Trump. Trump's team has stated that the president-elect plans to continue supplying military aid to Ukraine, but NATO member states must increase defence spending to 5% of GDP (a target which no members currently meet with only 23 of the 32 member states meeting the alliance's current 2% target). Russia will want guarantees that Ukraine will not join NATO. US allies will take a stance to not remove NATO membership from consideration. The future of the conflict is highly uncertain, but a lot is at stake. It is not only Ukraine's sovereignty and independence that is contingent on a favourable peace deal, but the long-term security of Europe.



BY RAANIYA MAJID

2024 was a year of recently unseen levels of regional conflicts and wars with the ongoing Russia-Ukraine War, the escalation of the genocide in Palestine, the toppling of the al-Assad regime, and the wars in Sudan and the DRC. With 23,842 dead and 51,925 injured in Palestine in the past year alone and 60,000 in Sudan, many in DRC and Israel, the human suffering and loss of life have been unprecedented in recent history. Meanwhile, Ukrainian officials have reported a record number of 427,000 Russian soldiers killed alongside reports of 12,000 Ukrainian deaths since 2022.

As a NATO member, Ukraine's ongoing conflict has direct military implications for all NATO states. The economic implications for much of Europe were evident in the cost-of-living crisis being fuelled by geopolitical tension and economic policies such as boycotting Russian oil and gas, resulting in fluctuating commodity prices. Meanwhile, many economies have seen the defense sector fuelled growth, profiting from varying geopolitical tensions over the past year.

This explains the dramatic rise in stock prices for arms companies following heavy rearmament in 2024, with Asian states such as Japan and Korea leading the charge, abandoning previous caps on defense spending.

Venture capitalist funding in arms has tripled fourfold since 2019, whilst shares in major European defense companies such as Germany's Rheinmetall and the Norwegian Kongsberg Gruppen have rocketed this past year following sharp increases in orders for tanks, missiles, and artillery, resulting in profits which will benefit these firms for years to come.

This begs the question if these months of bloodshed and violence have brought positive economic benefits for much of Europe and the West's economy.

Some say the EU's promises to increase defense investment from 2% of GDP to 3% is simply not enough, with NATO official Admiral Rob Bauer calling the lack of investment into defense "stupid. Whilst it is clear considerable financial profit can be gained

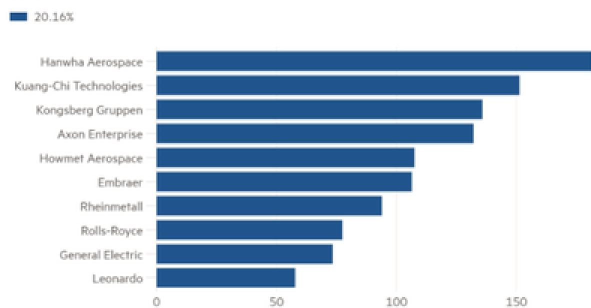
from increased investment into defence, current EU budget constraints and ESG laws by investment banks, pension and structural funds limit further expansion through policies such as caps on direct defence investment.

Bauer's argument holds when comparing feeble European rearmament efforts to the benefits demonstrated by Asian countries such as Japan and Korea, who have seen significant defence share price spikes. As of 2024, South Korea is now amongst the top 10 global arms exporters. The economic benefits will continue to grow as their rearmament is collecting pace. Japan, meanwhile, increased defence funding by $59 billion this year, entirely abandoning its 1% of GDP defence spending cap. As a result, triple-digit share price spikes in major South Korean and Japanese arms firms have boosted them into amongst the 20 gainers on the MSCI All-Country World Index this year. In particular, Hanway Aerospace, South Korea's largest defence group, has seen shares triple such that they are now just behind Nvidia in the MSCI All-Country World's biggest gainers this year.

Defence stocks are booming

Top aerospace and defence gainers on MSCI All World index (US dollars, % rise year to date)

20.16%



Source: Bloomberg

India's defence sector has had a similar success story this year, balancing a dual role as a leading arms importer as well as a growing domestic defence powerhouse.

