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Annual Outlook 2022: Decoding the Macroeconomic, Geopolitical, and Long-Term Investing Landscape

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Introduction

Throughout the course of the pandemic, as equity markets have reached historic highs, financial market participants seem to be complacent in shrugging off the potential downside effects of emerging strains of COVID-19 – as well as dynamics such as the price of oil hitting seven-year highs[1] – in banking on the liquidity paradigm. At the start of 2022, as traders digest the eventual tapering of easy monetary policy – as well as the removal of extraordinary amounts of fiscal firepower around the globe – what could actually upset the apple cart? Amidst the rubble of unprecedented shocks to supply and demand – combined with exceptional policy support – what is actually driving real economic growth in 2022 – and beyond?

In our Annual Outlook 2022, we explore critical dynamics within the macroeconomic environment in which executives, investors, and policymakers make their decisions, including the shape of economic growth; inflation dynamics; commodity markets -- and the potential for a new "supercycle"; labor market dynamics across the globe, and the US phenomenon of the Great Resignation; as well as potential risks to financial stability. Next, we explore the geopolitical landscape, including an outlook on the future of trade (which looks bright in Asia); as well as the great dispersal of supply chain activity across the globe.

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As 2022 is an election year in many key countries for investment, we also consider the potential dynamic of a 'referendum on COVID' as electorates head to the polls. Finally, amidst the great green gold rush – and the flutter of activity on behalf of investment houses, central banks, governments, and corporations to commit to the fight against climate change – we also explore potential bright spots for long-term investment, including the opportunity of deploying capital to high speed rail (HSR) for the movement of goods and people across the globe.

> "Amidst the rubble of unprecedented shocks to supply and demand – combined with exceptional policy support – what is driving real economic growth in 2022?"

The Macroeconomic Environment - Financial Markets, Economic Activity; Risks to Financial Stability

At the start of 2022, financial markets continue their mercurial course: on a constant record-breaking trajectory, beset with intermittent wobbles as traders digest central banking minutes. Indeed, since the Global Financial Crisis (GFC), one can argue that monetary policy is what truly drives movements in indices. On the one hand, market participants often respond negatively to the prospect of the removal of an easy monetary stance (rather than – rallying off the back of a strong and sustainable growth outlook that such normalisation would imply). On the other hand – and such has been the case since the start of 2021 – traders can become skittish with the presumption of *too much* policy support (be it fiscal, monetary, or a combination of the two) and the expectation of persistently high or unmanageable inflation which would (in theory) result from such support.

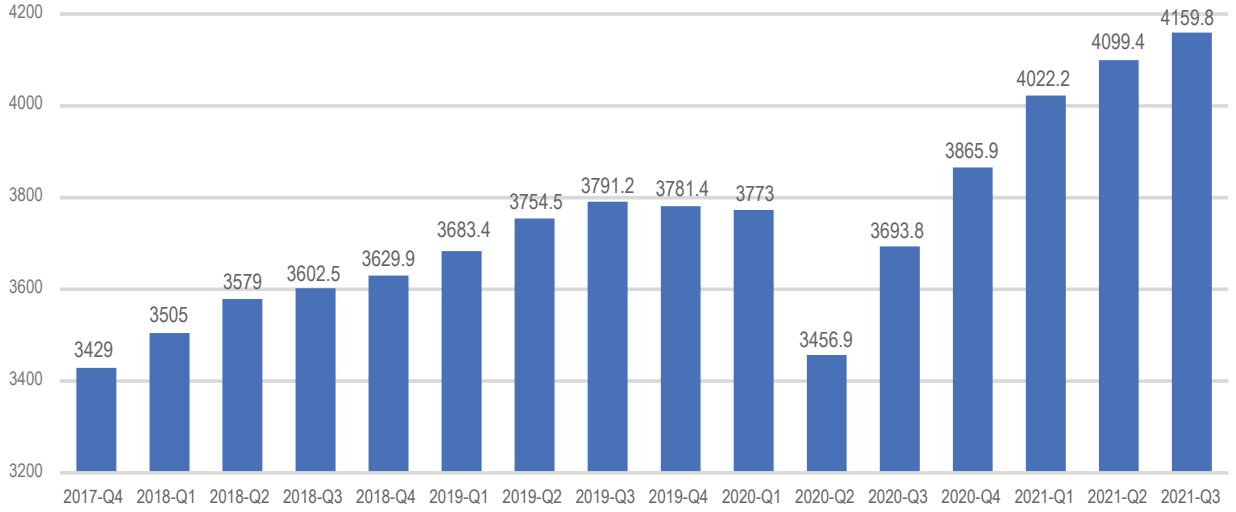
As we wait on the brink for a potentially accelerated timeline in the removal of accommodative monetary policy, what is really driving growth within the economy?

2022: the year of CapEx?

