KONRAD ZEHNDER
WEALTH PARTNERS

Club B – Family Office Conference

November 2022

Barcelona, Spain

Every November, we participate in the family office conference hosted by Club B and Real Vision to exchange ideas with leading family offices from all over the world. There were sessions on family governance and Next Gen topics as well as investment themes from well-known strategists and economists. We hope you would find the insights shared here insightful.

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Topics

Here are the main themes presented by the various strategists and experts:

1. Deflating the debt bubble will take longer than expected
2. What to expect from the financial markets in 2023
3. Oil and gas
4. The crisis of capitalism
5. Other topics

1. Deflating the debt bubble will take longer than expected

Money supply in both the U.S. and Europe is still very high. Inflation will remain high for the foreseeable future. If history is any guide, reducing inflation by more than 3 percentage points through rapid rate hikes could lead to a strong recession. To achieve a soft landing, the adjustment will take longer than anticipated.

The impact for investors is twofold. First, the Fed will keep raising rates so it is not yet time to load up on equities. Second, once the Fed does stop, markets will not return to a pre-Covid environment. Rather, fixed income and a different group of equities will lead the way.

The positive news is we have not seen unemployment rates rise by much even though many large companies have announced job cuts. The global shortage of qualified labor seems to have absorbed this surplus, reducing the likelihood of a severe recession.

Russell Napier advocated that outstanding government, corporate and private household debt is still very high. Most borrowers cannot afford higher debt servicing payments. As such, governments will likely reverse many of the pro-market reforms introduced in previous years.

2. What to expect from the financial markets in 2023

- It is unlikely that a slowdown in rate tightening measures (or even a reversal) would bring back the same old good times.

- The Western world painfully realized that it is too dependent on energy from unreliable sources (Russia, Middle East) and on cheap imports from autocracies (China, Russia, Turkey, et al.). The disruption of the old ways will lead to new supply chains with "friendly" countries. This trend toward "friend-shoring" will bring opportunities in defense, energy production (fossils, nuclear, green) and capital expenditures.

- This should lead to a significant rise in demand for commodities including rare earths, industrial and precious metals.

- Markets that have the potential to outperform include Japan (due to valuation) as well as those emerging markets that benefit from "friend-shoring", the demand for commodities and strong internal growth: examples include Vietnam, India, Indonesia, Brazil and Poland.

- Developed markets have too much debt and will likely underperform.

3. Oil and Gas

- During the last decade, banks have held back lending to oil and gas explorers, metal miners and vessel companies partly to comply with ESG standards and the U.N.'s sustainable development goals. There will attractive investment opportunities in these sectors in 2023.

- The prospect of a "cold winter" has made Europe realize it has neglected investments in conventional energy sources for the benefit of clean renewables. In the medium term, the developed world continues to depend on reliable and predictable forms of energy from nuclear, oil and gas.

- A transition from fossil fuels to renewables and electricity requires lots of copper. China and the Democratic Republic of Congo are the two largest suppliers so the transition carries significant geopolitical risks.

4. The Crisis of Capitalism

- An astonishing 52% of respondents in a study cited by Menai Financial Group think that today's capitalism does more harm than good. 33% think that economies with central planning do better than free market economies.

- This loss in faith in the free market and capitalism is disturbing. 40% of the growth in wealth created since 1995 was realized by the top 1% of the population, whereas the bottom 50% only accounted for 2% of the growth in wealth.

- The increasing skepticism is indicative of the lack of sensibility on the part of elites and global leaders. This needs to be fixed for Western civilization to survive as we know it.

5. Other Topics

- One speaker's view is that in 20 years, our lives will be mostly digital. He advocated that the Metaverse will be the new normal, where everybody can choose their own personality and humans transform into a virtual species.
- Psychedelics (hallucinating drugs such as LSD) are back after having been shelved during the late 60's for political reasons. The risks lie less in the science than in the way the FDA operates. While the FDA focused on numbers and facts when evaluating and approving the efficacy of new drugs, when approving psychedelics, it will have to incorporate therapies as well.
- There is a significant change in people's attitudes due to the pandemic. People feel that life can be short and have adopted a higher risk tolerance when investing (as well as in life). The "yolo (you only live once)-mentality" is to want more and new experiences. They are willing to pay more, which in itself is inflationary.