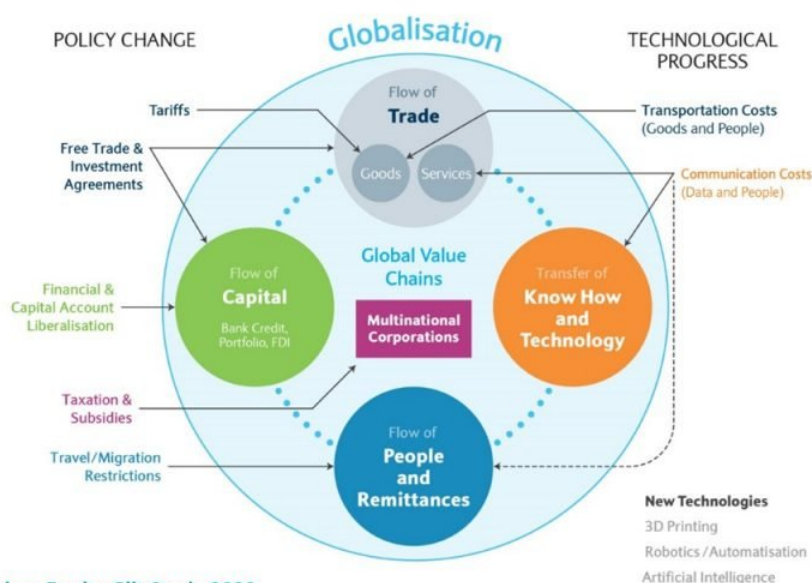


## On Globalisation

Published on: 17 July, 2020 | Author: Investment Team

Globalisation is a term that is used a lot. Very few however, truly understand how globalisation has transformed the world other than through the goods they purchase being manufactured overseas.

Globalisation has four key components: trade, capital flows, flows of people and the sharing of intellectual capital. Each component, although independent of each other, works together to create economic value for different nations.



Source: Barclays Equity Gilt Study 2020

The illustration above is very topical for us in the United Kingdom as we are experiencing major change to each of the four components without really acknowledging it in this context.

PPE – procuring goods in the depths of the Pandemic has led to a change in thinking that will probably lead to more goods being produced/sourced closer to home in certain sectors.

Huawei – worries about transfer of knowhow and information has led to the government banning this Chinese company from our telephony networks.

Immigration – new immigration rules published this week have aimed to limit the number of lower skills roles that can be filled by overseas migrants.

Free flow of capital – financial access post Brexit to the European markets is not guaranteed, and the Chinese changing the law in Hong Kong is an example of why companies such as HSBC have a dual listing in the UK. This will ultimately reduce trade flows between certain nations.

With all four of the pillars of globalisation in a state of flux for the UK, it is no wonder that the risk premia attached to UK risk assets, equities, is as high as it is. However, the UK is not alone in navigating a more complex world with two major powers, the USA and China, vying for ultimate control. Many countries will face problems over the coming years as the 30-year love affair with globalisation as a proxy for ever cheaper good will likely end. This will create risks but also many opportunities for those that understand the dynamics at play. Companies and management teams are best placed to take advantage of this in our view, and the only real way to benefit from these changes is through the ownership of equity.

The pandemic and Brexit cannot be seen as a positive economic story in the short term, but they may just result in the UK being more prepared for the changing global landscape than other developed market economies. This, alongside its own currency and central bank, could create an interesting dynamic that not many have considered thus far.

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