Private consumption of goods supported the bulk of economic activity across the globe during 2020 and 2021, with households supported by easy monetary policy, as well as fiscal support. Whereas the consumption of services had driven a bulk of both employment as well as wage gains in the pre-pandemic years, the onset of COVID-19 – and corresponding confinement measures – meant that households deferred spending on services (particularly those which were contact intensive, such as entertainment and personal services), and ratcheted up spending on durable goods (such as essential household goods, home improvement/ DIY projects, and consumer electronics to support the WFH dynamic), as well as on shelter in the form of housing (in part leading to a surge in pricing in key inputs, such as lumber).[2] Then, reflective of asynchronous reopenings of the economy, households pivoted to spend on services (such as airline fares and rental cars), with a corresponding surge in pricing in such categories related to the re-opening (including certain goods, such as used cars). With the onset of Omicron in November 2021, household spending has once again been redirected toward durable goods.[3]

Looking forward, we might say that 2022 will be the year of 'CapEx' – that is, capital expenditure and business investment by companies. Bolstered by record low (or negative) interest rates, and hence cheap debt, companies across sectors have deployed significant amounts of capital investment to support their operations, their growth strategies, and their people.

Figure 1: Gross Fixed Capital Formation in the United States (2017-2021, USD Bn.)



Source: Bureau of Economic Analysis / Haver Analytics

The experience of the pandemic has accelerated several secular shifts which were well underway prior to COVID, and which have supported a corresponding higher rate of investment. Firstly, with the pivot to remote working, companies have largely accelerated spending on cybersecurity in efforts to maintain enterprise resilience and continuity.[4]

Secondly, as governments around the world commit to 'building back better' by prioritising the decarbonisation agenda, and in some cases, by raising their nationally determined contributions (NDCs) in the wake of COP26, companies across sectors are focused on reducing carbon emissions, and therefore investing to meet their own net zero targets. Such expenditures vary in scope in terms of value: for a large real estate developer and operator, the need to retrofit existing building stock (say, in a city with historical properties, such as Paris), as well as to work toward offsetting new development represents a significant investment. For a technology company, offsetting carbon emissions might be built into a forward-looking operating strategy, in considering how to pivot from the use of heavy-emitting data centres, and to shift toward 'cleaner' cloud computing services.[5] It is important to point out that investing in such net zero commitments might also be initially spurred by larger companies with the capacity to execute such investments. As PwC's 25th Annual CEO Survey highlights, the majority of organizations which have made net zero commitments in the survey have annual revenues of USD25bn or greater.[6]

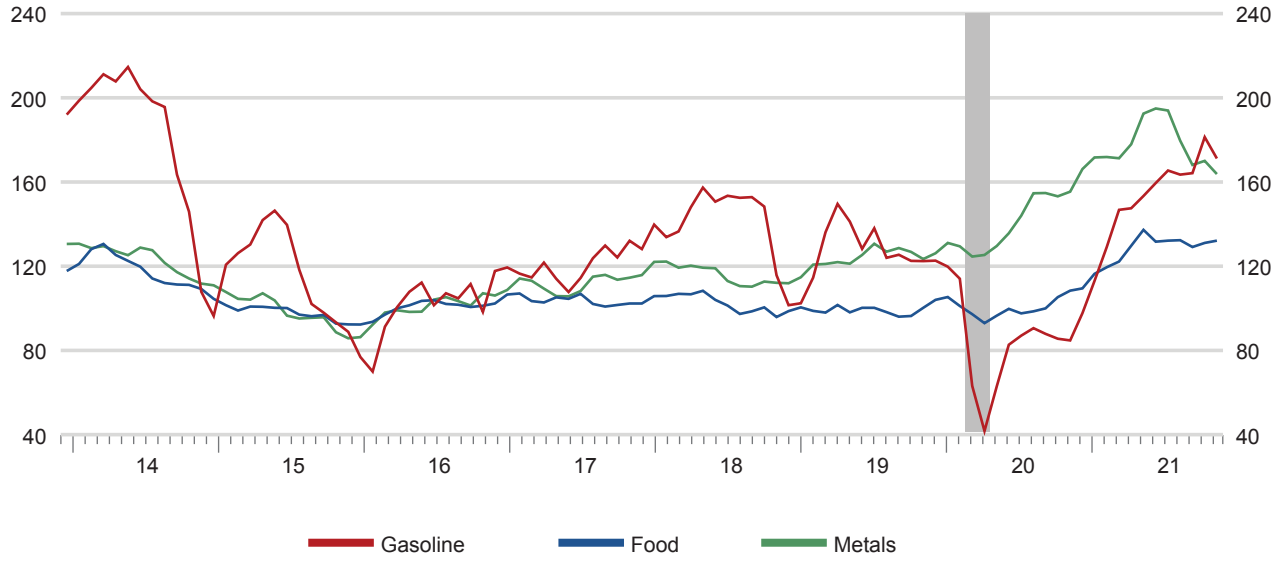
Thirdly, the experience of the pandemic has accelerated the trend for many companies to invest in 'upskilling' their people: from white collar business and professional services, to blue collar jobs at the other end of the wage spectrum.[7] Investing in training programmes is certainly a way for companies to meet some of the 'social' components of growing ESG mandates, by shouldering some of the responsibility in expanding opportunities for human capital development and 'learning for working', which are critical developments in efforts to reduce various forms of economic inequality and socio-economic disparities.

