

TAKING STOCK: GLOBALIZATION BACKLASH, AN NEPC KEY MARKET THEME



NEPC Research

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NEPC *Key Market Themes* represent our view of the current drivers of the global economy. The themes evolve and interact over time, influencing asset values and opportunities. A disruption of a theme likely alters market dynamics and our investment outlook.

GLOBALIZATION BACKLASH

An uneven economic recovery, stagnant wage growth and growing wealth inequality are fueling discontent across developed and emerging countries, leading to populist movements with an anti-establishment political bias.

This backlash against globalization reverses several decades of multilateral trade and relations that increased the flow of capital, goods and services, and powered a burgeoning middle class across the world. This fatigue over globalization poses a risk to the established economic order. It paves the way for the growth of populist movements and forces a reevaluation of established multilateral relationships. This results in an uptick in trade tensions and heightens geopolitical risks. Governments may be rendered ineffectual as a lack of political consensus incites instability and limits the passage of new reform.

At NEPC, we do not envision this movement against globalization—be it in the guise of the recent trade dispute between the United States and China, the protracted exit of the United Kingdom from the European Union, or the success of unconventional candidates across the globe—resulting in a dedicated investment opportunity.

We believe this shift away from traditional political norms—for instance, a restrictive US trade policy—leaves international markets prone to bouts of volatility and negative investor sentiment, likely leading to more frequent dislocations in currencies and equities. This brand of populism does not favor a specific investment action or asset class, but the heightened volatility can be a positive for equities should markets overreact.

We also believe this tsunami of discontent is here to stay as we do not see the disparities in wealth and income narrowing in the near term. We continue to monitor the growth of populist movements, on the “left” and “right,” and the destabilization of the political order to better understand its impact on investment portfolios and capital markets.

DISCLAIMERS AND DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

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