Investment Trends and Risks

Global Perspectives

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2021 recap

2021 resurrected global economic growth after a shocking economic collapse brought about by the novel coronavirus in 2020. Nevertheless, the unprecedented liquidity boost provided by central banks globally fueled a Goldilocks economy propelling asset prices to record high levels, alongside large-scale vaccine programs, and helped the world stay afloat and progress in certain areas despite new variants. However, high energy prices and supply chain disruptions led to sky-high inflation, not seen for decades. The net-zero debate strengthened with ESG policies and activities becoming more mainstream than ever before. Significant events have seeded global geo-political shifts that may be felt for decades to come.

2022 outlook

The year 2022 will be largely dictated by the actions of central banks. Inflation remains the elephant in the room, lifted by supply chain bottlenecks and labor shortages. The debate on whether inflation is transitory or not has largely ended, with all eyes on policy makers to regain control of otherwise heated CPI figures. Nevertheless, the global economy is on track to progress, but the virus could remain a threat via new variants which we have little data on. Digital innovations are expected to accelerate in all sectors with new global realities of AI/ VR and the metaverse. This could be the start of a *Digital Revolution*.

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Trends

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Trend #1

Inflation - excess demand and money creation

The global economy is currently in the middle of a strong though uneven rebound from the pandemic characterised by an exceptional surge in demand for goods outstripping the ability of supply to keep pace amidst pandemic-related supply chain disruptions. These disruptions resulted in a mix of delivery delays, inventory shortages, and price increases for certain goods, exacerbating inflationary pressures globally.

Inflation rose above 5% in America and 3% in Britain, and crossed even higher levels in many emerging markets. Consumer prices in the GCC countries are projected to have risen by 2.1% in 2021, compared to 1.2% in 2020.

On the policy front, central banks in key emerging markets have been already hiking rates. Developed markets on the other hand are less uniform with their policy measures with the Fed and the ECB yet to take any action.

Though inflation is expected to be higher than central-bank targets, it is anticipated to decelerate, largely however on a higher base-effect, and eventually cease to be a macro-economic concern by the end of 2022. Factors contributing to this trend include (i) the plateauing of energy prices as energy demand eases and fuel production rises, and (ii) a modest resolution of supply chain issues on capacity additions as well as the resumption of regular work schedules as vaccination rates rises. The anticipated shift in policy should also help alleviate the rise in overall prices.

Signs of price normalisation is already evident, especially in good and services that have been revalued upwards on higher demand. As demand shifts from manufactured goods towards services, we expect a new equilibrium between supply and demand to be achieved. Energy prices should also stabilise as new production capacity comes online in key regions, in our view.

However, given the uncertain times we are living in, we do not rule out the potential for inflation to persist for periods beyond what is expected. This could happen due to a number of factors: (i) adverse weather conditions hampering commodity inventories, thereby lifting prices further, (ii) changes in environmental regulation resulting in higher-than-expected taxes on pollution, and (iii) a slow recovery in labour markets. The threat of new variants of the virus emerging will unlikely dissipate and could slow down the global

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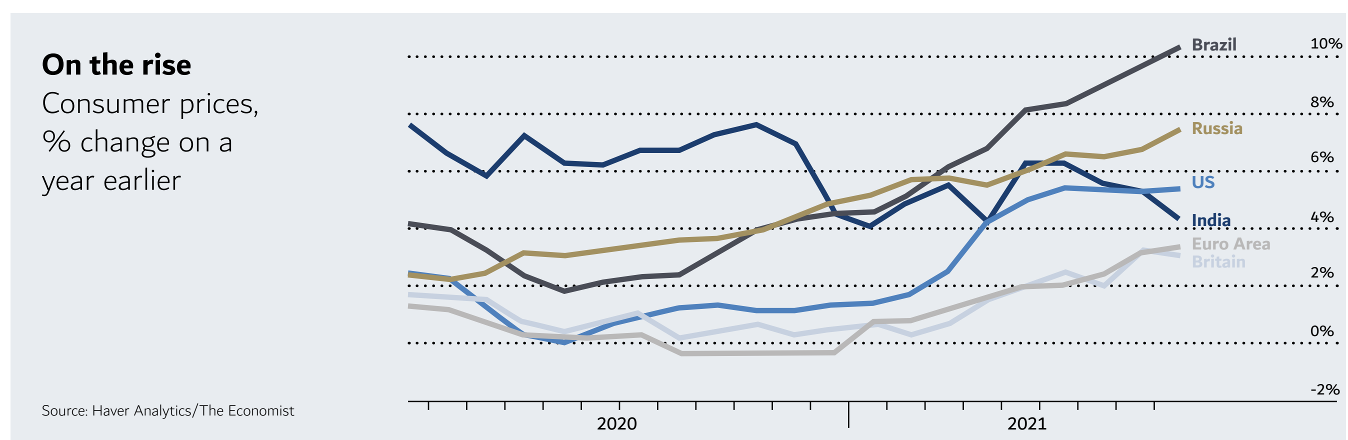

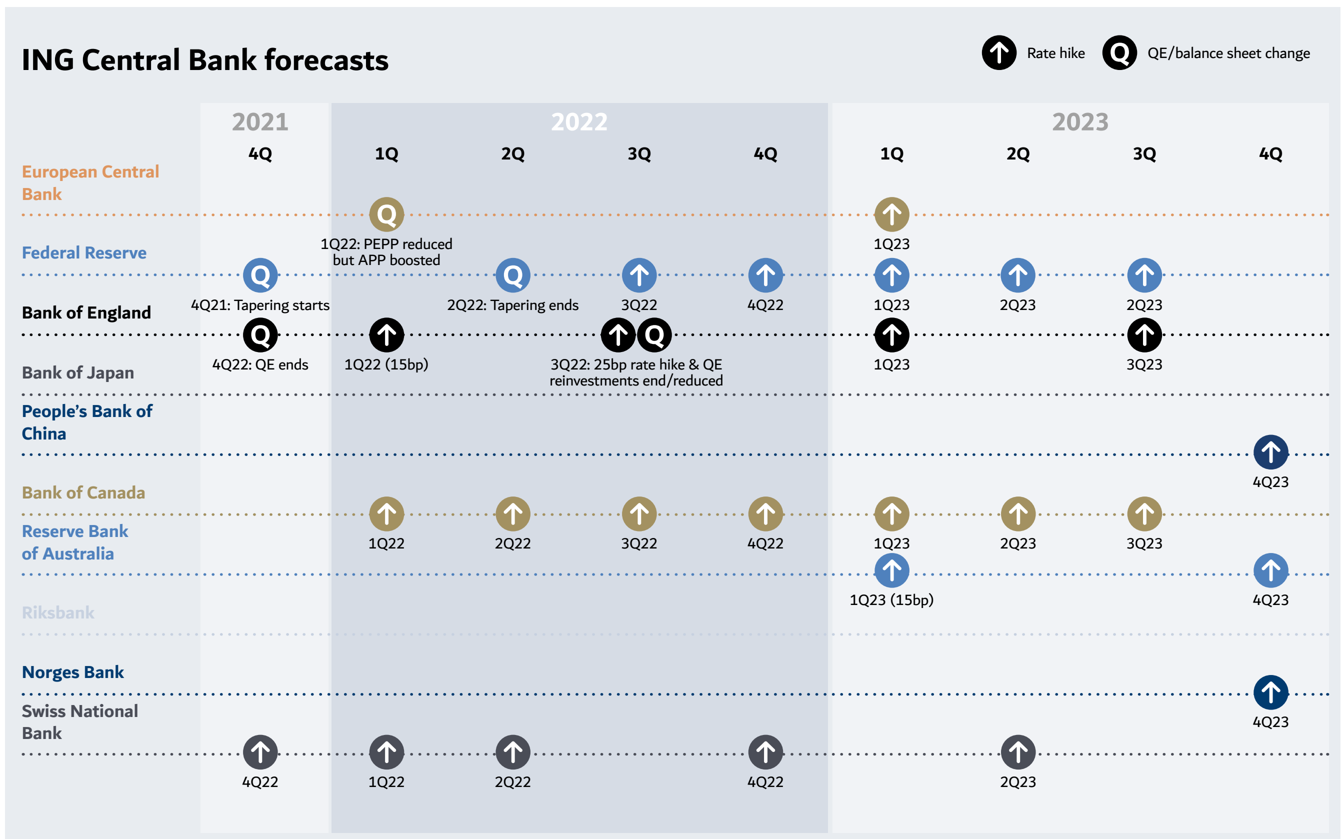

recovery. These factors could result in a sustained rise in consumer prices, sequentially weighing down on consumer demand. Also, central banks may raise interest rates too soon or too aggressively.

Strategies for inflationary environment

Real estate

Real estate provides a natural hedge against inflation as this asset class can experience a periodical upward reset of leases in a high inflationary environment. There continues to be robust demand for both, housing and industrial real estate. Healthy demand for labour is driving up wages which helps keep housing affordable despite appreciating home prices. The trend of working remotely has triggered a migration towards larger properties which is also creating housing opportunities.

The industrial real estate sector is benefitting from increased demand for warehousing due to explosive growth in e-commerce, which necessitates more storage and logistics services globally. Massive shortage of storage space disrupting supply chains was evident in 2021 and underscores the need for more investments in capacity in 2022. Consequently, investors can capitalise on real estate growth through investing in private markets and publicly traded real estate investment trusts (REITs).

Cyclical equities

Inflation is also being propelled by strong demand and economic growth. In such an economic scenario, equities tend to perform well as corporate earnings also rise. In particular, shares of companies (such as banks) whose performance have a higher positive correlation to economic activity and interest rates are likely to outperform. In addition, businesses with pricing power (typically cyclical industries such as industrials, materials, and consumer names to a certain extent) are expected to register strong revenue growth.

Commodities

Commodities are also proven to benefit from rising inflation. The transition from fossil fuel dependence to electrification is expected to add to inflationary pressures. The move would also increase demand for related metals such as copper, lithium and rare earth metals that are required to build the necessary infrastructure. European markets are expected to be more lucrative as opposed to the US due to the recent rise in energy prices and the attractive relative valuation. Within the commodities hemisphere we remain bullish on basic resources along with oil and gas firms given they are generally prime benefactors of higher commodity prices.

Trend #2

Deglobalisation

Need for a strong anchor to navigate through the challenges posed by markets drifting apart

Over the last 200 years, the world economy has witnessed accelerated globalisation which resulted in increased flows of trade, capital, people and information. However, the trend had begun to reverse post the global financial crisis leading to a reduction in the ratio of global trade to total output. With worsening US – China ties, businesses were already mulling supply-chain localisation to reduce dependence on China. This trend gained further momentum with the onset of the coronavirus pandemic.

As the pandemic ravaged economies, countries highly dependent on the import of critical goods (such as pharmaceuticals, raw materials, semiconductors) were significantly impacted. Global supply-chain disruptions and inadequate local manufacturing capacities triggered a supply shock, with negative consequences for many industries, including the semiconductor and automotive sectors. Countries' vulnerability to external supply became abundantly clear.

Heightened sensitivity around cybersecurity, public health, changing geopolitics dynamics and shifting regulatory frameworks in China is further accelerating domestic sourcing.

The year 2021 witnessed a number of US companies, including Intel, General Motors and US steel set up local production facilities. According to Industry organisation Reshoring Initiative, some 1,800 US firms are intending to reshore at least a portion of their in the near term. This would lead to the creation of around 220,000 new jobs in the US.

The European Commission is in the process of implementing policies aimed at improving EU's self-sufficiency in the areas of critical goods, AI, renewable energy and cybersecurity. These entail large-scale investments which cannot be met by public money alone. The investments required include over EUR300bn for the semiconductor sector, more than EUR200bn in defense and security, and about EUR 350bn for clean energy through 2030. Thus, these initiatives translate to increased opportunities for private sector.

