



EGROW Foundation

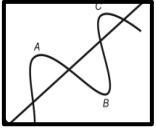
# The Shape of the Next Cycle



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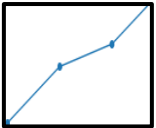
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# Outline



## Where we are today:

- A Once-in-a-Generation increase in inflation leading to a Once-in-a-Generation interest rate hiking cycle
- Rising risks of recession across most Developed Markets
- One of the largest sell-offs for a global balanced portfolio



## Five important trends that will shape of the next cycle:

1. Inflation is likely to be higher
2. “Great Power Rivalry” is likely to result in more chronic Geopolitical risks
3. Governments are going to be playing a bigger role
4. The nature of globalization is changing
5. Trend growth in China will continue to slow as the growth model changes

# The era of “lower highs” in rates has ended ...

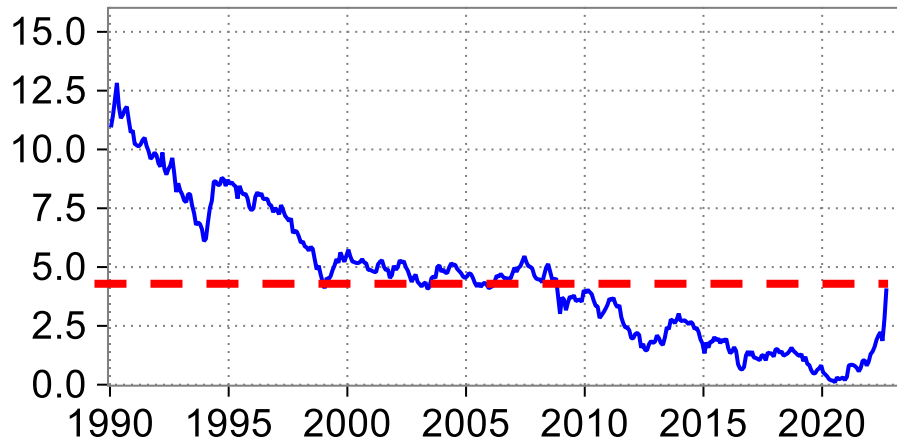
## US: 10-year Yield (%)



## Germany: 10-year Yield (%)



## UK: 10-year Yield (%)



## Australia: 10-year Yield (%)



# The shape of the next cycle is likely to be different compared to what we experienced between the GFC and Covid



**Inflation is likely to be higher**



**“Great Power Rivalry” is likely to result in more chronic Geopolitical risks**



**Governments are going to be playing a bigger role**



**The nature of globalization is changing**



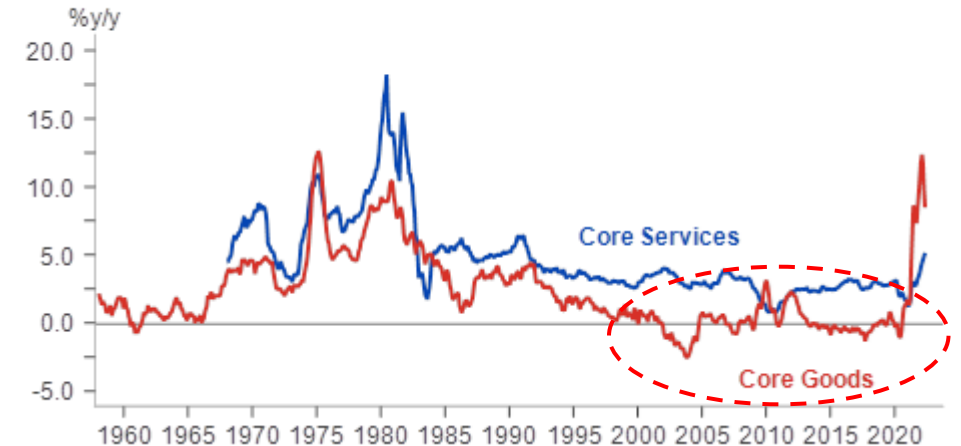
**Trend growth in China will continue to slow as the growth model changes**



# Inflation is likely to be higher

- Pressures for deleveraging that were prevalent in the past cycle are no longer there
- The energy transition that is necessary for us to attain net zero targets is likely to feature higher investment outlays and higher energy prices.
- Global supply chains are likely to be changed in ways that are optimized for resilience rather than cost minimization.

