

Populism, multipolarity and the race to zero as critical market drivers for the coming decades

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Host Jeremy Schwartz spoke to Marko Papic, a partner and the chief strategist at the Clocktower Group. His focus has been in the arena of political risk rather than specific market or asset class focused risk. He indicated that there will be three big things that could have potential to shape the market experience of investors over the coming decades:

1) Populism

2) Multipolarity

3) The 'Race to Zero'

Populism: The Washington Consensus to the Buenos Aires Consensus

Marko's view is that the 'Washington Consensus' has been in place since the 1980s and was largely responsible for the 'Great Moderation.' Leaders like President Ronald Reagan and Prime Minister Margaret Thatcher were emblematic of this important shift in global ideology. One could say that the difficulties faced by the 'median-voter' in the 1970's led for preferences to shift from the more left-leaning approaches to the more 'laissez faire'¹ market-driven policies. Organisations like the International Monetary Fund (IMF) and the World Bank enforced these pro-market, pro-globalisation policies across the world when they set conditions on loans or other packages.

Marko indicates that he believes the US is the furthest along, currently, in the spectrum of populism in its politics. Reading what is happening currently, you can see that swaths of US society are feeling left behind or left out of the gains that parts of society have seen from the so-called 'Great Moderation.' Whether they are voting for Senator Bernie Sanders or former President Donald Trump, what they're really doing is rejecting or revolting against the status quo.

The bottom line: Looking at the current level of US interest rates, such as the level of the 10-Year Treasury Note at the start of July 2021, the market is not concerned with any sort of 'populist narrative.' A true populist

narrative would imply even more massive deficits and even more spending, which should naturally imply a higher interest rate world.

Multipolarity

Marko indicated that analysing the balances of global power in 2021 is very difficult, and that it may get even more difficult in the years to come. In the past, for instance in 1985, it was clear that the US was in charge. This was a largely 'unipolar' world. This is a stable construct. A true 'bi-polar' world might look like something akin to the Cold War, where two powerful countries would be seeking to influence their allies to their side of thinking across global policies and issues. Then, there is how the system is starting to look today—a multi-polar world.

While many might naturally think of 'US vs China', the reality is more complex. For example, it's clear the US and Europe do have a certain rapport—and that rapport is better under President Biden than it was under President Trump—it's also clear that the US would be hard pressed to get Europe to stop doing all business with China. It's also notable that alliances are no longer simply black or white, on or off.

The bottom line: Countries are balancing a far more difficult calculus of their interests which is driving how they are reacting to certain global catalysts, so predicting simple black or white responses may not be possible in the coming years.

What is the Race to Zero?

Marko thinks of this more as the 'Race to Efficiency' or the 'Race to Customisation.' History has been more about providing large quantities for the median consumer, and in the future this could shift to providing customised products and services for the more extreme consumers. Investors may see this better if we relate this discussion to a simple bifurcation of 'atoms vs. bits.'

It has become very clear that the market has become highly skilled at the capital nurturing process of a new software company. We are hearing all the time about private companies raising money in different rounds of funding. Over time, the most successful of these companies have a clear path into the public markets. This is the world of 'bits.'

When we are thinking of electric vehicles, batteries, solar cells, new nuclear technologies—the list goes on—this is more the world of atoms. The models of success for these businesses are not the same as they are for software businesses, and they don't have the same clearly travelled path through the funding and development process. One consequence of this is that there is a dearth of available public companies. Another consequence of this is that certain companies are using the Special Purpose Acquisition Company (SPAC) financing method earlier than they likely should. The outside observer may see high valuations,

volatility and risk even if these concepts—green technologies—could be some of the more important developments in the next twenty years.

Marko also gave a very clear view on why he believes that we are in a 'Commodity Supercycle.' Critically, he is thinking of the next 10 years rather than the next three months. He told an interesting story about lumens or light. In the 1800's, if a person wanted light, it would likely come from whale oil which had to come from actual whales being harvested. In 2021, having light in the developed world is not even thought of. He believes this is the model for many of the best green technologies. In the near term, things may become more expensive and indicate inflation. In the longer-term, with the best innovations—things that might be like the concept of fusion power—prices for energy may actually come down and be deflationary due to the overall new levels of unforeseen abundance.

Listen to the full recording:

1 The policy of leaving things to take their own course, without interfering.

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