Inflation dynamics

While these secular shifts are likely to continue to accelerate capital investment over the medium–longer term, the sudden economic shocks and stops related to COVID-19 have also contributed to the need for heightened capital spend by companies, in efforts to address shortages in parts, material, and labour – dynamics which are likely to continue to unfold over the short to medium-term. While the initial waves of the pandemic led to a cessation of mobility, the production of raw materials, and industrial and manufacturing activity across many key jurisdictions (even resulting in negative oil pricing in the US), asynchronous reopenings have resulted in serious jolts to both supply as well as demand. As we can see in Figure 2, business executives have contended with an elevated commodity price environment– in liquid fuels, metals, as well as food prices – since mid-2020. Supply crunches have been evident in each of these categories, be it with natural gas, OPEC production, semiconductor chips, and even weather-related events curtailing the production of key food stuffs such as wheat.[8]

Resurgent and uneven patterns of demand – particularly when seen in the light of recovery from the base effects of 2020 – have resulted in further shocks in pricing. Such asymmetries in demand have been further stoked by some manufacturers' willingness to forge multiple contracts in order to secure a steady supply of inputs with which to produce their products and get these to market.

Figure 2:
Global Commodity Price Index (2016 = 100)



Source: Haver Analytics, IMF

This has spurred an increase in headline inflation (that is, the measure of inflation which includes commodities such as fuel and food), which has in many cases, resulted in a rapid increase in producer price indices (PPI), as well as a pass through to core inflation (albeit *related to specific categories*). Indeed, by the end of 2021, wholesale inflation in Japan increased by the most in 40 years,[9] and factory gate inflation had breached similar records in China.[10] The price of vegetables in China increased by 30.6% year-over-year in November 2021[11], raising concern for policymakers that households might defer discretionary spending (and hence a key driver of economic growth) amidst an uncertain and elevated price environment for basic goods such as foodstuffs.[12] The basic human need of shelter (in the form of home ownership, as well as rent) also remains elevated in key markets across the globe, for a variety of reasons covered by this author in previous publications.[13] It is important to note that a persistently 'white hot' housing market has also eaten into disposable income for the bottom quintiles the income distribution, within advanced economies (AEs) as well as in emerging markets and developing economies (EMDEs).

Price increases in raw materials have been further compounded by spiking costs of transport and logistics, as well as by acute storage issues and supply chain bottlenecks.[14] Additionally, resource nationalism – be it in the form of export controls, stockpiling, or onshoring – further exacerbates the price environment: beyond the semiconductor crunch, pundits point to the potential for 'greenflation', as policymakers seek to build up domestic supplies of metals such as lithium and cobalt for EV batteries and energy storage.[15]

A new commodities supercycle? Think again

Looking forward, we forecast this volatility in pricing for raw materials and inputs – as well as bottlenecks to supply – to continue through the end of 2022, potentially to the start of 2023, as the virus and its variants continue to ricochet across the planet. Crucially, however, for planning purposes, this does not augur the dawn of a new commodities supercycle. For policymakers from EMDEs, for investors, and for executives, it is important to note that the volatility and heightened price environment for key commodities – and the attendant windfall potentially garnered by many commodity producers – is unlikely to be a long-lasting feature of the post-pandemic world.

While AEs are set to continue above-trend growth in 2022, and while EMs such as China continue to use fiscal policy to support manufacturing activity,[16] the policy support for such activity will eventually start to fade, and the secular trends which have led to lackluster economic growth in the post-industrial era are likely to prevail. Demographic trends – such as aging populations, and the gig economy – as well as technological forces – such as Moore's Law – render a reversion to the pre-pandemic mean of lower, slower growth ever more likely. This is the case for services-oriented economies such as the US and the UK, as well as for EMDEs on the trend toward services-oriented activity and employment, such as China and Brazil.

While goods-producing countries across developing Asia might be poised to post significant manufacturing growth post-COVID, the resulting demand outlook for resources is unlikely to match the scale of manufacturing activity which unfolded in China in the 2000s, which contributed to the commodities supercycle. Said another way, once central banks remove ultra-accommodative monetary policy, and governments pull back crisis-oriented fiscal policy, the growth outlook for 2023 onwards portends the great British phrase of 'muddling through.'