With New Delhi already leading as the world's largest arms importer for the past 2 decades, India has also been increasing its pace of rearmament, reflected in its largest arms firms reporting rocketing stock prices in 2024. To name one, Hindustan Aeronautics now trades at almost 10 times its book value. HDFC, one of the country's largest asset managers, is another success story. The first to initiate a defence-focused fund in June 2023, HDFC has reaped at least an estimated 73% annualised returns for investors since then. The fund has attracted so much attention that it had to close itself from new investments in July 2024, due to volatility risks. HDFC has not been the only fund of this kind to have been created in India with many others following suit, such that the Nifty IndiaDefence Index has had returns of 56% in 2024 alone, outperforming estimates and surpassing the 10% return reports for the wider Nifty 50 Index.

Defence stocks outperform in India

Rebased in rupee terms

Hindustan Aeronautics — Mazagon Dock Shipbuilders — Bharat Dynamics — CNX Nifty

Source: LSEG via markets.ft.com

The glowing performance reports of Asian arms' firms demonstrates the possibility of potential rewards to be reaped by their European competitors in the market, if they increase investment.

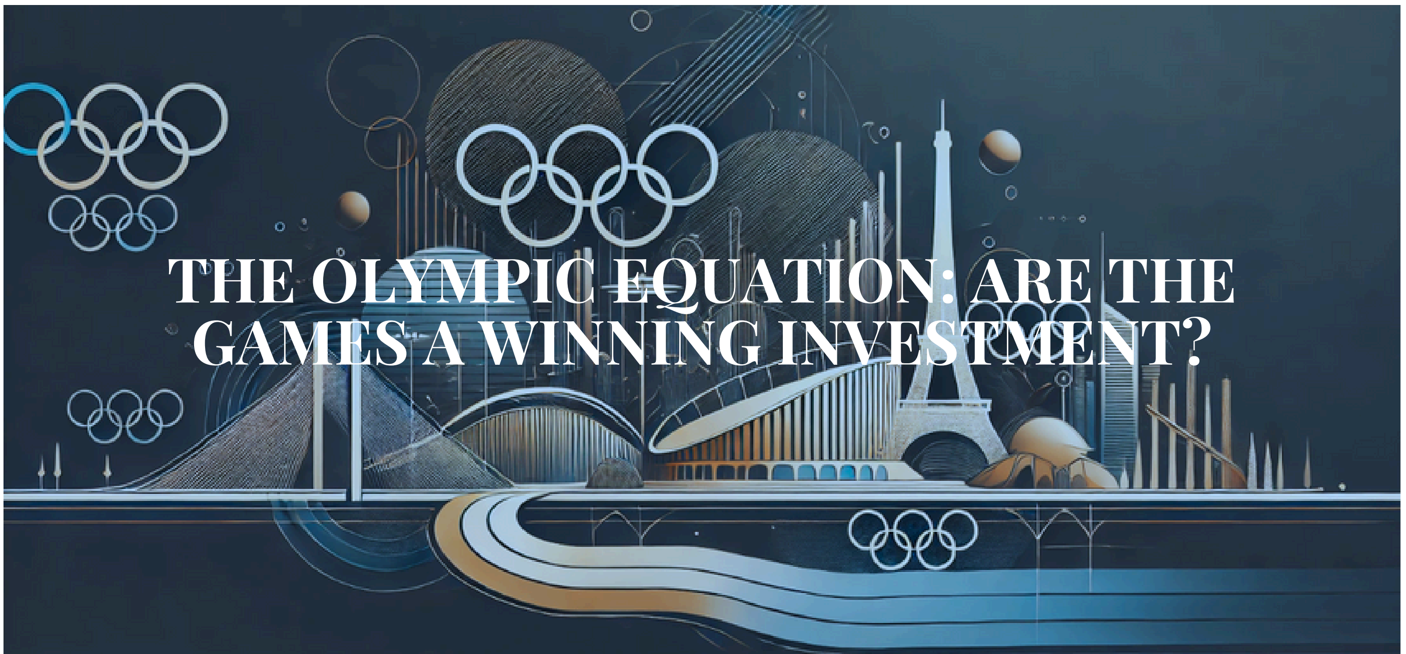
In this context, NATO General Bauer's frustration with Europe's relatively miniscule attempts to reap similar rewards seems much more justified. Whilst Asian states defence industries have been quick to revaluate regulation which has limited expansion of their defence industries, Europe has been slower to follow suit.

