1492, 1789, 2020: A TALE OF TWO WORLDS?

28 APRIL

SPEAKERS

Patrick Jenkins, deputy editor, Financial Times, in conversation with

Michael Power, strategist, Ninety One

In this FT Future Forum, Michael Power, a strategist at Ninety One, an Anglo-South African asset management house, delivered a presentation on the state of the world and the implications for investors. His talk was followed by questions and answers. Highlights of the event are below.

2020 IS A TURNING POINT TO RANK ALONGSIDE 1492, 1789 AND 1914

The year 2020 will be remembered as a turning point in world history, said Power. It will be thought of as the year when the centre of economic gravity shifted in favour of Asia.

The causes of the turning points in history, he said, can be looked at in two ways: the "punctuation of the prevailing equilibrium" and the coming together "of underlying trends with a single cross-fertilising event".

Power suggested that because of the pandemic 2020 will rank alongside 1492 when Christopher Columbus discovered the New World, 1789 when the French revolution swept away the *Ancien Régime*, and 1914 when the assassination of Archduke Franz Ferdinand of Austria helped to spark the first world war.

He said Covid-19 has accelerated trends relating to debt, technology, climate change, demographics and Asia's economic rise. He quoted historian Yuval Noah Harari, who said: "Pandemics fast-forward history".

TREND ONE: DEBT

Consumer demand is being subsidised by governments acting "in the name of Covid", said Power. He pointed to how, since the 2008 financial crisis, governments had invested heavily in social spending, which continued during the pandemic. He highlighted "the zombification of the industrial and service sectors" and said they survived only because of bailouts. In 2020 the US recorded its lowest level of corporate bankruptcies in the modern era.

To subsidise people's lives in this way, governments in the west rely on modern monetary theory. They benefit from low (in some cases negative) interest rates which "fool governments into thinking that debt is free". He called this "a frightening concept".

Power warned that modern monetary theory "will turn from saviour to villain" in years to come. It will be seen to have been "as illusory as a magic money tree".

TREND TWO: TECHNOLOGY

"Rhetoric around the fourth industrial revolution has created a breathless optimism in technology", Power said, and the success of the Covid-19 vaccine programme has strengthened this sentiment. He warned, though, that technology can be "destructive as well as creative"; it may make things "better for humanity" but "not for all humans".

He pointed to the example of Amazon, which has prospered during the pandemic at the expense of traditional retail and its workers. He recommended that people read JD Vance's *Hillbilly Elegy*, a book that looks at a Rust Belt town in Ohio, to see how technology can damage a traditional community.

Another danger is that technology is giving office workers a false sense of security. For now it has mainly affected blue-collar workers but over time it will affect them too.

Power concluded that technology will only be valuable for everyone if it leads to both higher productivity and higher median wages.

TREND THREE: CLIMATE CHANGE

Power suggested that "deforestation drove Covid-infected bats to seek refuge in human habitats" and he called for more to be done to tackle the challenges facing the environment.

This could be done through an energy revolution, he said, adding that the fourth industrial revolution is more about energy than technology.

He argued that renewable energy will drive progress. Now that it is possible "to make money by being renewable", he hoped to see breakthroughs in fighting climate change. "Green hope is now being realised by green profitability."

TREND FOUR: DEMOGRAPHICS

Ageing populations in the west [which in this context includes Japan] will lead to lower growth, said Power, with the cost weighing on governments. State investment is skewed by underfunded pension systems and the health needs of older people.

By contrast populations in the east are "much younger" and as a result they can expect higher growth, at least through the 2020s. By 2030, however, China, Korea and Taiwan will face a demographic time bomb of their own, with a higher proportion of people turning 60 years old.

TREND FIVE: ASIA'S ECONOMIC RISE

China and other Asian countries have "coped better with Covid" than the west, said Power. As a result the shift in economic, and possibly political, power that was set to take place by 2030 is likely to take place by 2025.

At current rates of growth (which he believes are driven by consumption among Asia's youthful populations) China will probably double its per capita gross domestic product by 2035, said Power. Countries in the Regional Comprehensive Economic Partnership, the new China-centred trading zone, would account for 50 per cent of global GDP by 2030 (up from 30 per cent today), he predicted.

Throughout his talk, Power stressed how China now leads the west in many ways. In technology Beijing's "Sputnik moment" – when another state's actions triggered it into greater efforts – came when the US froze out Huawei. As a result China now spends more on research and development than any other country.

In ecommerce, China is the world leader and Power said that the Chinese regard the mobile phone as "just a shop in your hand". In renewable energy China leads "in installed capacity, usage and manufacturing capabilities". It already accounts for 60 per cent of the electric vehicle market.

THE IMPLICATIONS FOR INVESTORS

The changes across the five themes mean that "investment decision-making is at a crossroads", said Power. The result is that western investors will need to make their portfolios more global to meet ambitious return targets, avoid bond markets as they "are not a place to put your money", make the traditional 60:40 asset allocation more global, and expect that "currency will replace fixed income as the interest-yielding asset class.

Power said fund managers will need to develop new skills, including currency management. He said: "To close your eyes and say 'I can't cope with investing globally because of the currency risk' is not going to be good enough." As part of this skilling process, he recommended that fund managers "learn to speak renminbi".

QUESTIONS FROM THE ONLINE AUDIENCE

What will governments need to do to help young people affected by Covid-19?

Power said governments will need to "reconnect" with this group but that they face a challenge. The money that governments "are going to have to spend" will be hard to find when economies are saddled by debt, ageing populations and consequent low growth.

How will a shrinking population and an increasingly autocratic government affect China's trajectory?

Power said China has 10 years before it will begin to see the effect of population decline although it does have time to start to move the remaining pool of 150m rural dwellers to the cities. This internal migration has "supercharged" China's GDP growth in the past few years. Once the bulk of the populace is living in cities, China can move to what Power called its Plan B of the Belt and Road initiative, to "connect China to the demand that is emerging in Asia and Africa, the two regions that have the best demographics on the planet".

Do you expect recession to return in the next five years?

"Some sort of reckoning" will take place by 2030, said Power, but the timing will be determined by "how long governments can spin out the magic money tree".

US companies dominate most industries. How will the transition to Chinese domination happen?

Power said that in the "heavier space" of goods rather than services Chinese companies will come to dominate. He pointed to the electric vehicle market: "I don't think Tesla will be the king of electric vehicles in 10 years." He predicted that the top three EV companies will be Chinese.

How do you see cryptocurrencies evolving and what role will central banks play in their evolution?

The evolution of cryptocurrencies reflected "growing unease with the way monetary policy is being conducted in the west", said Power. It is an indicator that people want to "put their money outside the traditional world which they see being corrupted by modern monetary theory".

The "real story" over the next few years, he said, will be "the emergence of digital currencies run by central banks". Again China is leading the way with its development of a digital renminbi.