Similar initiatives are being undertaken by countries in the Asia-Pacific region that have come to depend too heavily on China. Australia, Japan, and India have announced the launch of a Trilateral Supply Chain Resilience Initiative aimed at reducing dependence on China. Japan has already allocated USD 2.2bn as part of their coronavirus stimulus package to support Japanese companies relocate their Chinese production facilities back home or elsewhere in South-East Asia. Around 87 companies including car part makers and drug manufacturers have already used the aid package to exit China.

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Investors may need to understand the implications of deglobalization before choosing to re-allocate portfolios and position themselves for this paradigm shift. While this new reconfiguration may be marked with increased volatility and greater dispersion in asset returns, market disruption would also allow new opportunities to emerge for investors who understand the risks and respond to the changes.

From an investment point of view, a few winners are expected to emerge as the impact would not be the same across all markets. Export-oriented emerging markets, that had benefitted tremendously in the past from globalisation, would be more vulnerable. European stocks would also be exposed due to their high reliance on foreign revenues of listed companies.

The scenario bodes well for traditional safe-haven currencies. The US Dollar should continue to benefit as the US economy, given its large domestic market, is expected to be largely protected from adverse developments in global trade.

Globalisation	Policy-led deglobalisation	Impact on investments
Manufacturing production is outsourced	Reshoring of production due to protectionism	Translates to lowered earnings multiples for global firms: businesses offering labour-saving technologies to benefit on the back of higher demand
Cost of capital is low	Cost of capital is high	Lowered earnings multiples; corporate bond spreads to experience upwards pressure
Benefits export-oriented economies	Works in favour of countries with domestic markets	Markets/businesses dependent on global trade should not be part of the portfolio
Lowered global prices	Domestic inflation dependent on domestic resource contraints	Potential upward pressure on bond yields and uncorrelated volatility in national markets
Business cycles across countries are correlated	Decreased correlation of business cycles across countries	Benefits of diversification (across geographies and asset classes) are amplified

Trend #3

Climate Transformation

The looming risk of global warming has forced the world to move towards net zero emissions. 'Net zero' mandates any emission to be balanced by absorbing an equivalent amount from the atmosphere. In order to meet the 1.5°C global warming target in the Paris Agreement, global carbon emissions should reach net zero around 2050. Several countries have already set target dates for reaching net zero emissions on timescales compatible with the Paris Agreement temperature goals.

The journey towards a low-carbon future starts with the power generation sector. According to the IEA, in order to keep the climate from further deteriorating, renewables would need to account for nearly 90% of global electricity generation, with solar photovoltaics (PVs) and wind contributing almost 70% by 2050. A shift of such a magnitude from fossil fuels to renewables entails huge investment requirements in new capacity, grid modernization, and power storage. As per IEA estimates, annual clean energy investment would need to triple by 2030 to over USD 4tr. This would translate to more than USD 100tr worth of clean energy investment over the next three decades.

A quarter of this envisaged investment would be required for building energy infrastructure, of which power storage is a critical component. In order to meet the needs of a renewable-driven power system, battery deployment would need to go up 40-fold by 2030 and 80-fold by 2050 from the current level of 3 gigawatts.

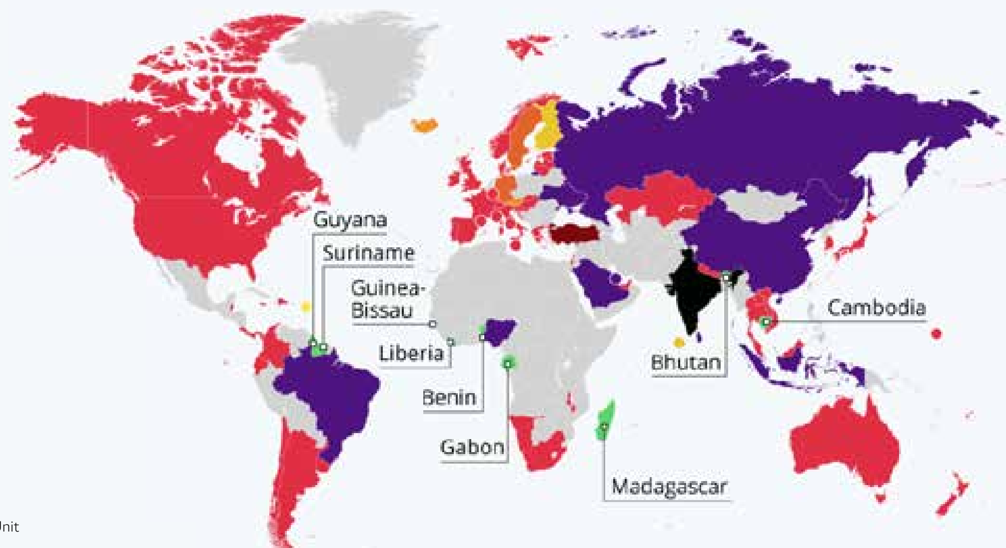
The second most important way of achieving net zero carbon is the electrification of energy. Presently, electricity is only 20% of total energy consumption. To maximise the benefits of renewables, this share would need to go up to 50% by 2050. One of the ways to further electrify energy is by using electric vehicles (EV).

Building construction is responsible for almost 40% of global carbon emissions. To restrict warming to no more than 1.5°C as laid out in the Paris Agreement,

The Road to Net Zero

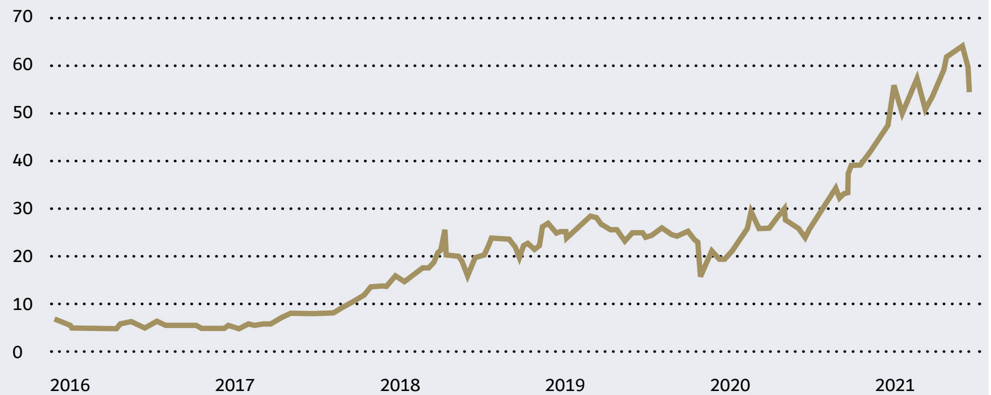
Countries with laws, policy documents or concrete time pledges for carbon neutrality by target year

- 2070
- 2060
- 2053
- 2050
- 2045
- 2040
- 2035
- 2030
- Achieved



Source: Energy & Climate Intelligence Unit

European carbon prices tripled in the past year
EUA front month futures prices in euro per metric tonne



Source: Bloomberg

emissions from buildings globally would need to be halved by 2030, and to reach net zero life-cycle emissions by 2050. IEA is of the view that the share of net-zero buildings would need to increase to 85% by 2050 from the current 1%. International Finance Corporation estimates low-carbon investment opportunity worth nearly USD 25tr in this sector in emerging markets by 2030.

Not all sectors (such as shipping, aviation or agriculture) can lower their emissions to zero. In such cases, afforestation and technical options including BioEnergy with Carbon Capture and Storage (BECCS) and Direct Air Capture can be adopted. Hydrogen, synthetic fuels, and biofuels have significant potential in shipping and aviation where electrification may prove difficult.

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Decarbonisation opportunity across green-tech, clean air and carbon reduction solutions

The net-zero journey is heavily dependent on renewables, gains from energy efficiency and electrification as well as deployment of emerging technologies in the area of carbon capture. Short and medium term opportunities exist in clean energy, energy efficiency and digitalization, electrification (EV, heat pumps etc.) and batteries, bioenergy, and intermediaries like financials. Over the long term, investment opportunities are expected to arise in the areas of hydrogen, and carbon capture, utilization, and storage as well.

Investing in traditional commodities and commodity producers, in addition to green technologies, is a diversified strategy to safeguard investment from the impact of the broader macroeconomic trends (predominantly inflation) toward net-zero.

Carbon markets are another alternate investment route that can be taken to capitalise on the opportunities presented by net-zero transition. Prices of carbon, under the EU Emissions Trading System (ETS) reached a record high in 2021 on the back of higher energy demand and possibility of stricter environmental regulations.

Alternatively, investors can invest in equities that screen well on ESG metrics (providing exposure to longer-term climate solutions), green bonds and multilateral development bank bonds (channeling direct capital toward emerging markets).

Trend #4

Ride high on the commodity supercycle

The world is witnessing its fifth commodity supercycle, with commodities rallying to multi-year highs in 2021. Crude oil price reached its seven-year high, while at one time steel and iron rallied to all-time highs. As OPEC+ gradually boosted supply, crude oil prices climbed almost 70% to almost break the elusive USD 90/ barrel mark. Aluminum and copper prices surged over 40%, nickel futures rose nearly 30% while lithium prices rallied over 400%. This period of high prices is essentially being driven by a surge in demand for metals needed in the construction of green infrastructure as the world braces for a war against climate change. Populist policies aimed at wealth distribution gained momentum during the pandemic which also added to the demand for commodities across many countries. This, combined with supply chain disruption resulted in commodity prices skyrocketing to record highs.

Is the commodity supercycle here to stay?

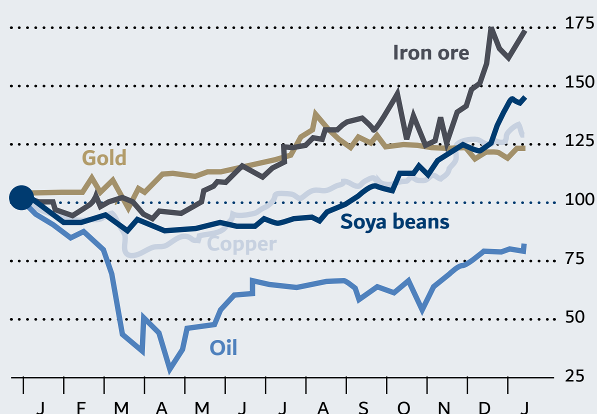
There are some who have adopted a bearish outlook on future price rallies. The last commodity supercycle, in the early 2000s, was primarily on the back of extraordinary demand from China's economic boom. It is believed that commodities move in tandem with China's economic direction.

The ongoing slowdown of the Chinese economy and recent issues with Evergrande negatively impacted the commodity guzzler real estate sector, which could impede demand and consequently further growth in prices.

However, the majority are of the view that going forward, prices are projected to continue to rally as the road to net zero carbon would push synchronised infrastructure investment across the globe, driving demand growth for key transition metals, including copper, aluminum, nickel, cobalt and lithium and steel.

