Behind the Markets: Exploring a new FAANG!

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Key Takeaways

- A new FAANG acronym is proposed: Fuel, Aerospace & defense, Agriculture, Nuclear & renewables and Gold & minerals.
- It's possible that inflation will remain higher for longer than many expect - and we know that governments can keep printing.
- A more positive case is made for the US and countries like India and Mexico, whereas a less positive case is made for China.

We recently had the opportunity to interview Charles-Henry Monchau, CIO at Bank Syz on our Behind the Markets podcast. Monchau believes the ongoing geopolitical dynamics, combined with unique inflation risks will cause a shifting paradigm. Here are some highlights of the discussion

The New FAANG:

Monchau argues the tech sector, which dominated the last decade, may face new competition from sectors better suited for the changing macroeconomic and geopolitical environment. He proposes the acronym the new FAANG for the new sectors:

- **F**uel: as much as would like to use less, the world relies a lot on fuel and Monchau advocates for pragmatism in the energy transition
- **A**erospace and defense: the rising conflicts will require more investment
- **A**griculture: There are large needs and scare food resources in many parts of the world
- **N**uclear and renewables: the energy demands from Europe and sustainable de-carbonisation initiatives highlight the importance of nuclear
- **G**old and minerals: too much debt can cause a debasement of the dollar versus gold and bitcoin, while the energy transition will support other metals.

The risks of inflation and currency devaluation

Monchau warns inflation may be higher for longer, as the world becomes more dangerous and countries invest more in reshoring, rearming, and building resilience.

He also suggests the US dollar may lose its status as the dominant reserve currency, as emerging markets seek to emancipate themselves from the petrodollar system. He sees gold, bitcoin, and the Swiss franc as potential stores of value in this scenario.

The challenges and opportunities for Europe

Monchau expresses concern that Europe may be deindustrialising instead of reindustrialising, as it focuses too much on sustainability without considering the economic realities of these decisions. Europe is highly dependent on energy imports, especially from Russia. Its auto industry is lagging behind in the electric vehicle transition. Europe still has some competitive advantages in the luxury, pharma, and aerospace sectors, but many of these are exporters and not reliant on the strength of the European economy for their growth and success.

The winners and losers of the new decade

Monchau expects the US to remain strong, thanks to its energy independence, industrial revival, and technological leadership. He also sees potential in some emerging markets, such as India and Mexico based on favourable demographics, growth prospects, and geopolitical alignments, particularly with friend-shoring or nearshoring trends.

On the other hand, he is pessimistic about China, which faces slowing growth, rising debt, and increasing tensions with the US and its neighbours.

Consequences for Potential Asset Allocation

Monchau provides some thoughts on how to position one's portfolio for the new decade. He suggests increasing exposure to the new FAANG sectors, as well as to gold and bitcoin. He advises reducing the allocation to fixed income, especially long-term bonds, as they are vulnerable to rising inflation and the rising correlation between stocks and bonds being a primary new risk that he does not see fading any time in the near future. Alternatives and commodities play an increasing role in this new world.

This was a fantastic conversation – and to listen to the full podcast, go here.

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