For the year as a whole (though not yet quite done) market returns look pretty ordinary, bellying the underlying violent moves in markets we have all endured. Led by the US world markets have returned just over 10% in 2020, with the UK and Latin America faring worst (both hit hard by COVID-19) and emerging Asia the stand out performer, itself less afflicted by the pandemic and led out into early recovery by China.

How though did the world change in 2020? And what will be the enduring investment themes that emerge that we can profit from in our investment portfolios? I share my four here.

THE IMPLICATIONS OF 2020

- Technology adoption accelerates its acceleration
- Environmental, economic and social sustainability moves centre stage
- Enormous global debt loads have to be inflated away
- China wins, America loses.

TECHNOLOGY ADOPTION ACCELERATES ITS ACCELERATION

As we have discussed many times over the past year, the rate of technological change (thanks to Moore’s Law) is exponential, with progress doubling roughly every two years. To remind everyone exponential change is dazzling in its progression - 30 linear metres taking you 30 metres from where you started; 30 exponential steps (1 metre, 2 metres, 4, 8, 16, 32...) taking you 26 times around the world. Such change is dizzying, we simply are unable to comprehend it, which is why we are continually surprised by the pace of technological change all around us.

As we are all aware technological adoption itself accelerated during the pandemic. We now all inhabit a digital world, now finding it easy and normal to video conference, for meetings, for social events and for personal calls. Our children can, and do, go to school online, an unthinkable notion 12 months ago. And of course, we shop for everything online, either typing away or chatting with Amazon Alexa.
We spend inordinate amounts of time in front of our screens, on average almost 7 hours a day globally, and internet traffic, including colossal amounts of increasingly valuable data, is now well and truly increasing at an exponential rate (where the chart goes vertical).

It now costs less than $100 to get your own genome sequenced, 20 years ago it would have cost over $10 billion. This is partly the reason the COVID-19 vaccine reached us so quickly; 7 months instead of the usual 7-10 years. Technology is indeed exponential and benefitting us all. In this area healthcare will be truly revolutionised in the coming decade, with permanent life longevity in touch by 2030 (the ability to live forever - for initially the very wealthiest in society).

$77,000 spent buying a Tesla car in 2012 would be half the value of car today; spending it instead on Tesla stock would have yielded a $6m fortune, as Tesla moved to become the most valuable car maker in the world with a market cap of half a trillion dollars.

In e-commerce Amazon has used its AI integration and massive investment in scale to crush its competitors, with dominant e-commerce market shares in many staples in America.
More likely.

And what arrives?

Share of voice search (Alexa, Siri etc) has itself grown from 12% of searches in 2016 to fully half the market this year in America, again driving the ability of Amazon to drive market share in its own brand products. Review these slides and replace batteries with insurance. Do people say Alexa, buy me Old Mutual insurance for my holiday? No they say Alexa, buy me insurance for my holiday. Who is the provider then? We need to think very deeply about how we will all compete in such a marketplace.

When chatting with Alexa.

Do you say?

I don’t think so.

Ergo - Energizer is no longer the No 1 brand in batteries in North America. It has been crushed by the Amazon brand.

And look what Amazon has done to regular retailers in America.

The retail landscape has been obliterated. Get on the wrong side of these trends and it is over for your business.

As an investor, it is also critical that you get on the right side of these exponential technology trends over the next decade. I will show you how in a moment.
**ENVIRONMENTAL, ECONOMIC AND SOCIAL SUSTAINABILITY TAKES CENTRE STAGE**

If the virus taught us anything it is that our planet is precious, and rapidly depleting its resources; that our economies are fragile, and that as a species we are vulnerable in a way we never realized before. The threat from climate change is real and present, CO2 parts per million in the atmosphere are exponentially higher today, and twice its average over the past 800,000 years!