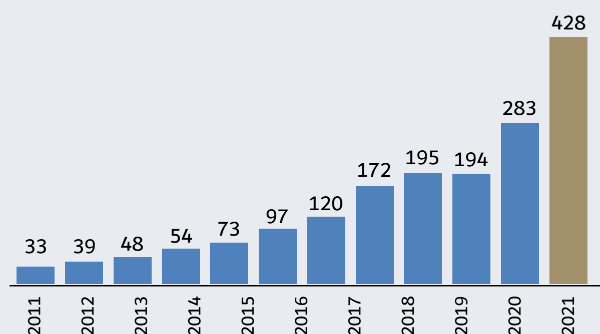
Furthermore, increased geo-political tensions has ushered in a period of supply chain resilience and strategic stockpiling, which could increase the demand for commodities. Other commodities are also set to experience a rapid uptick in the coming years. Demand for agricultural commodities, such as

Onwards and upwards
Commodity prices, January 2nd 2020=100



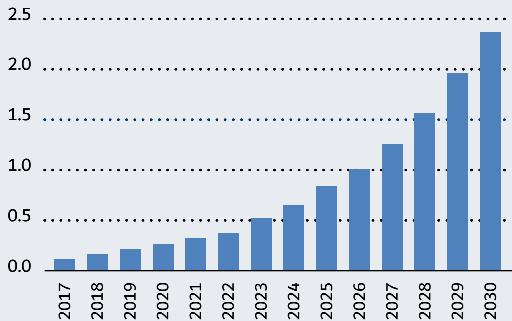
Sources: Refinitiv Datastream; Bloomberg

Demand for lithium ion batteries continues to grow rapidly
(Gigawatt hours/year)



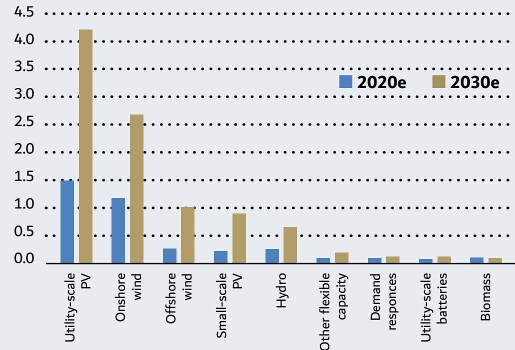
Sources: Bloomberg NEF, xxxxx xxxx xxxxxx

Estimated copper demand from EV's and associated charging infrastructure (xx)

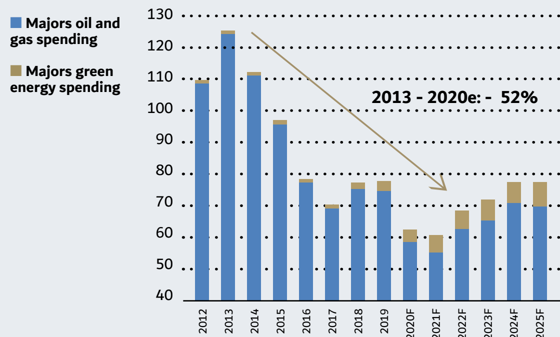


Source: Bloomberg Intelligence; NEF Schroders - January 2021.

Copper demand in 'new energy' segments of the energy transition (2020's and 2030's xx)

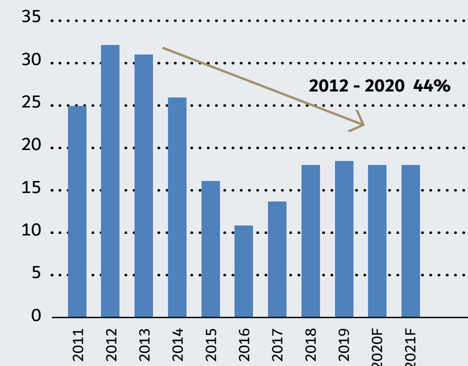


Major integrated oil company oil and gas capital expenditure $bn



Sources: Schroders estimates; Company data - September 2020.

Copper industry growth capitol expenditure $bn



corn, soya beans and pork are also projected to rise, driven largely by China. Supply chain disruptions due to export restrictions during the Covid-19 crisis have also resulted in several countries building strategic reserves around food, especially wheat, to reduce their reliance on imports .

This commodity supercycle has come after years of structural underinvestment in the natural resource sector. CapEx in oil and gas, as well as the global mining sectors, fell by around 40% since 2011. Capital investments in major integrated oil and gas companies decreased by 52% between 2013 and 2020, while decreasing 44% in the copper industry between 2012 and 2020. It may take 5-7 years of significantly higher investment to boost supply in order to meet this rise in demand. This supply deficit should therefore further keep prices elevated. It is forecasted that global oil prices may rise to USD 120/barrel in the second half of 2022 due to OPEC+'s under-investment. With China controlling a major share of the supply chains of cobalt, nickel and lithium, prices could spiral to newer heights in the event the country curbs supply in the wake of worsening ties with major global economies. Therefore, we are of the view that the supercycle will likely last until the early 2030s.

An investor can profit from a commodity supercycle in various ways. Investors can directly invest in companies engaged in the exploration, development and production of commodities after a careful business valuation of assets, cashflows, operations, management competence, etc. However, many investors are hesitant to have exposure in individual commodities. One way for them to invest is via a general commodity index fund. These "exchange traded funds" offer exposure to one or several commodities while reducing the inherent risk of single commodity investment. For those who are interested in timing specific commodity rallies, they may move from one exchange traded note (ETN) to another.

Trend #5

Small caps to dominate

Small cap companies are generally those which have a market capitalisation of USD or EUR 5bn or less. Historically, these stocks have outperformed over the long-term, particularly during times in which the economy was recovering from a crisis, such as the juncture we are at today. Small Caps are generally less complex, more innovative, and quicker to adapt to dynamic macro conditions than larger entities, and this has helped such companies outperform over the long-term. Small cap companies usually operate in niche markets, thereby facing a lower degree of competition, and hence are able circumvent adverse market conditions. In a maturing bull market, larger companies often seek to acquire smaller firms at a premium in a bid to achieve external inorganic growth.

Why small caps?

Small-cap stocks are expected to continue to perform well in 2022 owing to their high sensitivity to economic growth. Small caps are also better positioned to benefit from domestic economic growth, which should remain robust in 2022. Few ongoing, long-term trends are likely to bolster growth of smaller companies, especially as countries are further digitised and move towards low-carbon-based economies, which will require massive investment outlays. Companies operating in the industrial, basic resources and technology innovation space are set to benefit from this trend. Additionally, rebuilding supply chains and achieving onshore production targets should further help drive growth. There is also room for larger firms to acquire smaller companies at a higher valuation to gain access to their innovative technology. Such gains can be captured by the small-cap investor.

Market dynamics

There is immense investment potential in small firms in the US, Europe and emerging countries.

In the US, though the small-cap benchmark Russell 2000 index trailed other major indexes in 2021, the Russell 2000 Value index is outperformed the S&P 500, Dow and Nasdaq Composite and closed in on the Nasdaq 100.

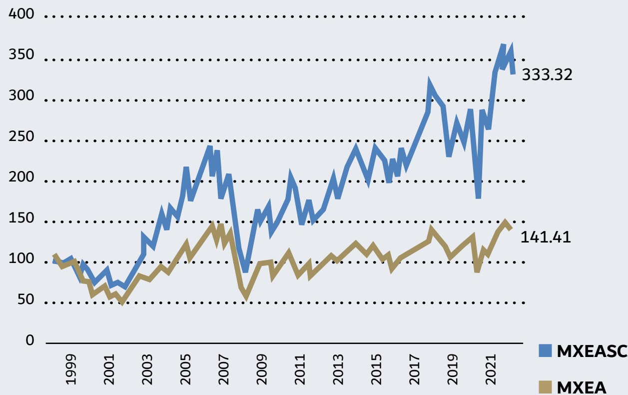
After trading sideways for 7 months, Russell 2000 and the S&P SmallCap 600 registered record highs in November 2021. Going forward, they have multiple factors working in their favour. They are comparably cheap in an expensive market, have strong fundamentals, and face fewer problems when compared to larger firms. A proposed change in tax law could also benefit these companies. Furthermore, corporate and private equity firms are looking at acquiring attractive and affordable companies to add to their to their portfolios. Small companies do not need to be taken over to rise in value; their value increases even when their competitors are acquired.

S&P 600 price-to-earnings ratio at about 68 per cent of the S&P 500

In Europe, small caps are expected to be supported by cyclical momentum. A weaker dollar could be an additional benefit to these firms. These companies are likely to benefit from the European pandemic support program and heavy investment towards digital innovation and energy revolution.

Asian small cap stocks have caught the attention of investors on the back of strong gains witnessed since the onset of the COVID-19 pandemic in March 2020 when global equities took a massive hit. Over the 12 months period ending 31 March 2021, Asian small caps, as measured by the MSCI AC Asia ex Japan Small Cap Index, generated gains of more than 80% in USD terms, outpacing their large - and mid-cap counterparts (as measured by the MSCI AC Asia ex Japan Index), which returned over 50% in USD terms. This is not a one-time phenomenon. The last two decades have witnessed Asian small caps outperforming their larger-cap peers 64% of the time, especially during phases of recovery after a major market selloff, such as in 2001, 2009 and the first quarter of 2021.

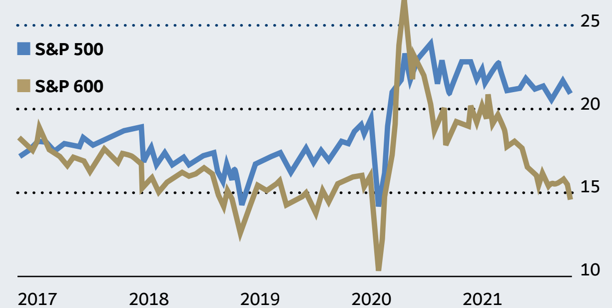
Relative performance of EAFE small cap vs EAFE large cap



Source: Bloomberg

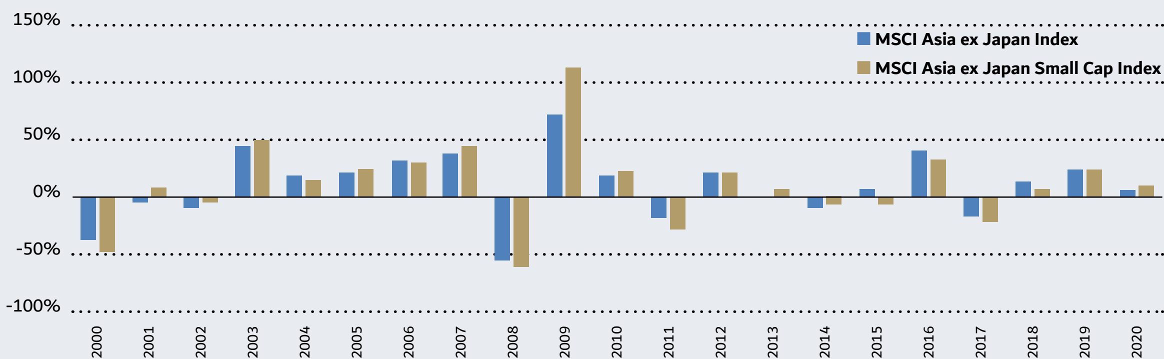
US small cap stocks trade at steep discount to larger peers

Forward price to earnings ratio



Source: FactSet

Asian small caps' outperformed regional big caps' 64% of the time in the past 20 years



Sources: Schroders estimates; Company data - September 2020.

There seems to be a strong investment case for Asian small caps given their historical outperformance as well as their ability to adapt and capitalise on market opportunities at a much faster pace. Smaller Asian companies are usually founder-led who have a higher vested interest in the success of their businesses as compared with hired CEOs and executives. Also, many of these companies are less researched and less understood, giving investors the opportunity to generate returns from market dislocation and inefficiencies.

Potential risks

If supply chain bottlenecks continue to disrupt business operations or central banks adopt a tightened monetary policy, small companies would eventually suffer since they tend to have less liquidity and higher growth sensitivities vs. large-caps.

Trend #6

Recovery of tourism

After being ravaged by the pandemic, the hospitality industry is showing some signs of recovery, despite not yet being out of the woods with the emergence of the Covid-19 omicron variant, which lead to travel restrictions earlier in the start of 2022. A ramp up in vaccinations, transformed business models, pent-up demand and accumulated savings all contributed to the growth in global tourism through 2021, and this should continue as Omicron has proven to be less severe with a lower mortality rate.

Some segments of the travel industry are witnessing a faster recovery than others. Segments catering to domestic and leisure travelers did well in 2021 as travel restrictions eased. If this pace continues, it is believed that leisure travel could return to its 2019 peak as early as 2022.