Accordingly, while central bankers across the globe work to achieve price stability in such volatile commodity markets, the resulting outlook for inflation – specifically in AEs, further down the trajectory of services-oriented, and hence lower slower growth – may look elevated, but not unmanageable.[17] In considering the interest rate environment within AEs over the long run, it is important to note that the real yield on US 10 year notes has remained negative for a record 22 months.[18] Thus, some observers point to an 'enduringly sober outlook for long-term economic growth' in the US.[19]

Labour market dynamics: The Great Resignation as a US phenomenon

In the wake of the sudden economic stops resulting from the initial stages of COVID-19, many countries experienced the single largest contraction on record, as well as spiking unemployment rates: in the US, the highest level since the Great Depression.[20] However, across the European Union, and in countries such as Japan, Brazil, Australia, New Zealand, and Singapore, job retention (JR) or furlough schemes kept many workers in place, resulting in less disruption to the labour force than the US (which opted to support households in the form of stimulus checks).[21]

Within the US, the shocks to labour supply have been prolonged as Americans reassess their relationship with work. On the retirement side, some estimates point to about 2.5mn workers to have left the labour force during the pandemic.[22] While the pandemic forced many to step out of the labour force as primary caregivers, or due to illness, or fear of contraction, it has also prompted a psychological wakeup call for many workers, evident within specific sectors. In the US, we have witnessed record numbers of quits in leisure and hospitality jobs (particularly in restaurant service and accommodation), as well as in retail, and in white collar business and professional jobs.

Accordingly, as employers seek to lure workers back into the workplace, or to retain talent, we have witnessed wage growth in specific industries – the strongest in those with the highest quit rates (such as leisure and hospitality) - and also those in staunch demand (such as warehousing, logistics, and fulfillment) as well as high burnout rates (business, professional, and legal services). This wage growth in the form of incentivising labour shortages in contrast to wage dynamics in countries where JRs have kept workers in situ, such as in France.[23] Indeed, even throughout successive waves of the pandemic, the employment rate in France actually reached its highest historical level in late 2021.[24] As we can see in Figure 3, labour force participation (LFP) in France has significantly expanded since both the Global Financial Crisis (GFC) as well as the European Sovereign Debt Crisis (ESDC).

Figure 3:
Labour Force Participation Rate in France

Source: Trading Economics / INSEE France

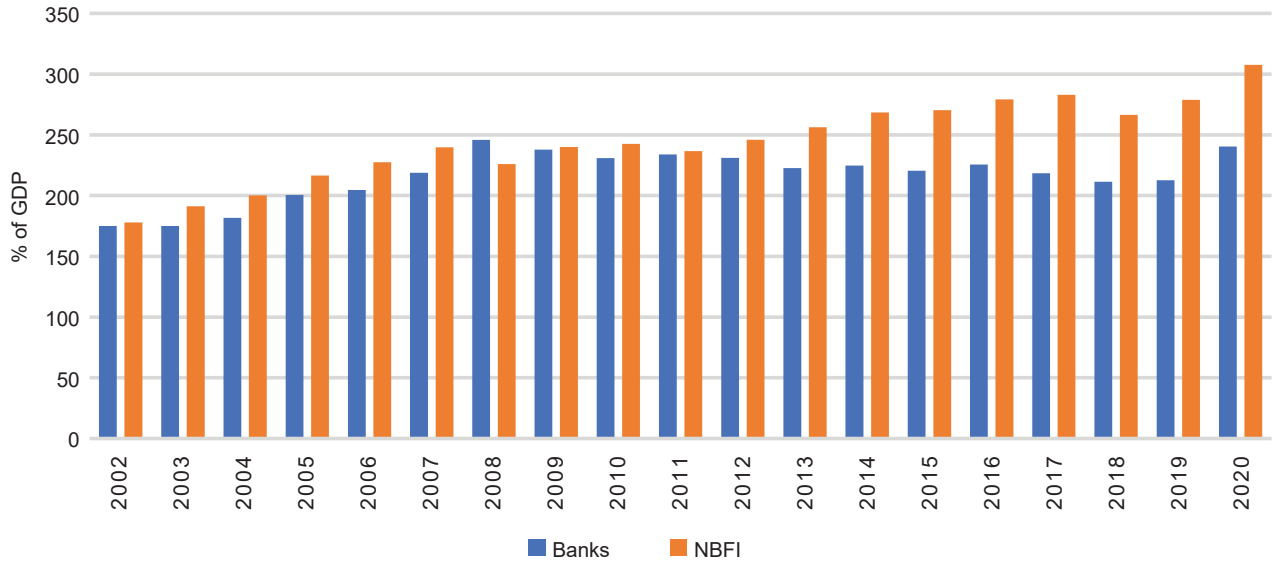
What all of this indicates is that in jurisdictions where 'creative destruction' of the labor market has unfolded – such as the US – employers are needing to incentivise workers to lure them back into employment, and also to retain talent amidst a behavioural shift rendered by COVID– of American workers reassessing their relationship with work. Particularly in segments of the labor force where we have witnessed the highest quit rates – such as in accommodation and food service – we also note some of the sharpest wage increases. At the blue collar end of the spectrum – where minimum wages might not have made living wages in major urban areas across America – the increase to a living wage – particularly in light of the elevated cost of housing across markets – can be viewed in a positive light.[25]

