Episode 6 - GROWTH: Mega Trends - Challenges and Opportunities

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MANDY

Hi, I'm Amanda Hale, and joining me once more is my colleague

Andrew Newson, and we welcome you back to the next episode of our Industry Perspectives podcast series.

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To recap, last time we discussed various influences on growth in financial markets through the lens of trade, inflation and impacts for balance sheets.

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In this, our final episode with our industry experts, Nathan and Rob, we delve once more into our growth discussion.

This time concluding with a discussion on the challenges and opportunities inherent in the mega trends we have discussed.

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ANDY

Nathan. As countries seek to manage the various mega trends that we've discussed, do you think there are any appreciable differences in the implications for emerging market economies versus the developed markets?

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NATHAN

This is a hard one.

I think there are. I don't know if there's any if there's any broad unifying theme of difference across them. But when we think about these mega trends, we've talked about geopolitics, AI, de-globalization or globalization and that I do think that there are differing implications.

I think emerging markets tend to be more vulnerable to the volatility that arises in the face of geopolitical kinds of pressures than the developed markets. On AI, I think that first of all, many emerging markets have hugely benefited from AI. And, you know, those are the ones that are in Asia and that are actually producing it. More broadly I think that

that Ems are probably generally better placed having the resources and the financing to be able to adopt AI. And there is some concern about the implications of AI for some countries, for example, many analysts who follow India are actually worried that in a AI revolution that India will grow more slowly than it has in recent years and specifically concerns that, for example, many of the call centre jobs have been outsourced to India are going to be replaced through AI technologies.

That's debatable. But that is certainly a risk.

I think these debt issues that I described are broadly universal, that if I look at the developed markets, I'm worried about indebtedness. And if we talk to our emerging market economists, they're worried about indebtedness. A unifying theme there is that 10 years ago, the markets were only worried about indebtedness in the EMs. And now it's with the DMs. And so when I look at these mega trends, I do see differences between EMs and DMs, but it's almost a narrative that's specific to that particular challenge or particular topic.

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MANDY

Are the gaps between EMs and DMs getting closer do you think?

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NATHAN

I do think that in many ways, the gaps between EMs and DMs are closing. And in some ways, the capacity to manage their economies, the DMs, we've taken a step back. And we're not managing with the same discipline that our parents and grandparents did. And at the same time, I think in terms of economic management, credibility of institutions, particularly the quality of central banks, emerging markets are taking a step forward. And in that world, the gap and the difference between emerging markets and developed markets is harder to differentiate.

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MANDY

Rob, what are your views, do you agree with Nathan?

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ROB

I never thought that I would think of certain emerging market areas as safe haven investment at a high yield. But when you think about some of the threats and the geopolitical events that have been going on and the sort of suboptimal growth rates in

some of the DMs, most notably, Europe came under a lot of pressure as a result of higher energy costs associated with the situation in Iran and also had come under a lot of pressure in regards to the Ukrainian war and the sort of security threat from Russia. When you think about that, maybe you're better off investing in Latin America.

Are you willing to take the governance risk in Latin America, or are you willing to take the suboptimal returns that may have derived because of geopolitical challenges in Europe? And certainly markets in the past have made their choice, and they went for higher returns with perceived in a way less risk in the emerging markets. And so sometimes that's actually floated what has been an attractive return in the emerging markets now for the last few years.

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MANDY

So how should multinational corporations and investors navigate through the global environment that we've discussed?

From what I've heard, it sounds like there will be plenty of uncertainty and challenges, but it sounds like there will also be opportunities. Is that correct?

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NATHAN

I think that that is exactly right. And my feeling is how one responds to this environment is we've got to respect the uncertainty and respect the challenges. We've got to monitor what's going on. We need to be situationally aware.

But it's imperative that we not overreact. And again, let me go back to where we started the discussion. We in Citi Economics over each of the last four or five years, as the year began, we were thinking about the challenges, and we marked down our forecast only to spend the year marking it back up and for ultimate performance to be pretty solid. So kind of my feeling is be aware, be duly cautious, but don't hunker down. I think we've got to press forward investing, both on the real side with firms and corporates and on the financial side.

And I do think in that context that there are a lot of challenges out there and a lot of uncertainty. I also think there is some extraordinary opportunity. And we've talked about some of the opportunities and higher productivity that will come as a result of AI technologies. And that could be transformative. And then we also talked about this underlying resilience in the economy. And I think both of those give me a lot of confidence, along with there are other kinds of technological and macroeconomic developments. People are thinking and responding to these conditions every day. And I think that there are likely to be real time opportunities for firms in a variety of sectors

going forward. So caution, awareness, sophistication, but the costs of hunkering down are just too high.