Wellness tourism valued at USD 639bn in 2017, is forecasted to reach USD 919bn by 2022

Leisure travel would largely be driven by domestic travel. Post pandemic, a number of companies announced the adoption of a hybrid approach to working remotely. This has given rise to leisure travelers who are increasingly making use of hotel venues as make-shift workspaces.

Travelling for wellness purposes was already on the rise in recent years. Going forward, it is likely to grow significantly with the pandemic spurring the need for enhanced mental and physical wellbeing. Hotels are capitalising on the trend by providing holistic hospitality offerings, including spa services as well as health diagnostic technology and bespoke treatment plans delivered by experts on their premises. Furthermore, a large number of people are opting for staycations closer to home.

Global spending on business travel is forecasted to grow 37%+ in 2022 to over USD 1tr driven by accelerating demand in the US and China; however, it would take another 2 years for the segment to fully recover.

The US is recovering faster than other regions, with daily demand for hotels in the US is almost back to pre-pandemic levels. Revenue per available room (RevPAR) surpassed 2019 levels for many hotel groups and even a few chains recorded historical highs. On the occupancy front, hotel CEOs expect rates to continue to increase in the coming year. The US travel sector is expected to grow by c.28.4% in 2022 and is anticipated to contribute nearly USD 2tr to the country's economy.

Similarly, recovery in Europe would be on the back of domestic and intra-European travel returning to 2019 volumes by 2022 and 2023 respectively, but gains from international travel will likely take longer to recover.

Asia Pacific's Travel & Tourism sector has soared ahead of many regions in the world with an annual growth of more than 36% in 2021 and is set to recover by almost 40% in 2022 amid easing pandemic restrictions and codification of vaccine passport norms.

Signs of a recovery in the travel industries of Africa and the Middle East are evident. The Middle East recovered most significantly, with hotel bookings over the January to October 2021 period only 13% below that in 2019. We also think the region's 2022 hotel demand will likely achieve parity with pre-pandemic levels, as several regional markets are expected to attain hotel occupancy rates of 70% or above in 2022.

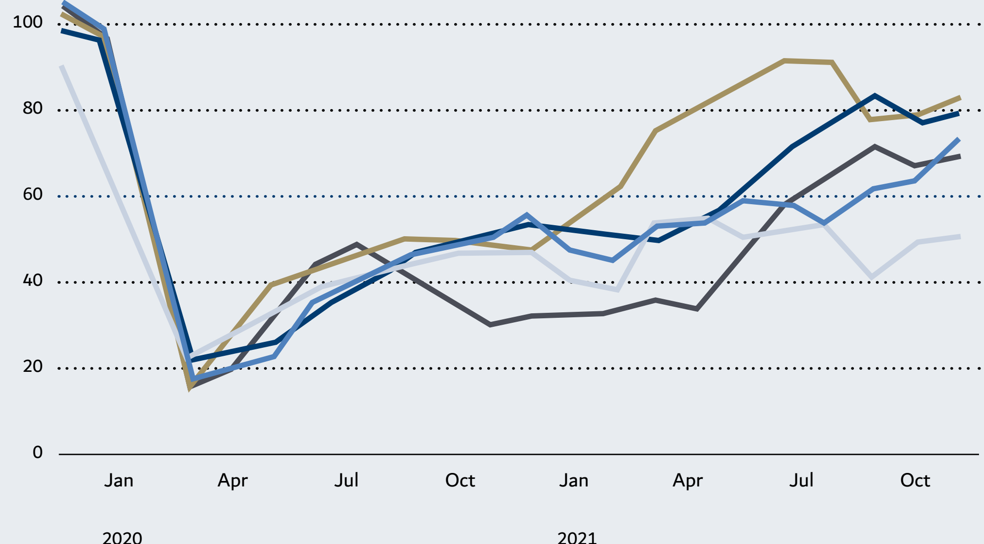
Tourism in the region should be boosted by mega events, such as Expo 2020 in Dubai and the FIFA World Cup 2022 in Qatar, consistent government support and domestic travel. Furthermore, the opening of the Red Sea Project to tourists should also attract international tourists. Even cruise bookings for 2022 have begun to trend upwards as vaccine passports and health passes allow for the reopening of international travel.

Industry prospects are compelling in 2022; however, the threat of new virus variants will always be around the corner.

Things are looking up for the hospitality industry across economies

Travel recovery by region

Based on index of 50+ indicators including hotel occupancy, travel searches



Source: Skift Research

Trend #7

Healthcare innovation

As the world's population ages and the incidence of lifestyle diseases rise, the market for longevity and wellness innovation is bound to grow. Also, patients are increasingly expecting customised and at-home services, more so after the onset of the pandemic. This too is driving innovation within the healthcare space. Advancements in technology, such as cheaper processing power, cloud computing, AI, blockchain, etc., combined with government backing for funding are also helping drive innovation.

Health technologies are aimed at digital innovations to make healthcare more efficient through improved outcomes and lowered costs. Digital health registered accelerated growth in 2021 as consumers opted for virtual care, owing to the ongoing pandemic. The first nine months witnessed investments worth USD 21.3bn for digital health startups. This was across 541 investment deals, up from USD 14.6bn in 2020. This momentum is projected to through 2022.

Telemedicine has made significant progress, especially during the pandemic, given the need for social distancing and reluctance on the patient's part to visit a clinic or physically meet a doctor. Accelerated development in online streaming and video conferencing technologies have also contributed to the rapid adoption of telemedicine. Globally, telehealth companies raised USD 4.2bn in the first half of 2021. It has been observed that telemedicine is gradually moving away from just urgent care visits to more specialized care. Industry players are building out specialized virtual clinics for conditions like kidney diseases, MSK pains and migraines.

The adoption of smart technologies, big data, and a booming fitness market are also driving the development of smart wearable medical devices and digital health-tracking technologies. The shipment volume of smart wearables globally stood at 266.3m units in 2020, and is projected to reach over 700m units by 2026, registering a CAGR of about 19%.

Major healthcare players are investing heavily. For example, Best Buy spent c.USD 400m towards the acquisition of Current Health, a remote patient monitoring and connected device company. Google spent about USD 2.1bn for fitness tracking giant Fitbit.

GCC - a hotbed for healthcare innovation

Driven by evolving patient attitudes and expectations of the care they receive, GCC countries are rapidly embracing the innovation and technological advancements of the Fourth Industrial Revolution within the healthcare sector. While the region's healthcare spend has mostly been undertaken by governments, privatisation has slowly been on the rise. Over the last 10 years, nearly 74 VC investments were made in digital health related innovations in the Middle East. Opportunity for private investment would continue to exist over the next decade with

US	UK	CHINA
Large hospital systems such as Johns Hopkins have logged more than a million telehealth appointments. The US telehealth market is predicted to grow by 28% in the next 5 years	The UK telemedicine sector is projected to earn revenues over $8.8Bn from 2023-2024	The number of doctors registered on one of China's leading telehealth apps more than doubled from 2020, with the domestic market predicted to reach $658Bn over the next decade.

remote patient monitoring, digital infrastructure virtual care, and AI likely to account for 30% of hospital investments.

In the UAE, over 50% of hospitals use IoT-based solutions. The country is also working towards becoming the regional hub for robotic surgery by 2030. The Saudi Arabia Vision 2030 strategic plan envisions investments worth SAR 250bn on healthcare infrastructure by 2030, 50% of which would be for digital healthcare. Healthcare digitisation spending by Bahrain is likely to reach USD 600m by 2025.

The healthcare sector offers a defensive avenue for investment during high-risk periods as it tends to outperform during economic downturns. This is an important characteristic given the uncertain times we are living in. However, with expectations of high returns comes considerable risk.

Investment in early-stage innovators with very high initial valuations runs the risk of company's future earnings growth not delivering positive returns. Presently, many innovative healthcare companies are generating losses. Hence, it is prudent to maintain balance within a portfolio's risk and volatility parameters by simultaneously investing in larger, more stable, and established firms that are also engaged in these innovative trends.

Furthermore, there exists significant clinical trial risk in areas of therapeutic innovation which can be mitigated by investing in companies that partner with big, established firms.

Digital mental health apps

The digital mental health space has grown rapidly due to rising lifestyle stress and anxiety, which was further aggravated by the pandemic. Mental health was the top-funded therapeutic focus in 2021 with USD 3.1bn raised during the year. However, with the market relatively saturated, players are differentiating themselves via demonstrating tangible success, rather than mere narratives.

Digital health for women

Digital health startups focused on the realm of women's health, ranging from pregnancy and fertility support to chronic disease management and menopause, have caught the attention of start-ups. The sector saw USD 1.3bn in funding across 26 deals in the first three quarters of 2021. Further investment in women's health companies is likely in 2022 as well, with startups focusing more on underserved populations and health conditions.

Digital therapeutics

Digital therapeutics deliver evidence-based therapeutic interventions via software, like mobile health and wellness apps, that replace or complement the existing treatment of a disease. The global digital therapeutics market is forecasted to reach USD 13.1bn by 2026, up from USD 3.4bn in 2021 and is expected to peak in terms of entrepreneurial and investment activity in 2022.

Trend #8

Emerging technologies

The trend of technological disruption offers significant opportunity for investors. Three major technologies, (i) artificial intelligence (AI), (ii) big data, and (iii) cybersecurity are expected to be at the forefront of this technological disruption. 5G, along with these emerging technologies, are expected to achieve higher growth than the overall tech sector.

Artificial intelligence (AI)

AI is already widely used in areas such as navigation, pricing, advertising, facial recognition, and translation. Going forward, companies are expected to increasingly use AI in a bid to improve consumer experiences, lower cost of providing products and services, and foray into new business lines. Growing spend on knowledge management, virtual assistants, autonomous vehicles, digital workplace and crowdsourced data would also enable AI to register double-digit growth in 2022. According to Gartner, AI software revenue is forecasted to reach USD 62.5bn in 2022, an increase of 21.3% over 2021.

Big Data

The term "new oil" has been coined for data, as we find ourselves consistently surrounded by this digital commodity. It is expected that the global data universe would expand tenfold over 2020 -2030, reaching 660 zettabytes. The Big Data Technology Market is estimated to grow at a 14% CAGR until 2027, favoured by increased integration of AI and machine learning, coupled with growing internet penetration.