Shadows lurking? Potential risks to financial stability

While market participants are still willing to bank on the liquidity paradigm of accommodative monetary policy supporting equity markets – thus shrugging off variants of the virus and potential shockwaves – and while policymakers in some jurisdictions engage in a debate about a stimulus-induced potential for an 'overheating' of the economy, markedly few question what risks to financial stability might ripple beneath the surface. When the good times roll (stimulated or otherwise), few are keen to ask what might make the music stop. Some observers highlight the hyper-financialisation of our economies as a potentially worrisome development.[26] In the US, financial assets as a share of GDP have increased significantly – a development which has only been exacerbated by the swelling number of market participants and retail trading during the pandemic.[27]

One facet of this trend of potentially excessive financialisation is the growth of the private credit market, and its interrelationship with non-bank financial institutions (NBFIs), referred to as 'shadow banks'.[28] In the depths of the last crisis, and amidst an overhaul of banking activity and implementation of Basel III regulations, the proportion of global assets under management (AUM) of banks has waned, and has been eclipsed by the share of global AUM of NBFIs (see Figure 4).

Figure 4:
Global Bank and Non-Bank Financial Institutions Assets as % of GDP*



Source: FSB

**Note: Data for G29 economies, representing over 80% of global GDP.*

In contrast with the banks (which stood at the epicenter of the GFC), there has been markedly little oversight of leverage and liquidity ratios of NBFIs, and the risks that potential liquidity mismatches might pose to the financial system.[29]

Also since the GFC, with low to negative interest rate territory prompting large pools of capital to seek yield across a range of alternatives to fixed income assets, investors have turned to the instrument of high yield debt, often gaining exposure via open-ended funds. In times of crisis, the risks of potential liquidity mismatches within these funds potentially come to the fore, should fund managers be unable to meet swift and large scale redemptions.

Such was evident in the initial weeks of the COVID-19 crisis in the US and Europe, as the Fed stood in to stabilize debt markets as selling went 'viral'.[30]

There is a potential moral hazard associated with this, as such liquidity support might divert resources away from otherwise productive activity – as well as by encouraging greater risk-taking, if there is an expectation of such support (a classic feature of bubbles which the late Hyman Minksy elucidated).[31] One industry body advocates that there is a need for regulators to work with NBFIs to implement and affirm that they have sufficient 'war chests' in order to effectively manage potential 'collective retrenchment' during future crises, with measures for stepping up disclosure and reporting.[32] As a first step, moves toward greater transparency on potential liquidity mismatches on behalf of NBFIs would be a beneficial development.

Looking beyond the risks to financial stability, a potential risk for long-term economic growth also emanates from the private credit market. As high-yield debt issuance breaches historic highs in the US[33], there is also concern that the provision of such credit is propping up zombie companies -- again, diverting resources which might otherwise be deployed to productive parts of the corporate landscape. By some estimates, zombie companies make up 20% of publicly traded companies in the US[34], and a fifth of the corporate landscape in the EU.[35]

Geopolitical Landscape - The Future of Trade: Bottlenecks in the West, Dynamism in Asia, and the Great Dispersal

A dominant theme in the geopolitical landscape for strategic planning in 2022 and beyond concerns the future of trade. As this author has written previously,[36] despite the pre-pandemic trade tensions, and the exceptional dislocations to the movements of goods around the world throughout successive waves of the COVID-19 virus and its variants, the global trade map remains resilient, if partially rewritten. Notably, even after several years of declaration of a trade 'war' and subsequent protectionist measures – in the form of the imposition of tariffs, rewriting or withdrawing from trade agreements, or commitments to onshore elements of production – the US trade in goods deficit stands at an all-time high.[37] As nearly 70% of GDP is driven by household consumption, it is little wonder that the IMF downgraded its forecast for US GDP given continuing supply chain bottlenecks and port congestion.[38] In Europe, supply chain bottlenecks continue to weigh on activity within key manufacturing countries such as Germany, also prompting downgrades to the outlook for the exporter and for the euro area as a whole.[39] (There are, however, early indications that some of these price pressures are easing, in both the US and Europe.)[40]

In regional terms, such supply chain bottlenecks and corollary pressures appear to be largely a transatlantic phenomenon. Looking across to Asia, some estimates calculate that while the cost of shipping a container within Asia has only doubled during the pandemic, in contrast with an increase of fivefold in shipping from Asia to Europe.[41]

Within 'Factory Asia', multiple nodes of production meant that companies could access inputs from various jurisdictions, in the event of a COVID-related shutdown in a key supplier country (such as Vietnam or Malaysia).