![Carbon Dioxide in the Atmosphere for the Past 800,000 Years](image)

**ENORMOUS DEBT LOADS HAVE TO BE INFLATED AWAY**

The amount of fiscal and monetary stimulus required to save economies worldwide from the hardship of lockdown measures has been of a scale that we have never seen before. This has had two effects. One, resulting in colossal debt loads, and two, a massive stimulus to the amount of money supply in the world economy as central banks frantically run their printing presses.

![ECONOMIC STIMULUS RESPONSES](image)

Luckily, President Biden will rejoin the Paris Accord on Climate Change, and more importantly the private sector is already pouring investment into renewable energy. The resulting collapse in pricing for wind turbines and solar panels means that - in the right places in the world - the price of building and generating a solar plant is less than the cost of simply running an existing coal fired plant. Simple economics are thereby forcing investment from fossil fuels into renewable energy. Again, best not to get on the wrong side of this trend. Take a look at Exxon Mobil, a decade ago the largest company in the world with a market capitalisation of over $400bn. Today that is down to $150bn and it has been surpassed by the largest renewable energy company in the world, NextEra Energy.

![Total debt as share of GDP (%)](image)

![Developed economies, debt as a % of GDP](image)
This level of outsized debt accumulation has been accompanied and has caused a massive spike in money supply growth, a very dangerous lead indicator for higher levels of inflation down the road.

This shift is coinciding with an acceleration during the pandemic of shortening global supply chains and onshoring of product manufacture, spearheaded by President Trump and amplified during 2020 as governments urged more local sourcing of product. The globalisation of the past three decades led to goods deflation as the West sourced manufactured product from cheap factories in Asia and in particular in China. This mega trend has been an important means of keeping inflation low in all western economies. This is likely to now go into reverse as we accelerate from globalisation to localisation. In addition, China has become less competitive as a cheap source of labour as it has caught up with the West and demanded higher wages.

Given the substantial levels of debt amongst governments, corporates and individuals; a continuation of low interest rates is imperative. Any move upwards will yield substantial financial pain on all, even a modest move from say a 1% mortgage to a 3% mortgage in America will triple monthly mortgage payments. Authorities will be reluctant to move in this way even as inflation rises, leaving them behind the curve as inflation accelerates higher.

For governments, the only way to realistically reduce their debt burden is to allow higher rates of inflation to inflate away the real value of that debt. This is the only palatable way forward (higher taxes or less spending anyone?) and they are already being supported by central banks where the Fed is now officially targeting inflation at an average of 2% over the cycle, not the previous 2% at a point in time. This will allow them to let inflation overshoot on the upside before raising rates. This is fine in theory and indeed inflation will likely remain pretty subdued over say the coming year. The problem is that once inflation picks up, which I would think it will towards the end of next year, it becomes very difficult to control if you don’t get ahead
Its new global dominance is being used to increasingly broaden its direct scope of influence, with the Belt and Road Initiative extending to 68 countries, two thirds of the world population and half of world GDP. This $8 trillion project will be completed by 2049 and surely cement the position of China as the dominant world power.

As to portfolios, we will need some protection against this inflation, stores of value as they are called. Again, we will come back to that.

CHINA WINS. AMERICA LOSES

This is a trend firmly in place for the past decade or two, but more to date about the rise of China than any decline of America. China’s economy has grown at 6-10% p.a for over three decades now, making it by far the world’s second largest economy and quickly catching up to the US.

As to COVID-19, it has been a tale of two superpowers with very different approaches to the pandemic and very different results. China was of course early in, clamped down hard and came out first. America was late to catch on, locked down sporadically and somewhat randomly, and is yet to emerge. China’s economy will show positive growth this year (pretty much the only major economy globally to do so) and grow by up to 8% again in 2021. The US will contract by at least 5% this year, and emerge under the weight of enormous national debt, at a scale never seen before.
ESG
Again, a straightforward area - just ensure your manager is integrating ESG into all their portfolios. We do so, others do too. And capture the renewables trend for example through the ETFs already covered above.