Cybersecurity

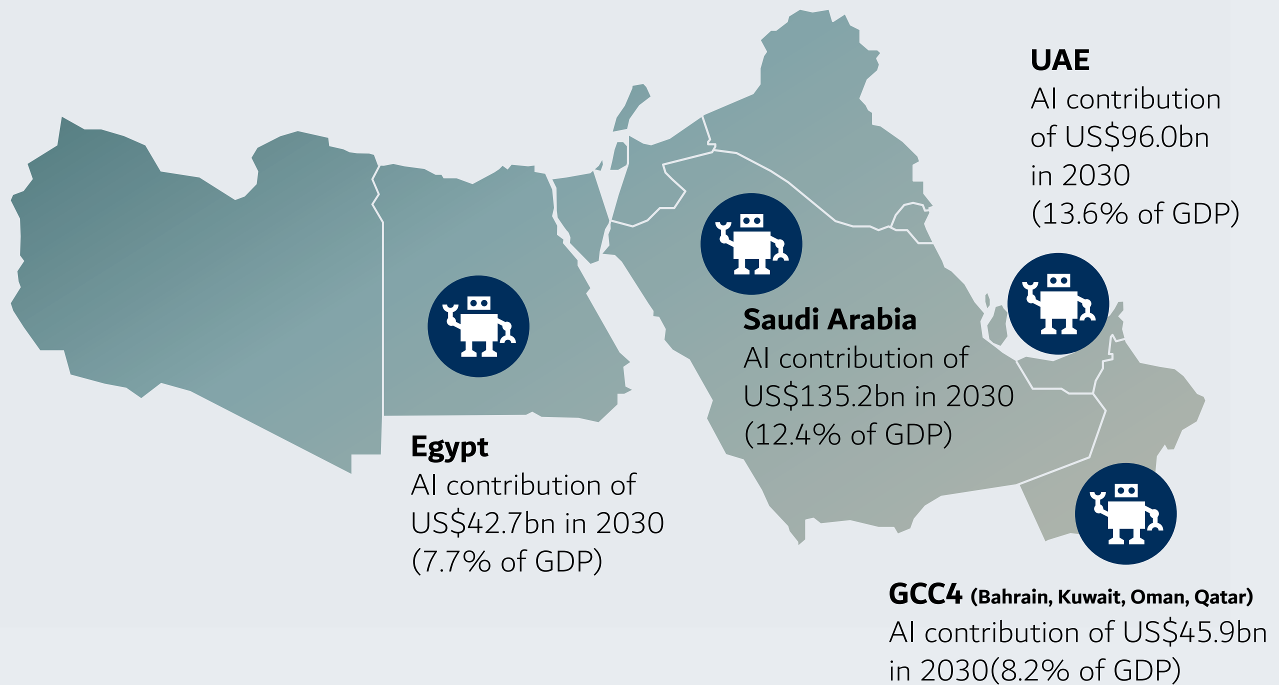
In recent times, cyber-crime has emerged as one of the major pitfalls of the rising adoption of emerging technologies for individuals and businesses globally, costing them over USD 6tr per annum. This figure has the potential to reach USD 10tr+ by 2025. In 2021, cyber criminals capitalised on the pandemic as economies migrated to online platforms, while having vulnerabilities on the security front. According to the

2021 Norton Cyber Safety Insights Report, nearly 330m people in 10 countries experienced cybercrime over a period of 12 months. Given the rising incidence of cyber-attacks, the cybersecurity industry is predicted to grow by an average of 10% during 2020–25 as enterprise IT spending and adoption of cloud security rise.

5G

The rollout of 5G technologies has been about 20 times faster than 4G, while having 90% lower latency. Total 5G connections around the world is estimated to have tripled to over 600 million in 2021; with this figure expected to more than double to reach 1.34 billion by the end of 2022. North America is expected to have the highest 5G penetration in 2022, and should reach 115% by 2025. However, Asia Pacific is expected to lead 5G subscriptions in 2022, fueled by accelerated deployment in China. The high and rapid rate of 5G technology rollout would prove to be an enabling factor for the deployment of numerous applications, which were not feasible before. These include fixed wireless access, autonomous driving, immersive augmented and virtual reality (AR/VR), telesurgery, Internet of Things, data-driven agritech, and highly connected smart cities.

In relative terms the UEA is expected to see the largest impact of close to 14% of 2030 GDP



Source: Saudi Gazzette

Massive investment in digital transformation

Digital transformation is no longer a choice and enterprises are rapidly ramping up technological capabilities to survive. As such, significant investment in emerging technologies is being made by businesses across the globe.

A similar trend can be observed in the MENA region as well. A recent report by Gartner predicted a 4.5% annual increase in IT spending in the region to USD 171.3bn in 2022 as businesses move towards digitisation amidst the pandemic.

According to a survey by PwC, 59% of Middle East CEOs aim to increase their investments in digital transformation by 10% or more over the next three years. Customer Experience Live Intelligence Report for 2022 reveals that Middle Eastern brands remain committed to increased investments in digital customer experiences. Additionally, 60% of companies plan on investing in solutions that will strengthen their data framework while 43% will be investing in Intelligent Chatbots in 2022 to enhance omnichannel customer experience. Furthermore, 66% of organisations plan to invest over USD 200,000 in customer experience in 2022 whereas 14% will be investing between USD 500,000 to USD 1,000,000. These investments would largely be towards the implementation of digital transformation plans or expanding AI, chatbots, analytics, and cloud capabilities.

Investors can capitalise on this trend by investing in tech mega-caps that dominate major equity benchmarks. In addition, there are reasons for investors to look beyond mega-cap tech stocks and focus on mid-cap and small cap stocks, as these stocks are predicted to experience higher earnings growth rate. Also, smalls caps typically are able to rapidly adapt to a dynamic sector landscape, are comparatively less exposed to government scrutiny and the potential of any market consolidation.

Investors can also cash in on non-traded, early-stage growth companies through private equity. According to PitchBook, 437,000 tech companies are privately held globally, compared with just 8,100 that are listed on public exchanges.

Trend #9

Digital currency

Digital currencies had a strong run in 2021, with Bitcoin up nearly 50% during the year. 2021 also saw the first major crypto company go public with the debut of Coinbase in April, increased participation from Wall Street banks, such as Goldman Sachs, and the approval of the first U.S. exchange-traded fund linked to Bitcoin.

However, heightened regulatory scrutiny and price volatility have adversely affected the outlook on Bitcoin as we headed into 2022. Market consensus remains that 2022 could be a roller-coaster ride for digital currencies, with Bitcoin already down c.20% at the time or writing.

Crypto Crash

Some experts believe bitcoin is due for a sharp decline in the coming months. The cryptocurrency surged to a record high of almost USD 69,000 in November with its value at USD 38,500 at the time of writing this report, down c.40% from its peak. Bitcoin continues to attract extreme views from crypto bull and bear camps. Some experts believe that Bitcoin "has no fundamental value" and is mere speculation rather than an investment. Bears see the Crypto space reminiscent of the Tulip mania which took place in the 17th century. During Tulipmania, the average price of a single flower exceeded the annual income of a skilled worker and costed more than some houses at the time. In 2018, Bitcoin tumbled close to USD 3,000 after climbing to a high of nearly USD 20,000 a few months earlier.

Cryptocurrency supporters are of the opinion that things are different this time around, as more institutional investors are participating in the market. A common investment case for Bitcoin is that it serves as a hedge against rising inflation caused by government stimulus. However, that means that if

the Federal Reserve decides to keep rates low, the crypto market could experience a big drawdown. The liquidity tsumani is receding and will possibly negatively impact overvalued and speculative assets.

Bitcoin ETF

Crypto investors are waiting patiently for the approval of the first spot Bitcoin exchange-traded fund in the United States. Although the Securities and Exchange Commission approved the launch of ProShares' Bitcoin Strategy ETF in 2021, which tracks Bitcoin future contracts, it does not give investors direct exposure to the cryptocurrency itself. The market is now large and mature enough to support a spot ETF.

DeFi

As the crypto industry continues to evolve, many other digital currencies like Ethereum are gaining ground. Crypto investors expect this to continue in 2022, while exploring a range of new avenues to generate exponential gains. Multiple analysts have highlighted Ethereum, Solana, and Cardano as favourable coins for 2022. Market sentiment is tilted towards other coins built on blockchain technology which actually serve an essential and fundamental role in decentralized finance. Emerging crypto developments such as decentralized finance ("DeFi") and decentralized autonomous organizations ("DAOs") are likely to be the highest growth areas of crypto. DeFi aims to recreate traditional financial products without middlemen, while DAOs can be considered a new type of internet community. This could dwindle Bitcoin's market share as opposed to these "smart contract coins". Total money deposited into DeFi services surpassed USD 250bn for the first time in 2021, and experts project demand to grow further in 2022.

DeFi is part of a broader trend in tech known as Web3. The Web3 movement calls for a new, decentralized iteration of the internet encompassing blockchain and cryptocurrency technologies such as nonfungible tokens.

Regulations Galore

Regulators flexed their muscles on cryptocurrencies in 2021, with China completely banning all crypto-related activities and U.S. authorities cracking down on certain aspects of the market. Investors widely

expect regulation to remain a key obstacle in 2022 for the sector. Clarifications over the legal "gray zone" are being sought after on cryptocurrencies other than Bitcoin and Ethereum. The SEC filed an action against Ripple Labs Inc. and two of its executives, who are significant owners of XRP (Ripple Labs's underlying crypocurrency), alleging that they raised over USD 1.3bn through an unregistered, ongoing digital asset securities offering. Regulators are also likely to focus on stablecoins in 2022. These tokens' values are tied to the price of underlying assets like the U.S. dollar. For example, there are concerns about whether Tether, the world's biggest stablecoin, holds enough assets in its reserves to justify its peg to the U.S. dollar.

OUTLOOK:

In response to China's ban and the proliferation of crypto dollars and NFTs, we expect the U.S. to embrace cryptocurrencies in 2022, with proper regulation, thereby implying a bullish scenario, but the suspension of new fiat supply should taper astronomically rising prices. There remains a degree of regulatory risk in 2022, but we expect the wider adoption of cryptocurrency to overcome such risks and help sustain prices.

Trend #10

Metaverse to touch all facets of human lives

The internet revolutionised how we conducted business and engaged with people. The Web 2.0 mobile internet changed how, where, when, and why we used the internet, which then transformed products, services, business models, culture et al. Just when we thought it couldn't get any better, entered Metaverse.

The Metaverse is an embodied internet space that you are inside of. Many are of the view that the Metaverse is an upgraded version of augmented reality/virtual reality (AR/VR).

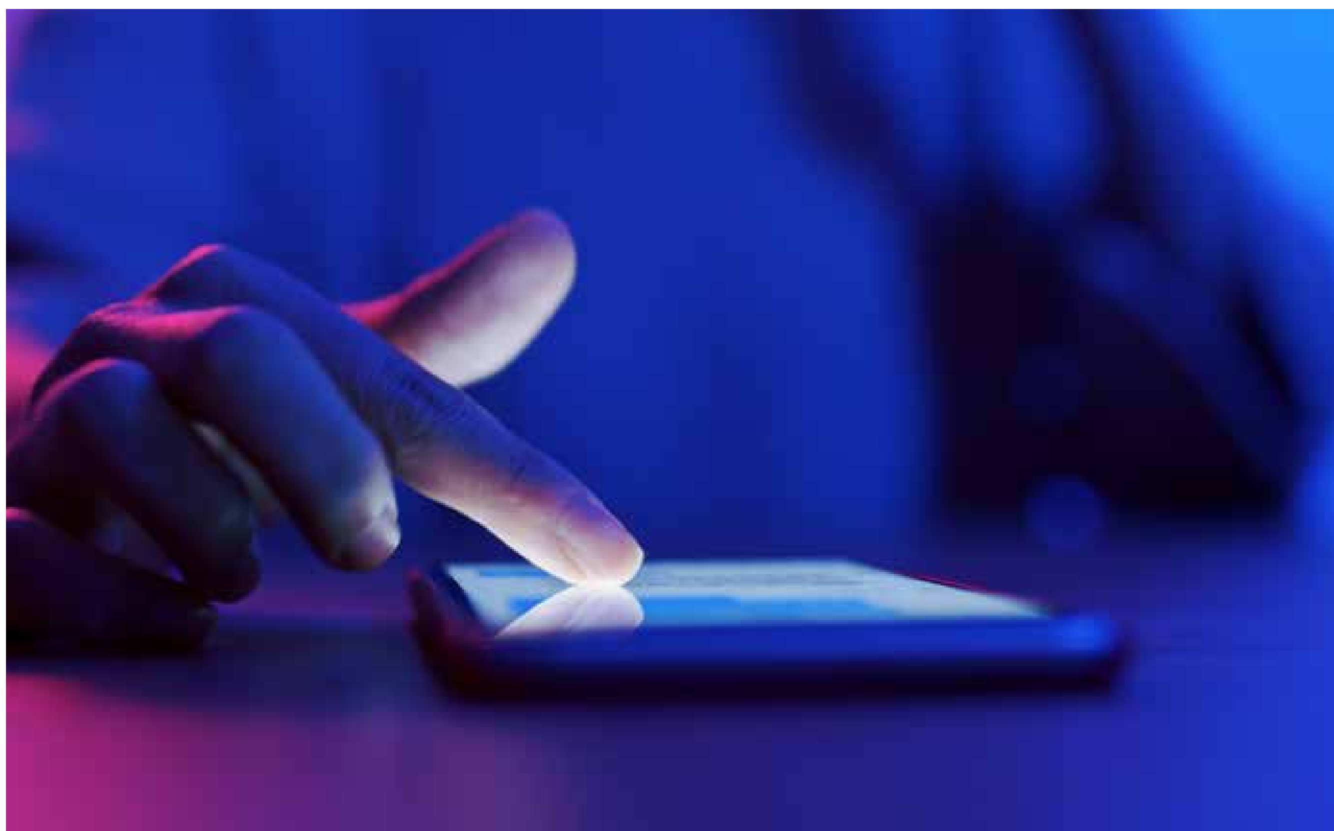
However, unlike VR, which is mostly used for gaming, this virtual world could be used for almost anything, including work, recreation (games, concerts, cinema, art gallery) and social engagement.