Such resilience has been further formalised on the 1st January 2022, as the Regional Comprehensive Economic Partnership (RCEP) trade agreement takes effect among 10 key members (with a further four remaining signatory countries to be incorporated). Encompassing one-third of global GDP and of the world's population, RCEP marks the first time that Japan and South Korea have been joined together in a free trade agreement. Effectively, the agreement weaves together rich income Asia with other developing Asian countries: in theory, it will eliminate tariffs on more than 90% of goods traded within the bloc.[42] In a recent report, UNCTAD highlights that the 'trade dynamism' within RCEP has the potential to 'make it a centre of gravity for global trade.'[43]

As RCEP has been enacted in light of supply chain difficulties persisting in other parts of the world, policymakers note that joining such agreements has the potential to further 'stabilize' supply chains, thus creating stronger opportunities for exporting companies and hence for domestic economic growth.[44] Such beneficial trade ties might also exist in the realm of 'minilateralism': that is, countries convening around a specific issue area, which can be at a bilateral level (such as between Japan and Vietnam)[45]; a trilateral level (such as Australia, India, and Japan); or indeed at a cross-regional level (such as the Digital Economy Partnership agreement launched by Singapore, New Zealand, and Chile)[46]. Crucially, such clustering does not detract from the overarching multilateral efforts: on the contrary, 'creative minilateralism' has the potential to deepen ties of trade in goods, services, and human capital via both formal as well as informal linkages.

Cross-border supply chain activity: the great dispersal

In scoping the geopolitical landscape for 2022 and beyond, the lessons for business executives and investors is that our ties of interdependence for resources, raw materials, inputs, finished goods, digital services, and indeed human capital remain robust. Thus, while some politicians speak to the need to reduce supply chain vulnerabilities, and to bolster 'economic security', the reality on the ground is that of a 'great dispersal' rather than a wholesale localisation or onshoring.

Even the rise of 'semiconductor nationalism' implies cross-border links between countries, R&D, and the prowess of production of specific companies: be it between the US and Malaysia, or between Taiwan and Germany or Japan.[47] The same can certainly be said for the potential emergence of electric vehicle (EV) nationalism[48]: as countries move to secure critical inputs to meet their own expanding mandates for the energy transition, it is evident that such activity inherently involves trade in materials, R&D, and human capital.

Thus, rather than sparking an end to globalisation, several years of trade tensions – as well as the COVID-19 induced supreme disruptions to supply, production, and to logistics – have actually ushered in an era of greater 'geographical diversification in sourcing' as well as sales.[49] Original equipment manufacturers (OEMs) have tacitly shifted from a 'just in time' mentality to a 'just in case' operational strategy in supply chain management.[50] Accordingly, in terms of strategy, some companies are opting for 'local for local'; others are investing in smart logistics by using digital trackers to receive real-time alerts about parts and deliveries.[51] Three MaaS (mobility as a service) companies have also jointly invested in a data-sharing alliance in order to better support their businesses in times of disruption.[52] Logically, this transition to smart logistics also has the potential to generate opportunities for deep-pocketed real estate and institutional investors in the logistics space, particularly for those with a prowess in PropTech.

Finally, a critical development to note for executives and for investors with an eye on opportunity is that while 2020/2021 might have been about the 'sanitisation' of the supply chain, 2022 and beyond are likely to entail a focus on the 'decarbonisation' of the supply chain. With the mounting focus on Scope 3 emissions,[53] many companies are actively looking to reduce emissions across their supply chain, which might involve researching ways to reduce emissions during assembly; reducing packaging; and also potentially pivoting from the use of air and sea lanes for logistics to the use of rail freight.[54] As we shall see, this shift to rail transport may generate further opportunities for investing in HSR for freight as well as for passenger mobility – a bright spot for investment amidst global efforts to move toward net zero.

2022 as a political year: referendum on COVID?

2022 is an election year, as the populations in some of the world's largest as well as fastest-growing economies head to the polls.[55] In several key investing destinations, general elections are set to take place this year within South Korea, France, the Philippines, Colombia, and Brazil, and many institutional investors are focused on the outcome of the US midterm elections in 2022. Across the globe, unprecedented amounts of fiscal firepower as well as accommodative (and in some cases, pioneering) monetary policy stances have been effective in averting financial crises, as well as what might have otherwise been catastrophic and long-lasting depressions to economic growth.[56] However in 2022, the opportunity for citizens to come to the polls at a time when much of this stimulus will be tapered or removed might result in a highly divisive political situation within many advanced economies as well as EMDEs.

For, even prior to the pandemic, constituents already harboured a marked level of distrust in government: surveys indicate that a high level of distrust in politicians is correlated with a high level of income inequality.[57] The experience of COVID-19 has added to the tide of rising economic disparities, particularly within EMDEs.[58] As households across the globe face diminished discretionary income resulting from elevated costs of basic goods such as food and housing, continued uncertainty surrounding the epidemiological aspects of the crisis – as well as a degradation of mental health across the population[59] – 2022 might well be the referendum on COVID for many voting publics. Additionally, within some countries, an increase in crime is likely to be a hot-button topic in the 2022 election landscape, with incumbent politicians potentially reforming their positions on public safety in the face of stringent opposition parties professing to adopt a tougher stance.[60]

Looking ahead, and considering the long-term investment implications, an outcome of a highly polarised environment (such as one which results in a slender parliamentary majority) might mean that a government lacks the capacity for follow-through on policy reform to enact pro-business reforms. Moreover, in efforts to garner votes from disenfranchised populations, policymakers might offer enhanced welfare schemes, or step back on reforms, thus departing from a position of fiscal rectitude. This might result in a loss investors' trust – either tacitly,[61] or in the form of an official investment rating downgrade, which has the potential to be more harmful for EMDEs (with the potential for capital outflows and currency depreciation), in contrast with AEs which might enjoy 'reserve currency' status.