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ROB

I think the potential growth in the world could be much higher. Right now, we're still looking at, you know, I would say, average growth rates. And in the US, we're still looking at a sub 2% growth rate, real growth rate in the US. However, if you just look at that internet period, real growth rates shot up to almost 5% or 6% in some years.

And that's a meaningful effect. I also know that I can't remember a growth period, a real strong growth period in the world that didn't have volatility associated with it. And so I think you will still experience volatility in markets. There'll be moments of consolidation.

You know, we'll see all of that. And I think multinationals should be looking at this optimistically. They should be looking at the ways in which to empower themselves with AI application and improve their own productivity. And I think they'll see associated growth around them. And that growth, that investment can float a lot of boats. You know, I was talking to one of our analysts about the barge business. And he'd say, well, barges. But the barge business is going through a revival right now because they're shipping all the equipment that goes into making these data centres. So there are second and third order effects that really help a lot of different industries and will continue to improve those industries. There are analyses now that you can do with AI that you can also do eventually with things like quantum computing and innovation like that. That will help the biopharm industry that could accelerate R&D and thus lower those costs so it could have a profound effect on the drug industry. We haven't seen those things yet, but they're in development now. And so I would look at it optimistically. But I would also, as Nathan said, be aware that all growth periods have associated high volatility with them.

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ANDY

Thanks Rob. As we look to wrap up, Nathan, I'll ask you to answer the last question first if and other reason and to reduce Rob's options.

But looking ahead. What are the most critical policy decisions that governments could make to foster continued resilience and broad-based growth amidst these challenges and opportunities that we discussed today?

09:12

NATHAN

This is a tough one because it's easy to list policies that they can pursue.

But I think the reality is that many governments are just not there. Like we've emphasized the value of increased degree of fiscal discipline, which I think would go a long way to re-instilling confidence in markets and bringing down borrowing rates both in the United States and globally. And we could also talk about increased openness to trade and capital flows and the like. That just doesn't seem to be the direction of travel. So I guess if I were to offer constructive suggestion for policymakers around the world of something that they could do that would be within the realm of possibility is we've got to be very careful to not get in the way of the development of this powerful new AI technology. On the one hand, there will need to be at times regulatory and even legal interventions to ensure that it's a safe, reliable technology.

But we've got to allow this technology to develop. And this is a concern that I have in that right now I don't think-- and let me focus on the United States that I know the best, I don't think that AI is popular. That if you put the question, should we pursue AI up to a vote of the American voters, I don't think it would win a majority. And it might actually lose by a substantial margin. And I think that's because people are worried about the prospects for their jobs. They're worried about higher power bills and the demand for electricity.

There is a range of concerns out there. We've got to manage through this and not get in the way of the development of AI. And then broadly, as I mentioned, there's a range of other technologies that are related to AI or tech, but also more broadly in biology and genomics and a range of other areas that are just absolutely critical. So just do everything we can to foster an environment of technological adoption would be my suggestion.

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ROB

Yeah, I mean, I agree with everything Nathan said. I don't have a lot to add. I do think that I want to go back to fiscal because I think that it's good to still reduce fiscal deficits around the world because should there be a down cycle, which could happen even in a period like this, I don't know that governments have the resiliency to deal with it.

And so I think you do have to make meaningful change to the reductions to the fiscal deficit in order to have some buffer or bandwidth in the event that you do see a cyclical downturn. We may not be out of the woods on that. And that could happen.

I'm optimistic. I think this is a profound growth period coming up, but you never know. So you do have to be careful about that.

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MANDY

Well, thanks both. That brings us to the end of a truly fascinating discussion.

We've covered a lot of ground from the strategic realignment of global supply chains and the pressures on emerging markets to the complex role of government policy in an uncertain world.

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And the key takeaway is clear. We're in an era of profound change where the old rules no longer apply or at the very least keep evolving. Navigating this new landscape requires not just awareness, but a deep understanding of the interconnected challenges and opportunities that lie ahead.

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MANDY

A huge thank you Rob and Nathan, for sharing their invaluable insights and helping us connect the dots between these potential structural shifts and their economic consequences.

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NATHAN

Thanks for the invitation. Wow.

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ROB

Thank you. That was great. That was fun.

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MANDY

And to our listeners, thank you for tuning in.

Our next series of discussions on the topic of growth, we will be joined by guests from the Investment Company Institute or as they are best known, ICI.

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Where we will discuss their global lobbying priorities for the asset management industry.

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MANDY

We look forward to you joining us again.

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