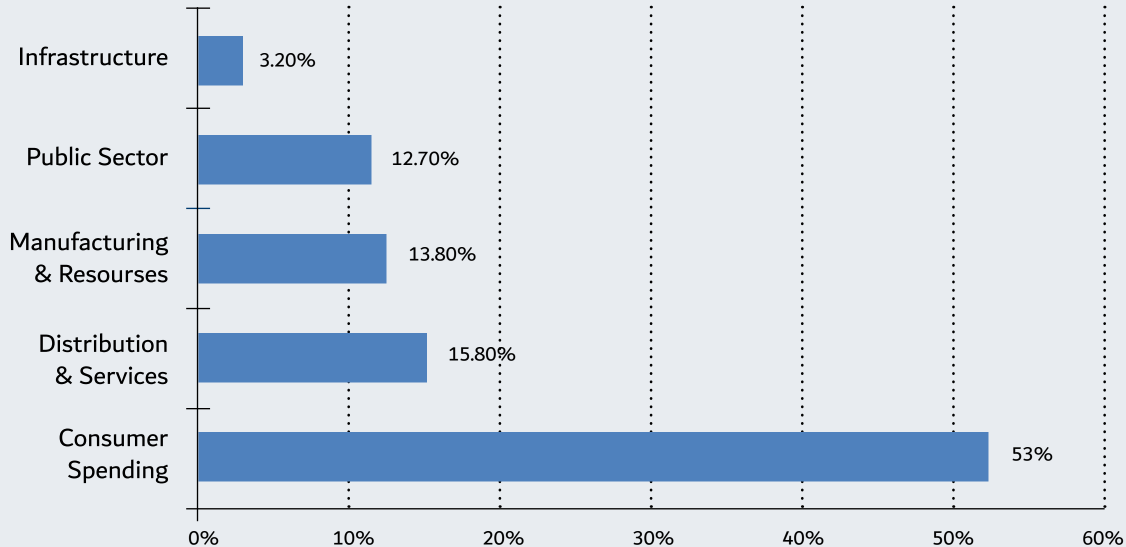
The Metaverse envisions to build an immersive, interactive and shared digital world that brings together mixed reality –AR/VR – along with 3D holographic avatars, IoT and digital twins. Although AR/VR has been around for some time now, the Covid–19 pandemic accelerated the adoption of AR/VR in every aspect of human life, especially leisure and work.

Market opportunity for metaverse expected to reach USD 800bn by 2024.

Leisure

Online gaming took off during the pandemic. Readily available games already incorporate certain elements of the metaverse allowing for interaction between multiple parties in a virtual space through the use of VR headsets. With the rise of the Metaverse, gaming companies are adapting their offered gaming experiences to fall within this new reality. This is evident in Epic Games expanding operations to host concerts of some renowned musicians like Travis Scott and Ariana Grande.





Work

The pandemic also transformed traditional office working to a model which is a mix of remote and virtual collaboration. Having brought new opportunities for business collaborations and growth, this model is here to stay. Businesses are also adopting AR/VR technology in the areas of hiring and training (especially those involving heavy machinery or perilous work environment).

Retail

The face of retail commerce too has changed. The Metaverse is expected to accelerate the trend of online shopping, which already gained traction during the pandemic. The Metaverse's technology can provide the consumer an interactive in-store experience to try out products, which should only reduce footfall at brick and mortar stores.

VR/AR is also used to train workers on machine operation in industries with hazardous work environments. For example, engineers at SpaceX use these technologies to design and examine parts of their rocket engines in 3D.

Additionally, VR/AR is being used in the health care industry to help treat soldiers with post-traumatic stress disorder. The New York Times recently reported that Weill Cornell Medical Center used VR/AR headsets in intensive care units during the pandemic to bring additional expertise into the room while mitigating the risk of exposure to the virus.

Other areas suited for the use of this technology include designing components via 3D printing, autonomous cars, real estate, education, etc. These trends have been widely adopted during the pandemic, and should sustain going forward.

Bloomberg Intelligence estimates the market opportunity for the metaverse to reach USD 800bn by 2024. Given the huge growth potential, massive investments are required on the applications and hardware fronts, and is expected to be driven by tech giants such as Facebook (now Meta), Snap, Alphabet, Microsoft, NVIDIA, Apple, Google, gaming companies, entertainment companies (Disney, Netflix) and those involved in providing 5G, cybersecurity, semiconductors and hardware conductors.

Risks

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Risk #1

Supply chain bottlenecks

A Weak Link in Global Economic Growth Recovery

The ongoing pandemic revealed weaknesses in the global supply chain and lead to wide-scale trade disruptions. According to economists Euler Holmes, production shortfalls, alone, caused 75% of the contraction in global trade volume, while logistical bottlenecks explained the remaining 25%.

Demand outstripping supply

A sharp decline in the demand for goods during the beginning of the pandemic was followed by an ensuing equally steep revival, and this disrupted the global demand-supply dynamics. The problem was further exacerbated by governments across the globe enforcing lockdowns, which included the closure of ports and production facilities in a bid to curb Covid-19 cases. Manufacturing delivery times deteriorated towards the end of 2021, with the global delivery time index down to 34.8. Simply put, any number below 50 indicates a deceleration in delivery times.

Worsening port congestions

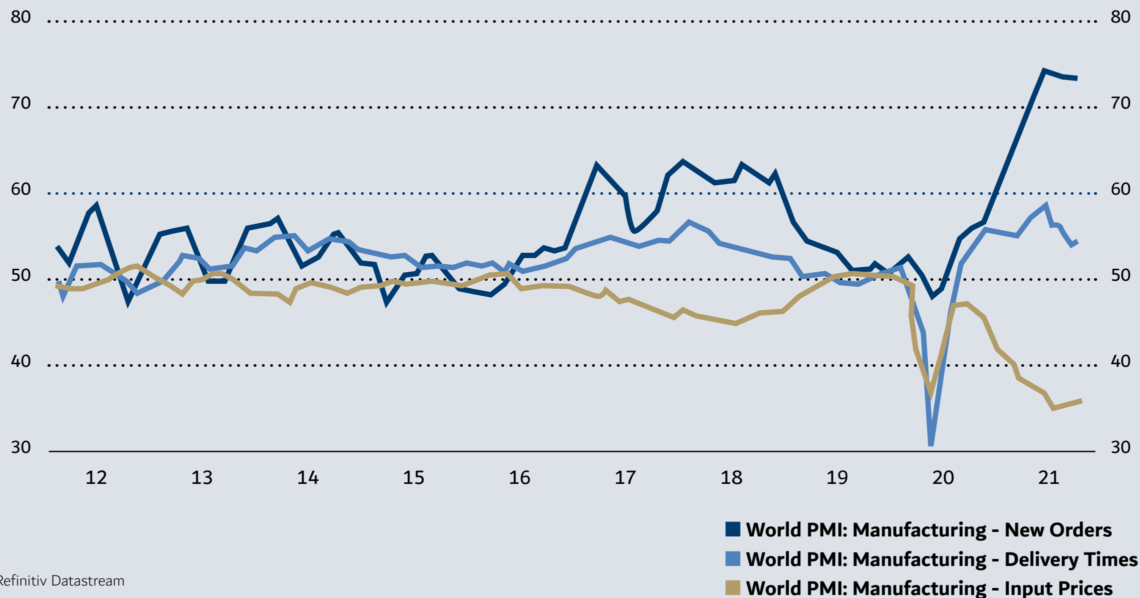
Congestion at key connecting ports along the west coast in the US resulted in an unprecedent backlog, with a record number of c.80 cargo ships suspended in November 2021. Wait times at ports also exceeded an average of eight days, which is actually longer than the pandemic's peak.

Container prices spiraled

Disruptions to sea trade led to freight prices sky rocketing to record highs in 2021. The Drewry World Container Index, which measures the average price of a 40-foot shipping container, was 170% higher in the first week of December 2021 than the same week year before. Prices have spiraled particularly high for routes originating in Asia. Prices for containers shipped from Shanghai to Genoa and Rotterdam in December 2021 were about 200% higher as compared to 2020.

Disrupting Growth

Supply chain snarls raise input prices, hurt supplier times



Source: Refinitiv Datastream

Steep increase in shipping costs

The price to move a container via the sea route from China to the US West Coast went up 13-fold from pre-COVID levels. Concurrently, shipping from the West Coast to China rose only by a factor of 2. This in turn further impacted US manufacturers as shipping companies prefer to ship back empty containers to China, as opposed to waiting for US exporters to fill those containers their products.

Unprecedented rise in warehouse rentals

Demand for e-commerce continues to expand, especially in a nearly post-pandemic world. This has resulted in a shortage of warehouse space, and sequentially higher warehouse rental rates. The net effect vis-à-vis the consumer is higher prices, adding to their burden.

What to expect in 2022?

Supply chain disruptions became the bane of global trade during the Covid-19 pandemic, and is expected to continue throughout 2022, exacerbated by (i) the outbreak of the Omicron variant which has resulted in reduced cross border movement, (ii) China's strict virus containment policies, and (iii) the country's slowing economy on the back of an energy shortage and inadequate investment in port capacity expansions.

Supply-chain woes would continue on labour shortages (particularly truck drivers), large backlogs of unfulfilled orders, and rising costs of raw materials (such as semiconductors). This is evident in lower production estimates by automakers on chip shortages. In the UK, nearly two-thirds of companies surveyed by the Confederation of British Industry (CBI) are anticipating a negative impact on production as components are in shortage. Companies are also expected to be plagued by supply chain frauds.

The current environment has made inventory management even more challenging for retailers. As supply shortages runs the risk of insufficient inventory, larger retailers may resort to inflating their orders, thus flooding the market with what consumers may ultimately not even want. This would in turn place deeper strain on manufacturers, which would further inflate prices, extend delivery times and reduce the selection of goods for consumers. Businesses need to recalibrate and rationalise their supply chain strategy and adopt latest technology solutions for supply chain management in order to thrive in this environment.

Risk #2

Cybersecurity

Time to re-imagine businesses in a digital world

In recent times, cybercrime has emerged as one of the key concerns for individuals and businesses globally, resulting in costs in excess of USD 6tr per annum, a figure that could rise to USD 10tr by 2025. In 2021, cyber criminals capitalised on the pandemic as enterprises migrated to hybrid remote workspaces, which exposed them to numerous security vulnerabilities.

In 2022, organisations are expected to witness a higher rate of security risks, and even new cyber threat methods that can hamper business operations. Businesses must implement firewalls against cybercrimes that can mitigate their impact in order to survive.

