CAZENOVE
CAPITAL MANAGEMENT

5 themes from the 2017 World Economic Forum

Huw van Steenis, Schroders' Global Head of Strategy, shares some key observations.

The mood at the World Economic Forum was the most divergent in years. Some speakers were notably positive about accelerating growth and regime change, others markedly downbeat. But whoever you spoke with, the intense political challenges from populism, globalisation, disruptive technology, the migration crisis and inequality, dominated debates. As long-term investors, where do our opportunities lie and how should we navigate our way through the fog of uncertainty that lies ahead?

1 **Automation and jobs:** I sensed a step change in the perceived level of threat to jobs from automation. According to McKinsey, some 1.1 billion workers and $15.8 trillion in wages are associated with activities technically automatable today. Although the likes of technology leaders such as Google and Facebook were upbeat about the ability of entrepreneurs to create new jobs, a straw poll of financial and other professional executives did reveal that they are looking to automate 10-30% of activities in the next three-to-five years. The implications for white collar employment and long-term corporate earnings are huge.

2 **Populism:** The impact of populism was the number one concern. How it manifests itself in coming years will be one of the most important drivers of markets, but I was struck by the lack of consensus about the causes and consequences of the politics of anger. It's clear that the stagnation in real incomes and multiple challenges to economic and national identity are complex to solve. Investing in western markets is becoming more akin to emerging markets, where a keen understanding of country risk and local politics is key. As long-term investors, we need to hold tight through heightened uncertainty; it is not just about tit-for-tat trade policy, but the wider reappraisal of the benefits of global financial markets.

3 **Regime change:** The impact of political regime change on central banks and asset prices was vigorously debated. While most agreed that the 'reflation trade' is the most important inflection for asset prices in years (and probably the end of the 30-year bull market in bonds), there was little consensus on how smooth the transition will be. Given that we reached the limits of monetary policy in 2016, investors are optimistic about a new age in fiscal, regulatory and trade policy. I found support for my view that as central banks reel in quantitative easing, cross-asset correlations should fall dramatically, ushering in an era of wider divergence in performance between asset classes, sectors and individual securities. In this brave new world, active and nimble investing will be key to successful long-term performance.

4 **Long-term investing:** In five of the last six quarters, S&P 500 companies paid out all their earnings in dividends and share buybacks rather than increasing investment; a sinister hint that uncertainty risks breeding short-termism in business decisions. What bodes well for economies is the focus on companies capitalising on longer-term themes – particularly technology and healthcare – and a far greater consideration of the social impact of their investments.

5 **Future forecasting:** A series of workshops on how to improve forecasting was the surprise success of this year's Forum, at a time when the value of forecasting and opinion polling is under serious question. It considered recognising and adjusting for biases, reducing 'group think', incorporating a wider range of data sets and simply learning from errors. One speaker suggested that complex theories had taken precedence over solving practical problems. As an investor, this chimed with me. Harnessing data to solve investing problems is critical to maintaining an investing edge. As we agreed: "no man or woman can beat a machine, but no machine can beat a person with a machine."

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