Moreover, as was the case prior to the pandemic, investors and executives should closely monitor the ways in which politicians might seek to take staunchly protectionist stances – particularly also alluring for some in the wake of COVID-19. A guiding lesson will be to identify which governments are committed toward implementing growth-friendly fiscal policies, such as in the realm of supporting industries of the future, including the electrification of transport.

> "Even prior to the pandemic, constituents already harboured a marked level of distrust in government, correlated with a high level of income inequality."

Sector-Specific Outlook - Electric Avenue: Investing in Mobility and High-Speed Rail

One bright spot for cohesion on the global stage is marked by the concerted effort on behalf of governments, citizens, companies, and private investors to mitigate the impacts of climate change on the environment. Indeed, COP 26 presented the backdrop for the US and China to jointly commit to advance their NDCs to reduce carbon emissions – a rare sign of harmony in an otherwise tumultuous relationship. As governments around the world chart out paths to 'build back better' in accelerating the decarbonisation agenda – and as companies and investors work together in tandem with such efforts – a key feature of this greener future is the electrification of transport.

Indeed, even for the doomsayers who fear that the collective action on climate change will not be enough to avert a dangerous course, a spark of hope is to be found in the growing share of private climate finance is represented by household investment in EVs.[62] In support of the growing market, some of the world's largest automakers have professed to become 'all electric', setting specific sunset dates for the end of the combustion engine.[63] And major household names in consumer economics have also joined the fray, in efforts to gain a share of the expanding green mobility market.[64]

In addition to passenger vehicles, the prospects for HSR present a bright spot for long-term investment, with opportunities for infrastructure, real estate and private equity investors, and with potential spillover effects to boost sustainable economic growth and human capital development across the globe.[65] From Miami to Israel[66], and from Mumbai to Manchester, high speed rail projects are in the works, catering to the growing demand for greener mobility of passengers, as well as for freight and the decarbonisation of the supply chain.

Granted, such projects can often fall prey to the changing winds of political administrations, and have the potential to suffer from 'NIMBYism' – pitfalls highlighted in the debate on including HSR in the US infrastructure spending plan.[67]

Nevertheless, as politicians in the West grapple with the effects of supply chain bottlenecks; and as consumers continue to support a robust growth in e-commerce necessitating alternative modes of logistics; and as policymakers in Asia and across the Middle East consider the impact of climate change on the future of their cities, HSR is likely to grow in demand.[68] Indeed, recent research indicates the quantifiable ways in which HSR can reduce CO2 emissions in Vietnam, with a 'positive effect on sustainable mobility.'[69] In regional terms – and in light of the implementation of RCEP – HSR has the potential to greater facilitate 'interregional trade flows', and can spur positive spillover effects of knowledge - and hence human capital development, and R&D – with 'improved passenger mobility.'[70]

In such a way, looking beyond the decarbonisation or the 'E' aspects of ESG associated with HSR, institutional investors (and companies) can also clearly work to fulfill the 'S' components by investing in the development of such projects.[71] Also, seen within the light of the growing demand for smart logistics, HSR also has the potential to magnetize VC capital, as innovation in battery storage and energy efficiency is deployed to existing rail networks – an investment opportunity which has not escaped some of the world's largest pension funds.[72] Naturally, as has been the case with recent rail construction projects in the UK, such infrastructure projects also have a natural multiplier effect for real estate developers, with investment opportunities emanating from the increased mobility of people – a facet which certainly endures beyond the present pandemic.

> "As governments chart out paths to 'build back better' in accelerating the decarbonisation agenda, a key feature of this greener future is the electrification of transport."

Conclusion

In sum, financial market participants remain glued to central banking statements around the world – and while central bankers themselves are focused on maintaining a sustainable economic recovery amidst continued volatility in commodity markets, surging headline inflation, and monitoring potential dynamics such as a wage-price spiral. While such volatility in commodity prices – including liquid fuels, metals, and food prices – is forecasted to last through the end of 2022/start of 2023, it does not portend the dawn of a new commodities supercycle. Nevertheless, global energy markets – and the push toward decarbonisation – evidence the extent to which trade in goods is still alive and well. While Western countries contend with supply chain bottlenecks, the enactment of trade agreements such as RCEP have facilitated a smoother production process across Asia, benefitting super exporters, and countries such as Japan.

