Video Transcript

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Willem Sels Video

As we look into the second half of the year, the global economy is slowing, and although a global recession remains unlikely, there are significant geographical differences. ASEAN countries are benefiting from the reopening, and the US should rebound after a weak first quarter, leading us to overweight ASEAN and US stocks. The UK economy faces a significant cost of living crisis, but its globally oriented stock market benefits from energy and materials exposure, and we hold a neutral stance on the UK. The Eurozone's economy is probably most at risk, leading us to an underweight and defensive stance there. Meanwhile, China has been facing COVID-related lockdowns, but stimulus measures should help it recover later this year; we await improving economic data before we upgrade Chinese stocks from our current neutral stance. We think investors will continue to differentiate greatly between markets, and make their geographical allocations mainly of the basis of the cycle and relative risks, rather than looking for the cheapest markets.

The inflation and rate cycle is the other driver of risk appetite, but the pendulum has already swung quite far here. Markets price in slightly more rate hikes than we expect in the US, the UK and the Eurozone, and further upside for bond yields should therefore start to ease. That means that there are opportunities in short dated corporate bonds in developed and emerging markets. For currencies, it means that further upside to the US dollar may start to slow (even though greenback should still benefit from the volatile global risk appetite). And for equities, markets' preference between value and growth stocks should remain changeable, but with little overall further direction. We therefore balance value and growth stocks, and consider our Durable Dividends investment theme an attractive way to do this.

But while those macro-economic factors can help set much of our asset allocation, they're not enough to make portfolios future-proof. The world has gone through some big shocks that will have lasting effects for companies and markets. The COVID-19 crisis exposed the vulnerability of global supply chains, changed working habits and boosted the online economy. The Russia-Ukraine war illustrates the danger of excessively concentrated energy and commodity sources and heightens calls for more energy independence. And the sustainability revolution will require big investment and affect all business models. What these shocks have in common is that they question excessive globalisation, and will lead to more regionalisation. All of the shocks are inflationary as well, because new areas of demand while supply has not yet caught up lead to bottle-necks, and the cost of emissions is ultimately bound to become part of what we pay for goods and services. On the flipside, the huge investment that is needed to adapt to these shocks makes a global or protracted recession less likely.

Of course, these shocks support our high conviction themes. Regionalisation, rising R&D and geopolitical uncertainty support all of our themes under the Digital Transformation, including Automation and AI; Biotech, Genomics and Devices; Smart Mobility, The Metaverse and Total Security. Our Asian HiCo themes focus on the green transformation and tech leaders, and recognise that rising wages and new consumption patterns support a consumer revival. And finally, the energy transition and biodiversity themes are clearly becoming a key focus for investors and businesses, while labour market shifts help drive the rising focus of the 'S' in ESG.

How companies react to these structural changes is critical, and companies' adaptability and resilience will depend on a number of factors. A strong market position is a good starting point – hence our focus on quality companies. Companies with strong balance sheets are also in a better position to make the necessary investments to make their supply chains cleaner and more diversified, or to develop a digital offering. Maybe most crucially, successful firms will need strong human capital and an innovative CEO to adapt to the big challenges and the rapid pace of change.

It's only by putting the macro-economic, structural and company-specific micro factors together that we can truly construct a future-proof portfolio.