Economic benefits aside, considering Trump's warnings to the West to find self-assured security measures and the ongoing war on European turf, rearmament would not only be the financially advantageous decision for Europe's defence sectors, it would also be the smart and safe decision. It would also be naïve to assume the bloodshed in the Middle East including Israel's assassinations of Hassan Nasrallah and intervention in Iran will go very long unpunished. Vengeance is sure to spark further conflict in the region.

However, these economic benefits should be weighed against the non-economic costs of human suffering that the supply of these arms would create. Furthermore, as we have seen from past conflicts, there have been waves of people seeking safety and shelter in more stable countries which in itself will create costs for those countries.

Overall, whilst the Russia-Ukraine War has increased the cost of living for many in Europe through its impact on oil prices, it could be argued that these adverse effects could be offset by sufficient funding for rearmament and defence firms. Even if the UK wanted to limit rearmament, investing iinits arms firms would only reap benefits and allow them to increase output and meet the already ongoing surge in demand for arms. This would create employment opportunities and stimulate trade and economic activity, raising GDP the way it has done for economies such as India, Japan and South Korea which have decided to pursue rearmament and investment opportunities in their respective defence sectors. The only thing holding the UK and similar European economies back from these benefits seems to be legislative ESG restrictions and laws.

However, their relevance in today's geopolitical landscape would need to be reassessed considering the events of the past year. To quote Ursula Von der Leyen, "The threat of war may not be imminent, but it is not impossible. The risks of war should not be overblown, but they should be prepared for." Rearmament amidst the current political landscape is arguably a necessity, but presents many economic opportunities as well, as 2024 has shown. Finding a balance between extracting the economic gains arising from rearmament whilst maintaining global stability will be key going forward in 2025.



THE OLYMPIC EQUATION: ARE THE GAMES A WINNING INVESTMENT?

BY AKSHAT JAKOTIAH

The Olympic Games are one of the world's oldest and most celebrated traditions, dating back to 776 BCE in ancient Olympia, Greece. The Games have since moved around the world, evolving in their style and grandeur. Last year, we saw the Olympic Games return to Paris after more than a century, sparking debate about whether hosting the Games is worth the cost. Events were hosted in the heart of the city, with the Eiffel Tower and the Seine being in the background of them all. Whilst the Games showcased the best of athleticism around the world, they also highlighted questions about their financial impact and value. Over the years, the economic growth of the Games has been monumental, raising arguments about their importance and influence from a financial perspective.

The Paris 2024 Olympics present a successful example of managing the costs of hosting the Games, demonstrating how hosting the Games can be managed more sustainably and efficiently. Paris adopted a pragmatic approach, placing emphasis on cost control, environmental sustainability and

efficiently. Paris adopted a pragmatic approach, placing emphasis on cost control, environmental sustainability and ensuring long-term benefits for the city and its residents. The Paris Games cost around $9.4 billion to host, which was a moderate budget having considered the cost of many recent Games. A significant portion of the infrastructure used for the 2024 Games already existed, reducing the need for extensive new construction and minimising the financial burden on taxpayers. This model challenges the prevailing notion that hosting the Olympics must inevitably involve excessive financial risk and instead offers a blueprint for cities to derive lasting economic and social value from the Games. By rethinking the way resources are allocated and focusing on legacy planning, Paris aims to demonstrate that the Olympics can serve as a catalyst for sustainable urban development without leaving behind costly aftermaths.

While the 2024 Paris Games highlighted the benefits of effective financial planning, many other recent Games have failed to do so. The most expensive games costed over $50 billion - the 2014 Sochi Winter

This far exceeded the initial budget of $12 billion, since most infrastructure was built from scratch. The immense cost of the 2014 Sochi Games highlights the financial risks associated with hosting large-scale international events. The need to construct new stadiums, transportation networks and accommodation facilities from the ground up contributed significantly to the budget overruns. Additionally, factors such as tight construction timelines, security measures, and logistical complexities further inflated expenses. While these investments aimed to transform Sochi into a world-class tourist destination and winter sports hub, critics argue that the long-term economic benefits have not fully justified the staggering costs. Many of the newly built facilities remain underutilised, raising concerns about the sustainability and legacy of such large expenditures. This example serves as a cautionary tale, highlighting the importance of careful planning, cost control, and ensuring that infrastructure serves a practical and lasting purpose after the Games.