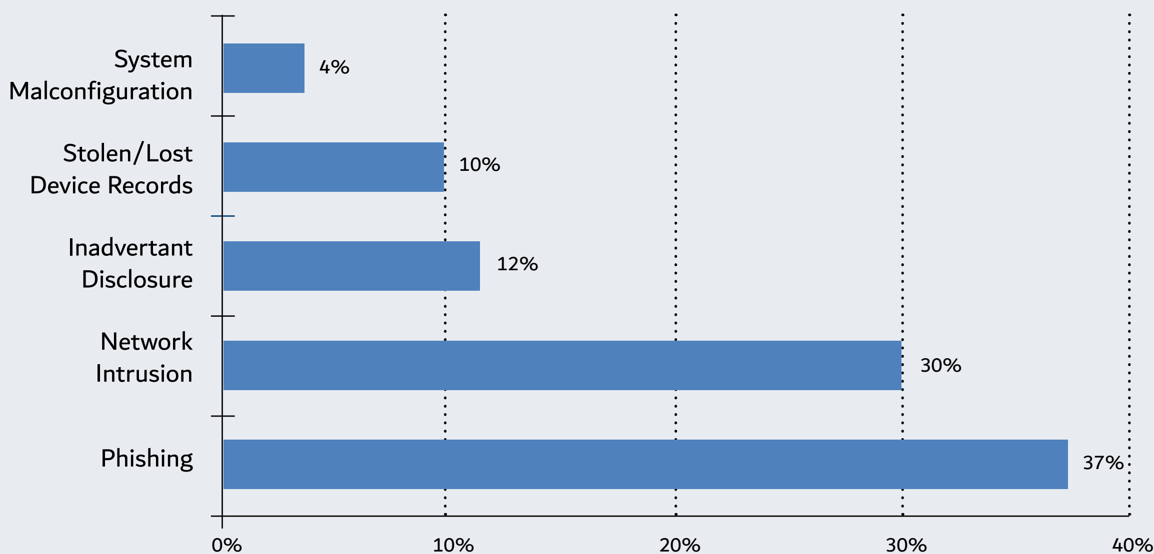
Following are the top cybersecurity threats that enterprises may face in 2022:

1. Phishing
Phishing is one of the most common types of cyberattacks that aims to fool people into releasing personal information and passwords. These leaks can wreak havoc for businesses as criminals have shown to find innovative methods to solicit information.

2. Ransomware Attacks
This is essentially malware that can encrypt files once entering an organization's network, rendering systems unusable. Global ransomware attack volume increased by 151% y/y during H1 2021. Going forward, these attacks are expected to only increase as it becomes more difficult to trace ransom payments made in cryptocurrency outside the banking system.

3. Data Security
During H1 2020, over 18m data breaches were recorded globally. These breaches are expected to become more prevalent in 2022 as internet users add 2.5tr gigabytes of data online, vulnerable to breach if left void of adequate security protection.

Most common cyberattacks experienced by companies



Source: Statista

4. Supply Chain Attacks
These have a ripple effect that can harm all stakeholders across the chain. As per BlueVoyant annual global survey on third-party cyber risk management, c.97% of firms surveyed were negatively impacted by a cybersecurity breach that occurred in their supply chain. As enterprises upgrade to sophisticated supply chain solutions, risks of such attacks also increases.

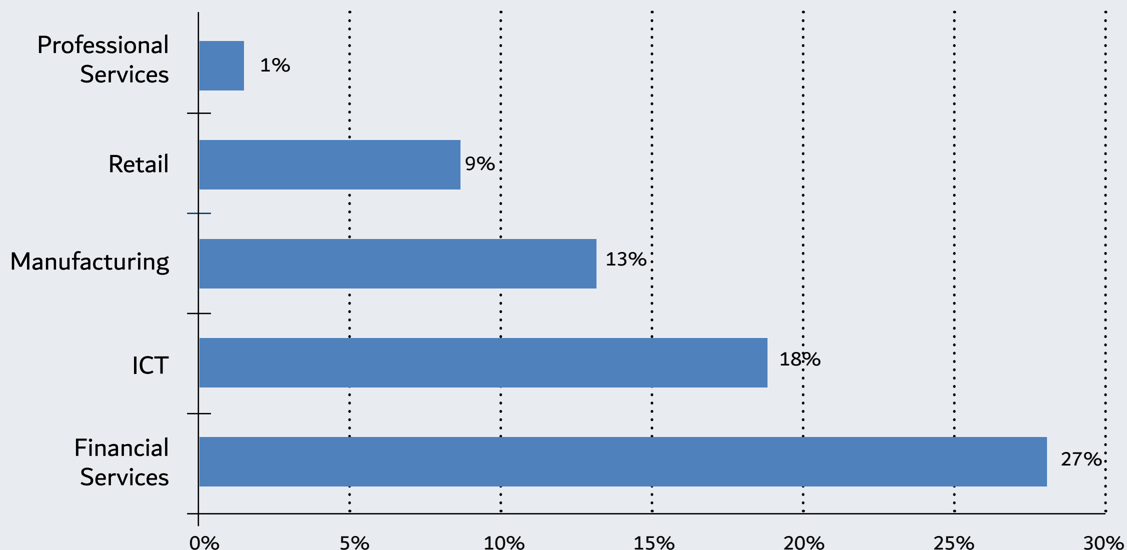
5. Mobile Malware
In 2021, there was at least one employee in almost half of enterprises that unintentionally downloaded a malicious mobile app. Given the ever-increasing quantity of business information made available via mobile devices, this trend is expected to continue in 2022.

6. Cloud Vulnerabilities
As businesses increasingly migrate to cloud technology, so does the incidence of cloud cyber-attacks. For example, cloud cyber-attacks accounted for 20% of all cyber-attacks in 2020.

Given the rising incidence of cybercrimes, global spending on cybersecurity products accelerated at a CAGR of 12%-15% over 2017-2021 to reach over USD 1tr cumulatively. Going forward, organisations expect their budgets towards cybersecurity to rise to ensure appropriate solutions are put in place to prevent such attacks from occurring, without disrupting normal business flow.

Therefore, we think it is imperative for investors to analyse a company's susceptibility to cybercrimes and gain an understanding of the potential disruption cybercrime can result in.

Volume of cybersecurity incidents by sector



Source: CII Insights

Risk #3

Social unrest

Impeding smooth business operations

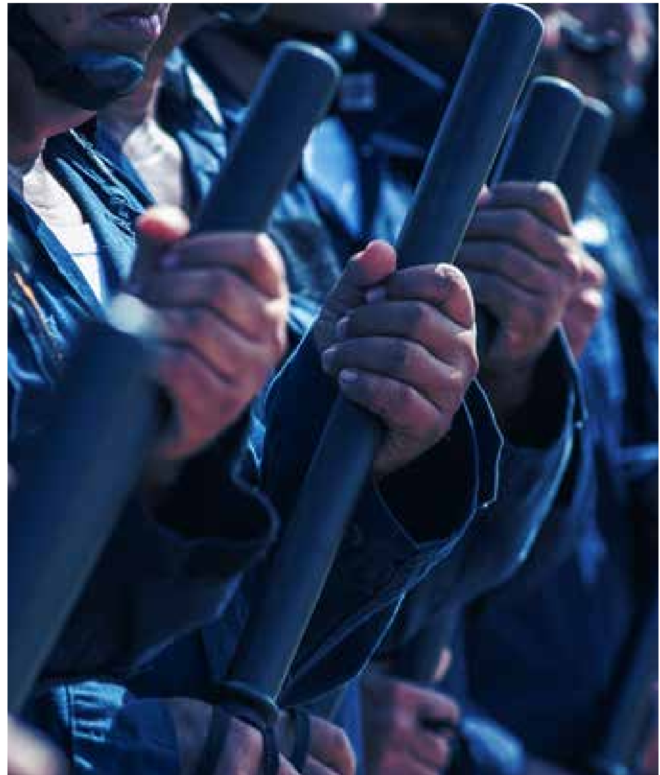
One of the biggest operational risks that companies are expected to face this year is the incidence of civil unrest which can cause damage to physical property as well as lost revenues on business disruption. This risk is also anticipated to burden companies exposed to new compliances, restrictions, and regulations.

The IMF's recent Global Peace Index reported a massive increase of 244% over the last decade in the number of riots, general strikes, and anti-government demonstrations around the world. This has largely been on the back of declining trust in government ideologies, lack of representation in policies and governance as well as a widening disconnect between priorities of politicians' and those of the public at large. Festering socioeconomic issues such as racism, religion, resource scarcity, unequal wealth distribution, have also triggered riots and unrest in both developed and emerging economies.

The recent pandemic further worsened the situation, negatively affecting political stability, increasing polarisation and aggravating grievances surrounding equality, labour conditions and civil rights. The pandemic has also caused a mental health crisis, also adding to the rise of domestic terrorism and violent extremism.

The risk of riots and civil unrest is expected to intensify as multiple variants of the virus resurge. Mounting tensions, simmering anger over lost job opportunities and a sense of insecurity amidst a broadly unknown direction for the world, are likely to compel individuals to lock horns with authorities over anti-lockdown measures, vaccine mandates, and new regulations. Add conspiracy theorists to the mix, and one would have a full-blown riot at hand.

Terrorists' threats, which were on the decline during border closures and entry restrictions over 2020-2021, are not yet a thing of the past. In fact, online terrorist activity and recruitment increased during this period. It is believed that terrorism too is undergoing



an evolution with shifting ideologies and modes of attack as suited to the post-pandemic world order. Going forward, the Taliban takeover is also expected to influence global terrorism.

Such widespread protests could hurt business sentiment and further weigh on economic activity. Increasing social unrest may also prove to be detrimental to policy reform efforts, which in turn may affect growth.

According to Allianz Risk Barometers 2021, political risks and violence made their return to top 10 risks for the first time since 2018. A total of 178 countries made it to the list of Fragile States in the 2021 Fragile States Index, with instances of security and violence expected to grow proportionately. The outlook in the International SOS Risk Outlook Report 2021 is that companies around the world will face an increasingly complex risk landscape with employee health and civil unrest highlighted as the top challenges for the year ahead.

North America:
Arson, vandalism and looting that followed the unrest post the death of George Floyd at the hands of the police is expected to cost the insurance industry at least US$1bn to $2bn in claims.

Europe:
Conspiracy theory that baselessly linked 5G technology with the coronavirus led to a series of arson attacks on cell phone towers in the UK and other European countries. After only a few weeks of the 'yellow vest'demonstrations, the French retail federation reported retailers nationally having lost $1.1bn in revenue. Thousands of demonstrators took to the streets in Austria, Netherlands, Croatia and Italy as anger mounted over new curbs in the face of the emergence of new virus variants.

Middle East:
Unrest post takeover of Afganistan by the Taliban

South America:
Confrontations between demonstrators and police over metro fare hikes resulted in infrastructure vandalism causing damages worth $2bn.
A series of protests in response to government austerity measures paralyzed Ecuador in 2019 and causded $800m in damages

Asia
Violent demonstrations in Hong Kong from March 2019 through 2020 resulted in damages of about $750m.

Source: CII Insights

Risk #4

Climate

The CDP Global Supply Chain Report published in 2021 estimates the financial impact of climate change to the global supply chain at approximately USD 1.3tr over the next five years

We are already witnessing material impacts of climate change on public and private asset classes across the globe. A 2021 report by the United Nation's World Meteorological Organization states that extreme weather events are occurring at fivefold the rate of weather-related occurrences 50 years ago.

Perilous weather conditions caused by climate change should be among the main operational risks for organisations in 2022. Adverse climatic changes are likely to increase physical risks from higher temperatures, more frequent storms with higher intensity, floods and ensuing famines, rising sea levels, loss of biodiversity and damage to ecosystems.

American businesses are expected to lose more than 3 million days of operations from flooding in 2022. This would translate to c.USD 50bn annual hit for cities across the US.

According to the Risk in Focus 2022 Report, climate change has been steadily rising, climbing four positions in ranking since 2021 and seeing a 41% increase in Chief Audit Executives (CAEs) across Europe who deem it a top-five risk, placing it in the top ten for the first time.