US Goods vs Services inflation



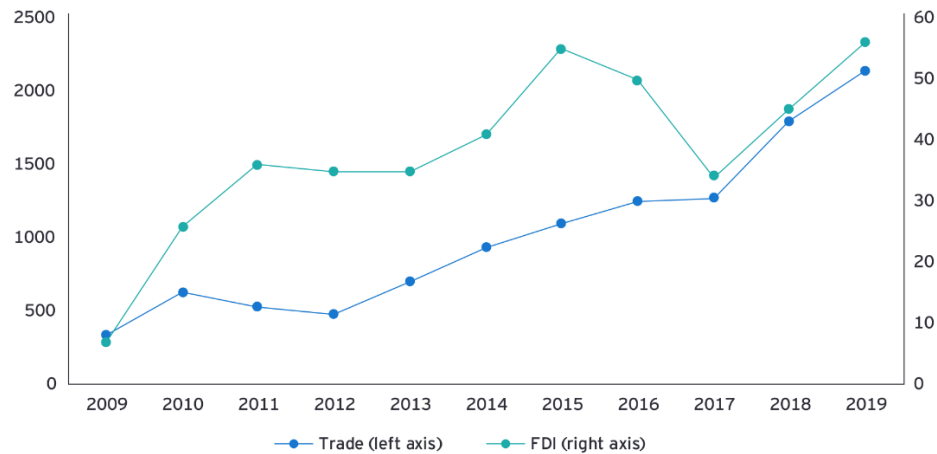
*Source: Bureau of Labor & Statistics, GIC Calculations*



# “Great Power Rivalry” is likely to result in more chronic Geopolitical risks

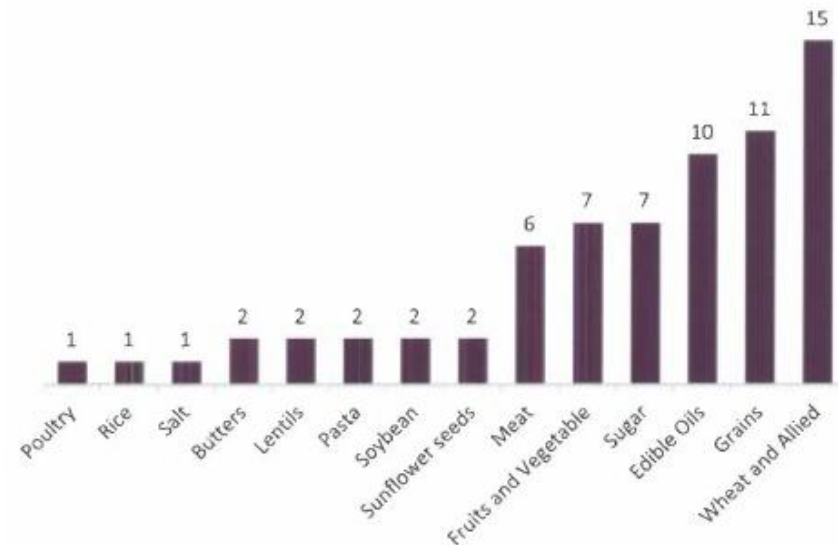
- Geopolitical is not only about wars and conflicts, but is already affecting the environment for doing business globally:
  - *Greater barriers to cross-border investment*
  - *An increasingly broader definition of National Security*
  - *Bigger push for countries to achieve self-sufficiency*
  - *The search for an alternative safe-haven asset*

**Number of countries imposing restrictions on trade and FDI**



**About 70 Food export bans announced since start of Ukraine War**

Export Bans by Food Categories (Number of Countries)

