



DEGLOBALISATION: BENEFICIARIES OF THE REVERSAL IN GLOBAL TRADE



The Covid-19 crisis will accelerate the deglobalisation trend. There are more signs that the supply chain disruptions due to lockdowns have led governments and companies around the world to reconsider their production models.

OUR RECOMMENDATIONS

- **Reshuffle of global supply chains and the creation of new production hubs**

New production hubs with Taiwan & South Korea for upstream tech-related components/products, and Southern Asia for low-end consumer goods

- **Beneficiaries in the US and Europe**

High value-added industries, a wide range of service providers and education

- **Political/geopolitical uncertainty**

Hedge with safe-haven assets (such as gold, JPY and tactical long USD opportunities)

RISKS

The trend of globalisation re-escalates again as:

- a comprehensive US-China trade deal is agreed;
- global trade tensions ease significantly;
- disruptive innovations in digital technologies substantially increase cross-border trade flows

Extended lockdown measures and a second wave of the outbreak lead to a deeper and prolonged global recession in 2020. Investors continue to be 'risk-off' which hurts equity performance, while safe-haven assets should perform nicely.



The pandemic accelerates a reshuffle of global supply chains

The Covid-19 pandemic has exposed the massive risks of sudden stoppages of economies and supply chain disruptions. It also highlights how dependent global companies are on Chinese manufacturing.

As a result, some governments have started to incentivise the 're-shoring' of the production process:

- Japan announced that it would allocate USD 2.2 billion of its record USD 993 billion stimulus package to help its manufacturers shift production out of China and either back home or to Southeast Asia.
- The Trump administration is considering paying the moving costs of American manufacturers that leave China.
- An EU trade commissioner commented recently that the bloc would seek to reduce its trade dependencies and ensure the EU's strategic autonomy.

New production hubs

Post crisis, there could be more social pressure to re-shore some strategic areas and ensure self-sufficiency (medical supplies or other health care needs, for example). Manufacturing companies are also likely to put more emphasis on production base diversification as well as industrial digitalisation and automation. We expect the redistribution of supply chains to benefit Southern Asian countries for low-end consumer products, as well as Taiwan and South Korea for sophisticated tech-related components/products.

In the US and Europe, the trend towards repatriating production capacities is accelerating. Its birth resulted from a combination of technological innovation (allowing shorter supply chains) and rising wages in emerging countries. The great winners are the high value-added industries. Now, the wish to reduce dependency and tackle inequality is strengthened.

Investment in education should be ramped up. Deglobalisation is also helped by the rising share of services in global GDP.

To sum up, key beneficiaries of deglobalisation in developed economies are higher value-added industries, a wide range of service providers, and education.

We remain positive on South Korea equities and upgraded Taiwan equities from neutral to positive in early May. Valuations of both markets became more attractive after the corrections. The tech-heavy Taiwan market will be a beneficiary of its 'homecoming' policy and global manufacturers' demand for technology upgrades amid the technology disruption megatrend in 5G, IoT and AI. There is already growing evidence of a domestic Capex cycle.

Furthermore, after announcing a much lower tax for new manufacturing companies relocating to India in September last year, the Indian government reportedly reached out to more than 1,000 US companies (prioritising medical equipment suppliers, food processing units, textiles, leather and auto part makers) in April, offering incentives to manufacturers seeking to move out of China. Although the country is currently suffering from the lockdown, the proactive policy to stimulate its manufacturing sector is a positive factor for supporting the economy in the medium term.

Dealing with political/geopolitical uncertainty

The accelerating trend of deglobalisation could create persistent political/geopolitical uncertainty. There has been mounting global backlash against China over its alleged handling of the Covid-19 outbreak in the early days. The Trump administration has publicly assigned China varying degrees of responsibility for the pandemic and has threatened new tariffs.

We recommend investors to hedge their portfolios with some safe-haven assets such as gold, the Japanese yen and/or some tactical long USD positions when opportunities arise.



THEME 01 – High-quality stocks p.4

We must now favour companies which have high profitability, limited debt, low profit variability and large cash reserves.



THEME 02 – Defensive solutions p.5

The trend is to search for alternative returns via good quality corporate bonds, hedge funds and structured products.



THEME 03 – De-globalisation p.7

Protectionist trends and dependence on international supply chains are expected to lead to a stabilisation and even a decline in international trade in the long term. This 'deglobalisation' should provide opportunities for some companies or even for some countries. In particular, producers of goods and services which substitute imports are well positioned to benefit from this trend. The same is true for emerging market countries which compete with China.



THEME 04 – Digitalisation and technological innovations p.9

Alongside the trends in health care, this is one of the most marked trends: 5G and Artificial Intelligence will benefit from the increased communication and data needs generated by the crisis.



THEME 05 – Innovations in health care p.11

This sector is growing faster than the rest of the economy. Thanks to digitalisation, analytics, database management and Artificial Intelligence, the way treatment/care is given will change considerably at all levels and generate a wave of capital expenditure.

All the themes proposed at the beginning of the year remain attractive but will not be detailed in this document. However, an update on their performance since January is available at the end of this document.

THE INVESTMENT STRATEGY TEAM

France

Florent BRONES
Chief Investment Officer

Asia

Prashant BHAYANI
Chief Investment Officer, Asia
Grace TAM
Chief Investment Advisor, Asia

Belgium

Philippe GIJSELS
Chief Investment Advisor
Xavier TIMMERMANS
Senior Investment Strategy, PRB
Alain GERARD
Senior Investment Advisor, Equities
Pol Tansens
Head of Real Estate Strategy

Luxembourg

Guy ERTZ
Chief Investment Advisor
Edouard DESBONNETS
Investment Advisor, Fixed Income

Switzerland

Roger Keller
Chief Investment Officer



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