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Is a new investment era being ushered in by the Iran war?

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The long-term consequences of the Iran war, rising US tariffs and the generally escalating conflict between China and the US are difficult to predict. Looking back at history, combined with extensive experience, can help us to better understand this "new investment era". This emerging environment is likely to be characterised by less globalisation, higher inflation and, above all, greater unpredictability. Increased government intervention in national economies could also lead to heightened market volatility going forwards. Compared with the previously popular allocation between equities and bonds, a far more diversified portfolio may be better suited to this environment. During periods of higher inflation, such portfolios can benefit for example from investments in real estate, private markets and commodities.

For many years, investors have become accustomed to certain patterns in how financial markets function. Do we now need to rethink our approach? With more than 30 years of financial market experience, having actively lived through market corrections such as 1973/1979 (oil crises and inflation), 1987 (the largest one-day US market crash), 1990 (recession), 1997/1998 (Asian financial crisis), 2000-2002 (bursting of the technology bubble), 2008 (banking and real estate crisis), 2010/2011 (Eurozone crisis) as well as 2020 and 2022, the broader context may become clearer. What ultimately matters are global interconnections.

The investment environment prior to the 1980s was characterised by frequently alternating phases of economic overheating followed by sharp slowdowns. These phases were typically accompanied by rising inflation and interest rate hikes by central banks before being replaced by periods of falling inflation and declining interest rates – often in rapid succession. In light of this volatility, market participants demanded a risk premium to compensate for this unpredictability. At times, this led to valuation discounts in both equities and government bonds, driven by higher inflation, supply bottlenecks and rivalry between major powers.

From the early 1980s onwards, the investment environment gradually evolved towards lower volatility for a variety of reasons. Geopolitical tensions between the superpowers, namely the US, Russia and China, slowly receded, inflation declined, and base and market interest rates trended downwards accordingly. In addition, government intervention in the economy was reduced under US President Reagan and UK Prime Minister Thatcher, particularly in the financial sector. Deregulation increased and the percentage of corporate profits relative to overall economic activity rose. This effect was further reinforced as the influence of trade unions diminished, curbing wage growth and thus supporting company profit margins. As a consequence, equity valuations increased once more, while risk premiums declined.

From the 1990s onwards, rapid globalisation provided additional support to corporate earnings growth and valuations. Following the fall of the Berlin Wall in 1989, companies were able to access large new consumer bases in the emerging markets. In 1995, India joined the World Trade Organization, with China following in 2001. This not only opened up new markets, but also allowed for production to be shifted to lower-cost locations. Relocating manufacturing to cost-efficient countries in Asia, and China in particular, further boosted corporate profits and elevated equity valuations.

"Global supply chains may be restructured to ensure resource security – diversification is becoming more important."

Gérard Piasko, Chief Economist

However, globalisation and cost savings derived from efficient (yet fragile) global supply chains are now increasingly being questioned. A new era may be emerging through the Iran war and the growing rivalry between China and the US. New priorities are taking shape for the US and China, as well as for Europe: greater security and reduced dependency. The COVID-19 crisis and the war in

Ukraine served as an initial wake-up call. The 2008 financial crisis triggered a demand shock that reduced inflation. Today, similar to 2022 and driven by the Iran war, we may be facing a supply shock, which could see global supply chains restructured, negatively impacting economic growth and pushing inflation higher. This new investment era may therefore once again be characterised by greater unpredictability, increased state intervention and reduced globalisation. Relative to recent decades, this suggests a period of higher uncertainty and volatility, as well as higher costs for companies, potentially resulting in higher risk premiums and valuation discounts. Against this backdrop, a much more broadly diversified portfolio than in the past, when equities and bonds dominated seems sensible. Such a portfolio could benefit for example from real estate and private market investments as well as, in an inflationary environment, commodity investments.

Gérard Piasko

Gérard Piasko is Chief Economist and member of the investment committee.

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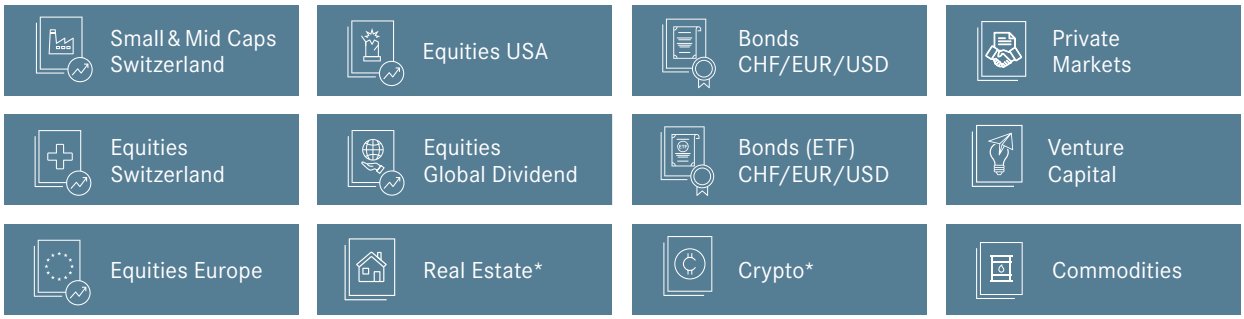

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Maerki Baumann & Co. Ltd.
Dreikönigstrasse 6, CH-8002 Zurich
T +41 44 286 25 25, info@maerki-baumann.ch
maerki-baumann.ch