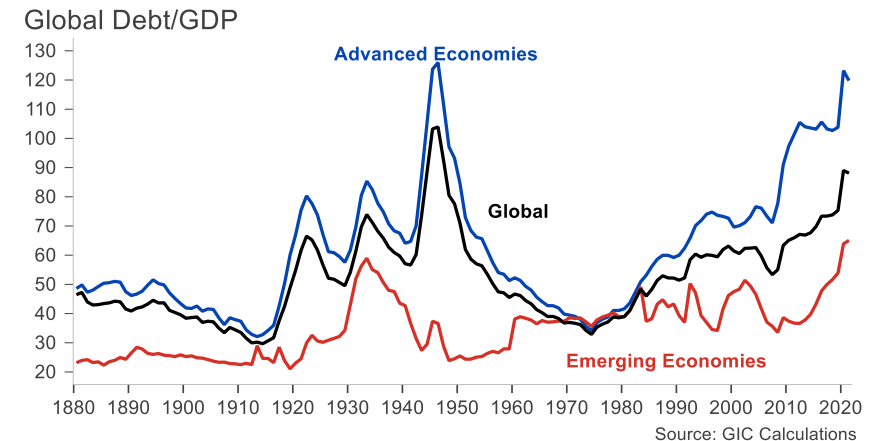


Source: Global Trade Alert



# Governments are going to be playing a bigger role

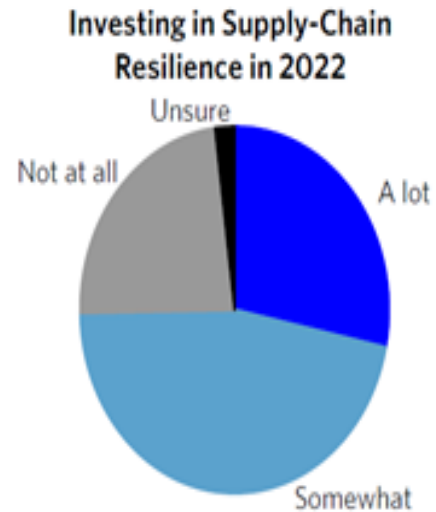
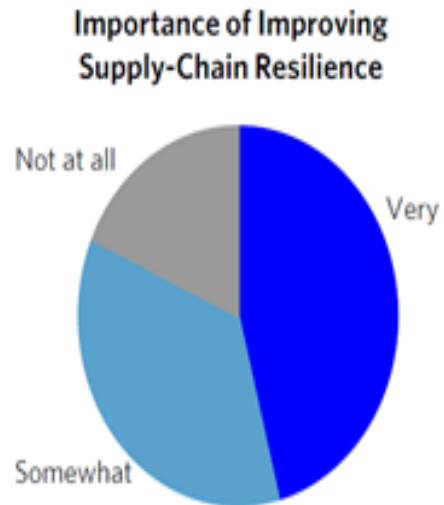
- Demand for more government intervention to help insulate the public from rising costs
- Policymakers are becoming more interested in industrial policy
- Pressure to consolidate public finances in core economies has weakened.
- This growing role of the state is not without costs:
  - Debt dynamics of the more indebted countries will worsen as global interest rates increase
  - Pressure for new revenue streams





# The nature of globalization is changing

- Globalization is by no means dead. But it is changing. This requires a different assessment of who will be the new winners and the new losers
  - a. Broadening of sectors that fall under the “national security” umbrella is limiting the accessibility for foreign investors
  - b. Shift towards sourcing from countries that are allies (“friend-shoring”)



Source: PwC Pulse Survey, January 2022 and Bridgewater





## Trend growth in China will continue to slow as the growth model changes

China faces three challenges:

- i. Slowing trend growth
  - ii. changing economic model, and
  - iii. geopolitical risks
- Changing industry mix driven by
    - i. Demographics and income level change the consumption basket
    - ii. Dual Circulation strategy



# Implications of the changing nature of the global economy

1. The boost to asset valuations from ever-decreasing interest rates are likely behind us.
2. Central banks are likely to be attempting to reach their inflation targets from higher levels than below. This will likely result in higher macro volatility and shorter cycles
3. Real assets and commodities are likely to do well in this environment
4. The changing nature of globalization means that emerging markets cannot be treated as a block. The winners and losers will be different.
5. The era of big government runs the risk that the next great crisis is a public debt crisis in a major economy