



By: *Jim O'Neill*

The center of gravity in the global economy continues to shift eastward, but not equity-market valuations



Last month, Gemma Cheng'er Deng of King's College London and I launched **BRICS+ Thinking**, a not-for-profit policy platform aimed at exploring collective solutions to the world's biggest challenges in this age of "us versus them."

To mark the occasion, my former Goldman Sachs colleague Gavyn Davies produced a detailed **numerical analysis** of what has happened to the world economy since we coined the **BRIC** (Brazil, Russia, India, China) acronym a quarter-century ago.

As far as I know, it is the most thorough, objective analysis of the BRICS economies' actual performance relative to the scenarios we provided in the early 2000s.

Many of Davies's findings are fascinating. For starters, both China and India have vastly outperformed our projections.

Their contributions to the grouping's overall growth have been so large that they have more than compensated for underperformance by Brazil, Russia, and South Africa (the latter was added a decade after our original BRIC paper).

Second, China and India have also outperformed in terms of GDP per capita, which is what really matters for the average citizen in each country.

Their success thus serves as an inspiration for all other so-called emerging economies.

Third, not only did Brazil, Russia, and South Africa underperform relative to our original scenarios, but so did every major developed economy, including the United States.

This is a noteworthy finding, considering that the dominant narrative today is about America's consistent outperformance.

While it is true that the US has outshone Europe and Japan, it nonetheless has fallen short of what we expected for it 25 years ago.

Center of gravity

Davies also includes a fascinating map to visualize the shifting balance of the global economy. He puts the current center of gravity (in terms of global GDP) somewhere just west of Pakistan, while projecting that it will reach China's border by 2040.

This is consistent with the steady eastward drift that has been ongoing since the 1980s.

Reflecting on this map with a large group of private investors and academics, I realized that it stands in stark contrast to what a map of equity-market valuations would show.

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Presumably, this center of gravity would remain squarely in the US. But in that case, one must consider some fundamental questions.

For example, is stock-market performance not anchored in the performance of the underlying economy, as measured by real (inflation-adjusted) GDP?

Unexpectedly strong earnings

Of course, there is an endless body of literature on the topic, including from my own former team at Goldman Sachs.

During my time at the firm, we often found that it was "unanticipated" GDP performance that had the biggest consequences for stock markets.

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Not surprisingly, a period of unexpectedly strong GDP growth would imply unexpectedly strong earnings, and vice versa.

But what does that say about current US equity valuations, considering that the US economy has not really surprised on the upside so far this millennium?

The equity owners who have reaped the greatest wealth gains could be vulnerable to some unwelcome attention from policymakers if the public begins to suspect that they have done much better than the economy's performance would seem to warrant.

US equities' performance

Another pertinent question is whether US equities' recent performance will persist or revert to outcomes more aligned with GDP growth.

The US stock market is currently valued at around **\$77 trillion**, which is close to half of the total world valuation—a share twice as large as the **US share of global GDP** (around 25%).

This discrepancy suggests either that GDP must accelerate sharply, as some AI optimists believe it will, or that equities are due for a correction.



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True, the US share of global equity-market valuations was also close to 50% back in 1980. But that was before China and India had comparable equity markets.

At the time, continental Europe, the United Kingdom, and Japan accounted for the remaining shares, with around 13%, 8.5%, and 15%, respectively.

But today, Europe's share is still about the same, while Japan's has fallen to 5-6%, and the UK to a paltry 2.5%.

Meanwhile, China's global share has grown to around 10%, India's has reached 5%, and the BRICS collectively now account for around 20%, which is considerably larger than the 10% share that we projected in another early Goldman Sachs paper.

And yet, in China's case, this much larger market capitalization nonetheless remains significantly smaller than its respective share of global GDP, which is the inverse of the situation in the US.

Recall that during the Japanese market's peak around 1990, its market capitalization was around 45% of the world total, compared to 30% for the US at the time.

Could the Japanese experience over the subsequent 36 years be indicative of the US market's own future? As we enter this season of landmark AI initial public offerings, investors ought to keep that question firmly in mind.

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