Another argument presented by critics of the Games is that much of the infrastructure built is very difficult to maintain and, as a result, is rarely ever used after the completion of the Games. This often leads to large, underutilised facilities that become financial burdens on host cities. Stadiums, Olympic villages, and transportation networks that were constructed at great expense may fall into disrepair, contributing to urban decay rather than aiding long-term economic growth. In some cases, cities have been left with significant debt, such as how Sochi was in 2014, diverting resources from essential public services. Critics argue that this highlights the short-term focus of the Games, where the emphasis on spectacle and international prestige often overshadows practical considerations of sustainability and legacy planning.

On the other hand, investments made by several host cities have proven to be beneficial, leaving behind valuable infrastructure that serves local communities long after the Games have ended. These projects often provide residents with access to modern sports facilities and public spaces that may not have been developed otherwise. A notable example of this is the transformation witnessed in Stratford following the 2012 Summer Olympics in London. The area saw extensive redevelopment, including the construction of numerous sports venues such as the London Stadium. Originally built to host Olympic events, the stadium now serves as the home ground for West Ham United Football Club and regularly hosts major concerts and other large-scale events. This revival of the area has not only contributed to the local economy but also enhanced community engagement by creating lasting recreational and entertainment spaces. The success of Stratford highlights how strategic investment in infrastructure can turn Olympic developments into long-term assets for host cities.

An important consideration to make is that many hosting countries host the games to boost their national image. This may, to some extent, justify the mammoth spending undertaken by some host countries, such as Russia on the Sochi Games. By boosting their national image, countries hope to gain international recognition, attract tourism and promote economic development. This enhanced reputation can lead to increased foreign investment, stronger diplomatic relationships and a greater sense of national pride. For example, hosting a successful event may project an image of stability, capability, and modern infrastructure, reinforcing the country's position on the global stage. However, the long-term benefits are often debated, as the economic return on investment may not always materialize as anticipated. Despite this, the aspiration to elevate national prestige continues to drive countries to compete fiercely for the opportunity to host such large-scale events.

Hosting the Olympic Games involves significant financial and logistical challenges, but the potential rewards can be transformative. Paris, as the host of

the 2024 Olympics, is positioning itself as a model for sustainable and cost-effective planning. The Games serve as a platform for international unity, cultural exchange and national pride, with lasting infrastructure benefits for local communities. Paris minimised costs by repurposing existing venues and investing in projects that align with the city's long-term development goals. As nations continue to bid for the chance to host, Paris demonstrates how balancing ambition with practicality can ensure the Olympics remain a celebration of global achievement without leaving behind financial burdens.

THE US AND GLOBAL MARKETS IN 2024: A BUBBLE WAITING TO BURST?

BY OMAR AHMED-AQIL

Mixed signals, volatility and underlying economic fragility driven by record-breaking highs on Wall Street; this is the U.S. and Global Markets in 2024.

The S&P 500 and NASDAQ Composite soared by 23% and 31% respectively, to record levels fueled by heightened investor enthusiasm and a sharp 40% surge in trading volumes following the U.S. election. Trump's election victory has skyrocketed equity market confidence, driven by massive de-regulatory policies and tax cuts worth 0.2% of GDP, which are anticipated to boost short-term corporate profits. The latter has led to 15.4 billion shares traded daily, the highest in years. However, Goldman Sachs has cautioned that this optimism could create a "perfect storm" as rising inflation, weakening GDP growth, and concentrated market gains increase the likelihood of instability.

Despite the impressive rally, gains were narrowly concentrated with the top 2% of the S&P 500 contributing 59% of its rise since the October 2022 bottom; the top three alone accounted for a record 21% of the index's market cap. The gains were heavily skewed toward tech companies, evident in the 37.57% Dow Jones U.S. Technology Index return growth, significantly outperforming every other industry's equity growth; an evident tech skew in the US equity markets. Meanwhile, the bottom 480 stocks contributed only 30%, reflecting a lopsided market where just 17% of stocks outperformed the index in December 2024, the lowest share since 1986. This, a lack of breadth highlighting the fragility beneath the surface, raises concerns about whether the U.S. can withstand potential shocks to its very top companies.