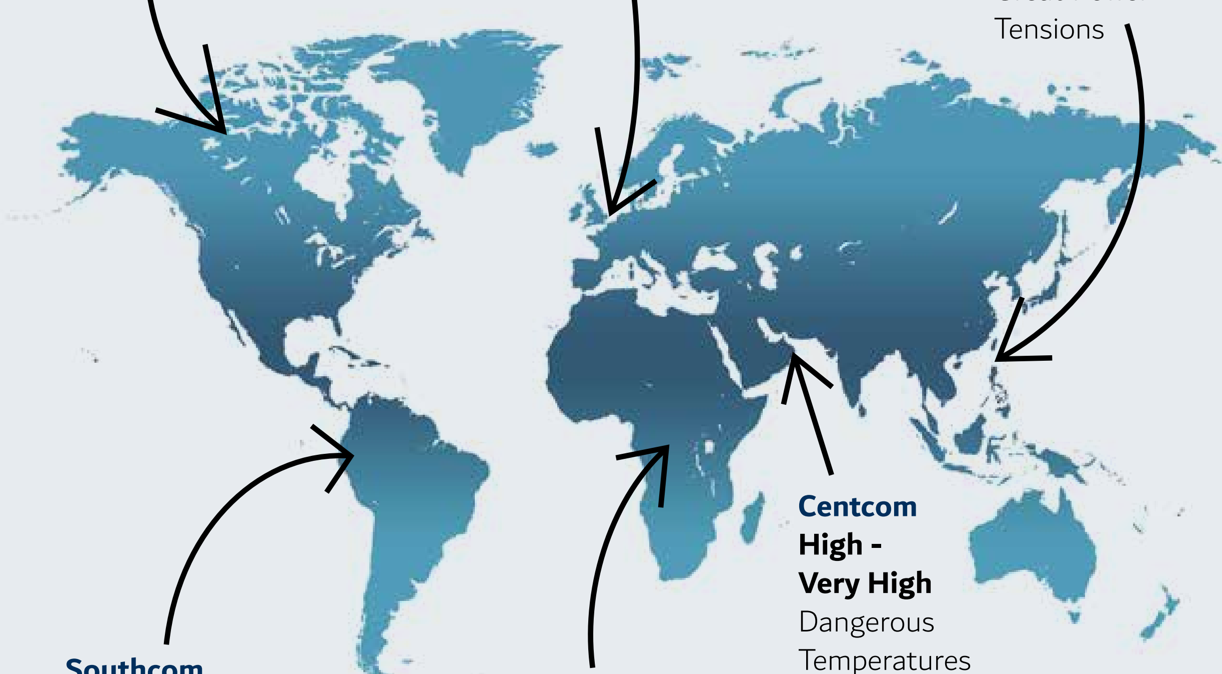
As per a study by analysis and forecasting group Verisk Maplecroft, 99 of the 100 most risk-prone cities in the world are situated in Asia. This is based on factors such as pollution, water scarcity, extreme heat and other vulnerabilities.

The impact of climate change is undoubtedly of concern in the Middle East. The region is experiencing global warming at twice the rate of the rest of the world, which would likely render certain countries uninhabitable in the near future. Secondly, as the world shifts to renewable energy sources, the oil-based economies of the GCC region would need to significantly diversify their revenue sources to sustain their current budgets.

As per the CDP Global Supply Chain Report 2021, corporate buyers may incur USD 120bn in increased environmental costs by 2026, with climate change alone accounting for 93% of these costs. Altered consumer preferences, less access to capital and increased operational expenses can emerge as key risks due to the domino effects of climate change on supply chains.

ESG criteria is now front and centre of an investor's criteria as the severity of climate change continues to intensify. As a result, ESG scoring systems have emerged, conducted by scoring companies (such as Fitch), which assess a company's policy towards the environment, social obligations, and governance. In 2022, companies will need to allocate funds towards ESG investments to achieve higher ESG scores and be deemed as sustainable business entities.

US National Security and Military Leaders See Climate Change as "Catastrophic" The Center for Climate and Security's "Climate Security Threat" Profile, near-term scenarion (1-2c+ warming)



Source: CII Insights

Risk #5

Labor shortage

Labour Woes Deepen as Bargaining Power Shifts to Employees

The COVID-19 pandemic has resulted in unprecedented and severely disruptive labour shocks globally as unemployment rates reached distressed levels in 2020. Although advanced economies have rebounded from the pandemic, companies operating in select sectors are still being confronted with serious labour shortages and this trend is expected to continue in 2022. This paradoxical situation, of sustained high unemployment levels combined with acute labour shortages can be attributed to:

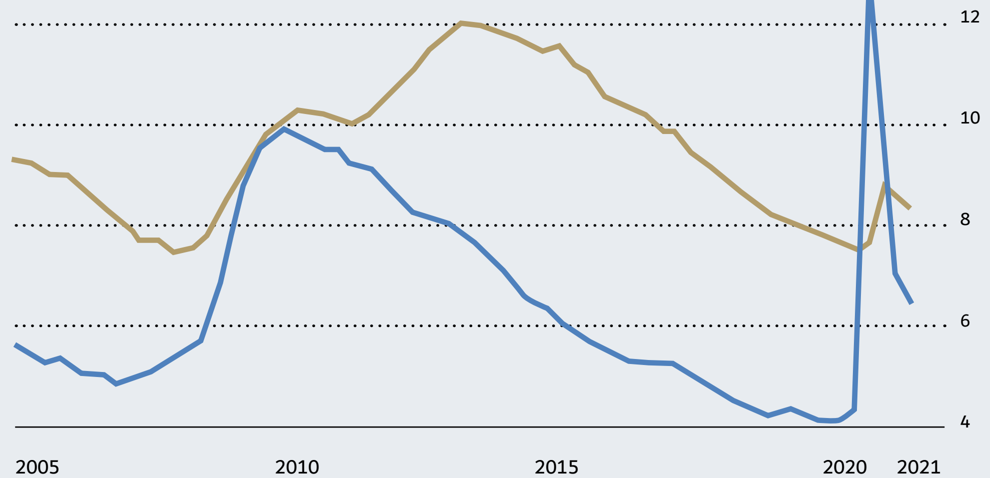
(i) An unbalanced revival of sectors, thereby altering the demand dynamics for labour. This change in the demand mix for labour is further compounded by companies adapting to post pandemic business environments and a change in skill sets required.

The pandemic has also altered the pattern of labour supply, making it difficult for employers to find appropriate candidates. This crunch will particularly be felt by the leisure and hospitality industries and frontline jobs as individuals shy away from jobs that can potentially pose health risks. Wages and monetary benefits are proving to no longer remain the primary motivating factor among candidates as individuals opt for a higher quality work-life balance.

A lower rate of immigration amidst border closures has also added to the labour market's woes. Brexit is also causing additional complications for hiring migrant labour in the UK. Furthermore, stimulus packages handed out by governments have given individuals the luxury of time, having shown minimal urgency to return to the workforce in the near term.

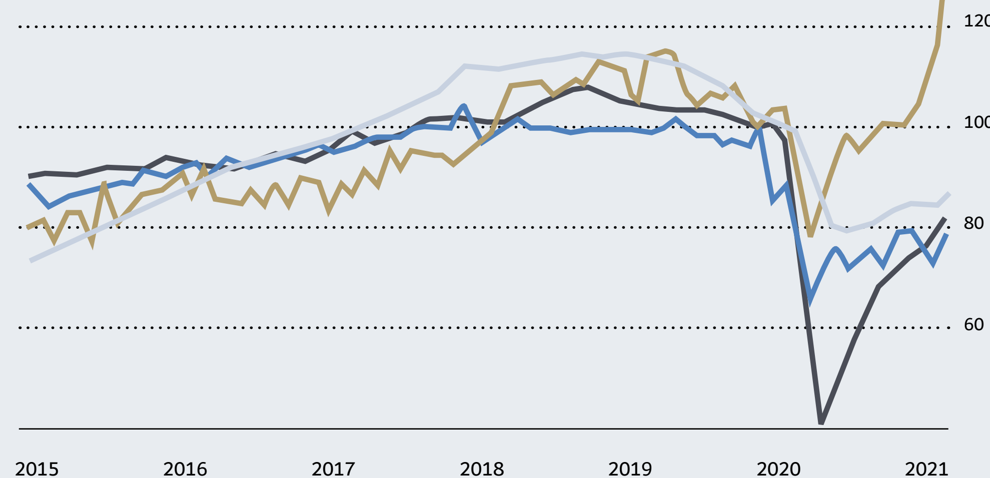
Demographics have also played a role in shrinking the workforce. Ageing populations in the US, Europe and China may opt for early retirement, especially during a global pandemic. Combined with a decelerating birth rate, new entrants to the workforce are on a downward trend as well.

Unemployment rates are falling but still well above pre-pandemic trend



US
Eurozone

Job vacancies are rising, particularly in the US



UK
Japan
US
Germany

Source: Capitol Economics

‘The Great Resignation’ is a theme that is expected to become the talking point in the GCC in 2022, with a massive 56% of professionals stating that they intend to change their jobs within the next 12 months.

This is expected to trigger a war for talent in the region, and further widen the gap in skilled labour. It is expected that the region would witness about 3.1m vacancies (within ICT and other sectors) by 2025 as the current wave of digital jobs is shaped by the “Essential Eight” technologies: blockchain, 3D printing, drones, virtual reality, augmented reality, the Internet of Things, robotics, and artificial intelligence.

As employees’ bargaining power strengthens over that of employers, businesses will need to increase wages and improve compensation packages. Companies may also have to raise wages to retain their current staff given the high costs of worker turnover on morale, training and customer satisfaction

Risk #6

Geopolitical

Power Struggle to Dominate the Geopolitical Landscape in 2022

Geopolitical risk will likely emanate from the expected disruption caused by countries, and companies realigning themselves to a new geopolitical world order and the ensuing fallouts from such transitions. The geopolitical situation that we were accustomed to for the past 70 years was by and large shaken by the US withdrawal from Afghanistan. This is forcing a shift from a unipolar world to a tension fraught multi-polar world with countries like China and Russia clambering to fill the gap left by the US.

The ramifications of such a trend on equity markets can be significant. Businesses will likely monitor and gauge geopolitical risk more closely, as any change in the political landscape will have implications on (i) energy supply, (ii) supply chains, (iii) leadership, (iv) security, and ultimately, (iv) growth.

We watch the following themes closely in 2022:

Worsening US-China ties

The pandemic exposed supply chain vulnerabilities and highlighted the importance of technology, and this has led to intense competition between the US and China with both focusing on decoupling their tech sectors. The US is pursuing "Buy American" initiatives to boost its competitiveness in areas of critical technology while increasing regulations on US-listed Chinese companies (such as disclosure requirements). Several human rights violation sanctions have been slapped against multiple Chinese firms operating in the US. China, on the other hand, has similarly cracked down on selected tech industries in retaliation.

These trends, which may result in full global economic bifurcation, can cause a divergence in how companies operate supply chains across countries with different standards. 5G implementation could be delayed in certain countries, while sanctions by China would increase uncertainty surrounding global trade and investment.

Trouble brewing in Asian waters

Geopolitical risk will likely remain high in South and East China Seas on territorial disputes and heightened military activity. These conflicts will likely be magnified by North Korea's expansion of its nuclear arsenal. Furthermore, increasing tension between China and Taiwan has raised the risk of a military conflict in the Taiwan Strait. US is looking to deepen multilateral-security approaches in the Indo-Pacific through alliances, such as the Quad Security Alliance with Japan, Australia, and India, to counter these developments.

Escalating tensions in the Europe and Middle East

Rising tensions between the UK and the EU over Brexit could see sanctions or tariffs on UK. China's ties with EU are also weakening due to the former's deteriorating relations with the US. In Europe, Russia's role in the struggle for supremacy is expected to be the main concern for the US and its allies, especially in the face of its hypersonic and nuclear capabilities. Risk of conflict with Iran looms as well, especially if the country resumes its nuclear program. Lastly, Afghanistan, in the hands of the Taliban, can become a hotspot for terrorism in the region.

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