As 2022 is an election year in many key investing jurisdictions across the globe, voters are likely to come to the polls in a 'referendum on COVID' – a potentially tumultuous time, also complicated by rising food and housing prices, and thus the erosion of purchasing power for households. Set against such a backdrop, investors and executives should focus on where governments have implemented growth-friendly fiscal policies, particularly designed to affect structural change within an economy, such as on the decarbonisation agenda. As we approach an eventual 'pandexit', and mobility once again gains steam, the priority on low carbon transport – as well as alternative routes for freight – underscores a blossoming need for high-speed rail across jurisdictions, a prime investment opportunity for institutional investors, and for real estate investors poised to capitalise on developments near burgeoning transport links across the globe.

Endnotes

1 By WTI in 2021, and Brent in 2022. See, for example, Stephanie Kelly, "Oil hit 7-year highs as tight supply bites," *Reuters*, January 19, 2022, https://www.reuters.com/business/energy/oil-rises-more-than-7-year-high-mideast-tensions-2022-01-18/.

2 See, for example, "CONSUMER EXPENDITURES--2020," Economic News Release, U.S. BUREAU OF LABOR STATISTICS, September 9, 2021, https://www.bls.gov/news.release/cesan.nr0.htm.

3 See, for example: "Household consumption of goods bounced back in November 2021 (0.8%)," *Insee*, January 7, 2022, https://www.insee.fr/en/statistiques/6024168.

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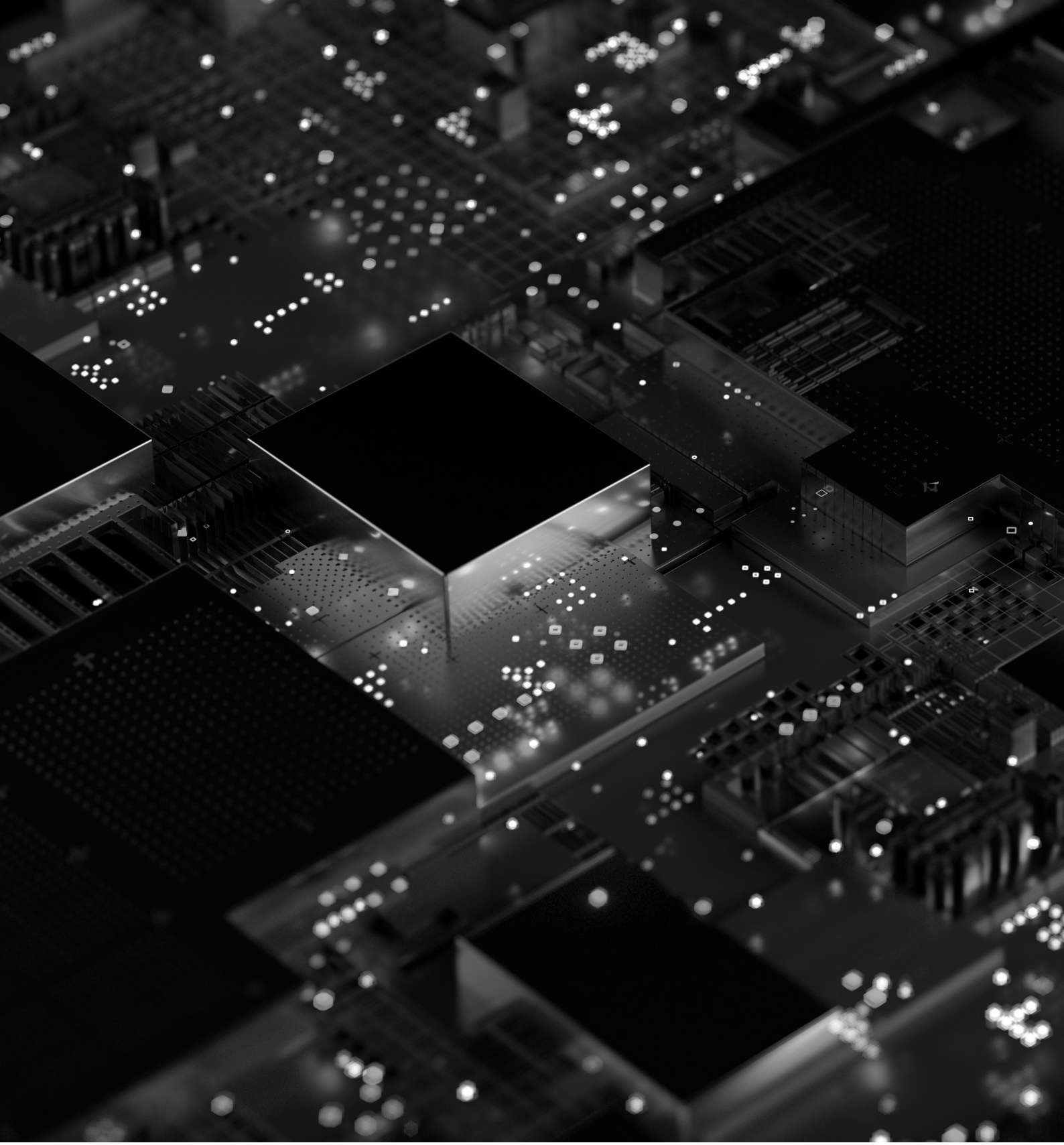

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