Further, corporate bankruptcies in the U.S. hit a 14-year high, with 686 companies filing for bankruptcy, an 8% increase from the previous year and the highest figure since 2010, according to the S&P GMI. Thirty of these filings involved liabilities exceeding $1 billion, with notable collapses including Tupperware, Spirit, and Party City. The latter cited inflationary pressures, rising costs, and weakened consumer spending as the fatal factors for its 700 closed stores, underlining the disparity between soaring equity markets and US enterprises who face a vastly contrasted, challenging environment.

Compounding this fragility is the rise in U.S. Treasury yields, which could signal growing uncertainty surrounding sticky inflation and Trump's policy proposals, which could ripple across global markets. The benchmark 10-year yield climbed to 4.76%, the highest since November 2023, whilst the policy-sensitive two-year yield surged to 4.38%. These increases were triggered by robust U.S. labour market data in December, with unemployment falling to 4.1% and hourly earnings rising by 0.3%, indicating an economy confident about the forthcoming growth potential, but tentative about the imminent rise in inflation. The upward pressure on yields has made domestic and global borrowing more expensive which, if continued, could result in a slowdown for business investment and growth.

Despite strong S&P 500 and NASDAQ Composite equity performance, investor confidence in both U.S. and global bond markets remains precarious. Credit spreads have tightened to 2008 Financial Crisis levels, signalling heightened risk in bond markets. Meanwhile, defaults on U.S. credit card loans have also climbed to their highest levels since 2008, reflecting the financial strain on lower-income households after years of elevated inflation. Bond markets, already on edge, may face further volatility as the Fed weighs its next steps in easing rate cuts. While it has indicated a modest 0.5% rate cut going into 2025, some economists believe that the easing cycle is over. Bank of America cited strong labour market data as a key reason for halting rate cuts, as Citi pushed its forecast for the next cut from January to May, and Goldman Sachs reduced its outlook for 2025 quarter-point rate cuts from three to two. Fed Governor Lisa Cook has warned that financial markets appear “priced to perfection” and could be vulnerable to market shifts led by speculation. The looming release of non-farm payroll data and the December CPI (forecast to show a third consecutive month of acceleration, to 2.9% inflation) will be critical tests for the market in early 2025.

Globally, Trump's trade policy promises have exacerbated uncertainties surrounding trade flows. The President-elect's aggressive tariff agenda, including a blanket 20% tariff on imports and an additional 10% for Chinese imports, has raised the threat of renewed trade wars. Kristalina Georgieva, Managing Director of the IMF, noted that the unpredictability of U.S. trade policy is driving up global borrowing costs, as reflected in rising long-term interest rates worldwide. Goldman Sachs, in particular, has warned that universal tariffs could push U.S. inflation above 3% and subsequently reduce GDP growth by 1.25%. Historically, protectionist measures have disrupted trade flows and amplified global economic tensions with trade flows and further protectionism. If executed, Trump's radical tariff policies will have far-reaching consequences for the markets, leading to substantial inflationary pressure on a global scale and stagnating GDP growth beyond borders, as a result.

The outlook for the U.S. economy in 2025 is one of uncertainty. Record highs in the equity
markets are masking significant structural risks, including concentrated gains, rising
bankruptcies, and fragile consumer finances. Trump's unpredictable trade policies and the Fed's cautious stance add further complexity to an already volatile environment. Investors are betting on continued growth, but the warning signs are impossible to ignore. The lessons of 2024 are clear; record highs have masked underlying weaknesses, and an uncertain foundation of market growth could quickly give way to turbulence in interconnected and uncertain global markets.

The US and Global Markets, though resilient in many respects, may be headed towards a tipping point where a layer of unpredictability could have far-reaching consequences for global trade, growth and economic stability.

THANK YOU NOTE

Thank you for diving into the first edition of Assumptions Magazine this year! We're thrilled to share these insights into the key economic and cultural highlights of 2024. A big shoutout to our Junior Editors and Freps for their dedication in crafting this issue. We hope it not only informs but also inspires meaningful discussions. Stay tuned for more insightful content, and we look forward to having you join us for the next issue!

Arun Pillai & Prarthak Sharma

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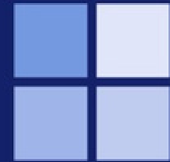

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