INFLATION
Some of these stores of value have run already, some not as yet. I believe all deserve a place in a well-diversified portfolio and that clients will be glad they enjoyed exposure to them in a few years’ time. Gold has run, but still offers good value. Silver offers similar properties and will also benefit as an industrial metal in certain technological applications; it is also a lot cheaper than gold at current levels.

Politically the US is increasingly polarised, and traumatised post Trump, with targeted and reinforcing news flow from social media news feeds, that only increases the polarity in society. China, albeit authoritarian (and increasingly so) looks socially and politically stable compared to the instability in American society and politics. Such instability costs over time, undermining social cohesion and ultimately impeding the rate of economic growth and personal wellbeing.

The result, a stronger China, stronger Asia and emerging markets generally, a weaker US and weakening US dollar (undermined also by excessive Fed money printing).

So, let’s get to the big reveal - how do we get on the right side of these trends, and benefit from themes emerging from 2020 that could endure for the coming decade?

WHAT DOES THIS MEAN FOR INVESTMENT PORTFOLIOS
- Have long term exposure to global technology trends
- Integrate ESG across portfolios: Look for green economy wins
- Protect portfolios against inflation (have some gold, silver, bitcoin, agriculture, commodities, infrastructure, timber)
- Expect a weaker US dollar and stronger emerging market currencies, including the Rand

TECHNOLOGY
I believe it will be imperative to have exposure to these accelerating global technology trends over the coming decade. Luckily it is quite easy to do, the trends being packaged into simple ETFs, full of stocks that will benefit from the trend in question, be it 3D printing, robotics, or electric cars. At Old Mutual we will be launching a fund in the new year which will hold a combination of these ETFs and be a one stop shop to capture all these trends so that all our clients can benefit.

It will be called the Old Mutual Applied Intelligence (or AI) Fund - look out for it!
Cryptocurrencies have enjoyed a remarkable run since we first talked about them back in August of this year, when we identified Bitcoin and Ethereum as being attractive. I believe they still offer great value, and will form a part of mainstream portfolios in the near (ish) future (regulators, please get moving!).

Commodities offer interesting value, in particular compared to rampant equity markets, and offer good inflation protection.

Real assets like infrastructure (usually index linked), farmland and forestry also deserve a place in institutional portfolios that can bear the illiquidity. They give great diversification and also good protection from inflation, a great combination for the coming decade.

**WEAK US DOLLAR**

It could be the decade when the dollar finally wanes as the world’s go-to reserve currency. It may not lose this status entirely but as China continues to rise and the inherent weaknesses in the current US economy are laid bare (debt load, trade deficits, higher inflation), I can see the US dollar going through a few years of weakness. As a backdrop, this would favour the Rand and if in South Africa we can anchor around current low levels of inflation that would also help the Rand as SA becomes more competitive globally.

To be clear I am not recommending here any substantive shift away from a well-diversified multi-asset portfolio as the most sensible outcome for investors. This will always be the right choice for a smooth ride over time and a decent overall investment outcome. My thoughts here are offered as an adjunct to such a portfolio - have some exposure to technology trends; some protection against inflation; make sure ESG is integrated into your portfolio; introduce some exposure to the green economy and look forward to what I hope may be a stronger environment for the Rand. Things are moving in SA, and there is always the indomitable South African spirit waiting to be unleashed. As always, if we can clean up our act, partner effectively as the private sector with government and then let private enterprise flourish, we could be a beacon of light for Africa. Now that is a hopeful note on which to end 2020!

Keep well, enjoy the break and see you in 2021.
HYWEL GEORGE
Director of Investments at Old Mutual Investment Group

Hywel is responsible for the delivery of investment performance to Old Mutual Investment Group clients.

With over 30 years of experience in institutional, retail, and private client asset management in Europe and the Middle East, he has held leadership positions at Goldman Sachs, Morgan Stanley and Mercury Asset Management. Hywel also serves on the Board of Directors of Old Mutual Investment Group (Pty) Ltd, Old Mutual Customised Solutions (Pty) Ltd, Futuregrowth Asset Management (Pty) Ltd and Marriott Asset Management (Pty) Ltd.