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Private Wealth Management

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We've been deliberate in our many recent notes and communications to clients and investors to bring our best thinking about the current market correction. Most of these notes reference short term events and how markets might find stability through the changes we've been talking about related to higher interest rates, slowing growth, and sustained inflationary pressures.

We decided to focus our Quarterly Perspectives this month on how the landscape might be evolving more broadly and more systemically for the long run. Keeping an eye on the big picture is as important as watching day-to-day signs for long-term investors. Michal Zezas, Morgan Stanley's Chief US Public Policy & Municipal Strategist recently published a report focusing on what he calls the 'Remodeling of the Global Political Economy'.[1]

Globalization

For well over three decades, the world has embraced a globalization of supply chains under a post-Reagan era of US geopolitical dominance in which we helped countries enter into faster economic growth rates and rising standards of living by incorporating their skills, laborers and resources into a highly integrated global system. Regardless of one's political views, most will agree this helped the United States immensely as our standard of living domestically has risen as well. Our systems of free expression, protections for and access to capital, and hard work ethic allowed imaginations to create fortunes for those motivated to achieve new world-changing innovations. Just think of how the evolution in computing, retailing, and automobile production have transformed the world as we know it. In part, each of these industries has been able to leverage globalization to develop and deliver low cost products and services to virtually every corner of the world, at scale.

But we are potentially entering a new paradigm where a multipolar world transforms virtually every aspect of how civilizations engage and prosper. Consider how Russia's invasion of Ukraine has jeopardized stability and might lead to other tectonic shifts, such as China's ambitions in Taiwan and Europe's recasting of energy supply from Russia to 'more friendly' trading partners.

Recently, Apple suggested their interest in reducing dependence on China citing Covid related manufacturing delays. But perhaps their real motivation is based on the idea that businesses and economies must seek out near-shore and 'friend-shore' supplier relationships. Whenever these strategic shifts enter Board Room discussions, businesses have to begin to price in the effects. Moving supply from one region of the world to another takes time, capital and patience. It could also lead to continued persistence in inflationary pressures.

Bifurcation

Imagine a future world where Russia, China, North Korea, Iran, African Military Juntas, and their extended protectorates seek to create their own trading block outside of US interference. In such a world order, perhaps this new trading block's reserve currency becomes the Chinese Yuan; Russia and Iran easily finance their economies by providing energy to this new block; and a multipolar world emerges with two distinctly separated eco-systems. It could also lead to greater

[1] Sunday Start | What's Next in Global Macro, May 22, 2022

geopolitical risks taking us back to a time dominated by two competing world-powers as in the days of the nuclear arms race. Nations who don't trade together might have less incentive to play nice with each other in the geopolitical sandbox.

Slowbalization

Perhaps 'slowbalization' is the punchline that gives us the greatest concern. These conditions, in our opinion, could lead to slower sustained economic growth, which in turn might or might not lead to higher inflation and lower valuations of all kinds of assets from real estate to stocks to real assets.   As we look out over the next 5 to 10 years, we are carefully considering the impact of a potentially slower growth pattern as well as continued complications in supply chains, and potentially higher levels of inflation and volatility.

On the other hand, demographic tailwinds as Millennials and Gen Y reach their peak earnings years, continued technological advances in telecommunications, medical research, and industry, and significant capital investment onshore could all be catalysts for increased productivity and security domestically.

Only time will tell, but we believe that this higher level thinking will be critical to seeking the most optimal positioning in client portfolios over the coming years.

As always, the team welcomes your thoughts, comments, and questions!

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