



TAKING STOCK: GLOBALIZATION BACKLASH

An NEPC 2022 Key Market Theme

By NEPC Research

February 2022

Key Market Themes represent our view of current drivers for the global economy. Over time, themes evolve and interact, influencing asset values and opportunities. A disruption of a theme likely alters market dynamics and our investment outlook.

GLOBALIZATION BACKLASH

Uneven economic progress and growing wealth inequality are fueling discontent across developed and emerging countries, leading to populist movements with an anti-establishment political bias. The COVID-19 pandemic has further exacerbated these disparities by heavily disrupting labor markets and a broad swath of industries.

This backlash against globalization reverses several decades of multilateral trade and relations that increased the flow of capital, goods and services and powered a burgeoning middle class across the world. This fatigue over globalization poses a risk to the established economic and geopolitical orders. It paves the way for greater volatility as voting patterns become increasingly erratic with a wider range of outcomes for tax rates and foreign and economic policies. Governments may be rendered ineffectual as a lack of political consensus incites instability and limits the passage of new reform.

At NEPC, we do not envision this movement against globalization—be it in the guise of trade disputes between the United States and China, the exit of the United Kingdom from the European Union, or the popularity of unconventional political candidates across the globe—resulting in a dedicated investment opportunity.

Instead, we believe this shift away from traditional political norms—for instance, a restrictive U.S. trade policy—leaves international markets prone to bouts of volatility and negative investor sentiment, likely leading to more frequent dislocations in currencies and equities. This brand of populism does not favor a specific investment action or asset class, but the heightened volatility can offer buying opportunities should markets overreact.

We also believe this discontent is here to stay as we do not see the disparities in wealth and income narrowing in the near term. We continue to monitor the growth of populist movements, and the destabilization of the political order to better understand its impact on investment portfolios and capital markets.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

This memo should not be considered customized investment advice. Please contact NEPC for advice specific to your investment program.

The information in this report has been obtained from sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

