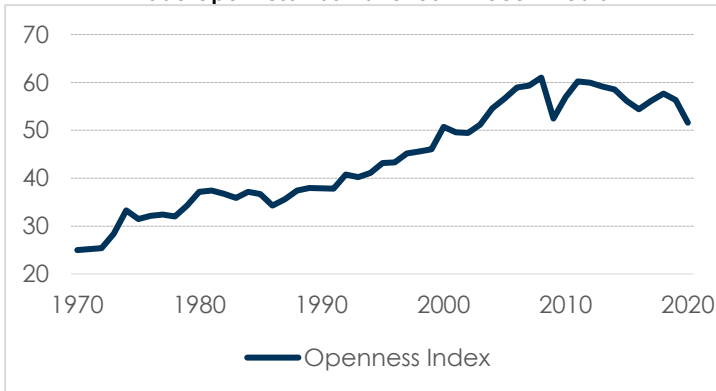


- Decades of globalization have led to the developed world relying more on foreign nations, sometimes with competing interests.
- The pandemic and recent geopolitical events have shifted attention to the challenges inherent in an increasingly connected world.
- As nations - and companies - reconsider their cross-border relationships, how does this impact investors?

Overview

For decades, companies have embraced technological advances to improve the efficiency of supply chains and distribution channels across the globe. In the decades following World War II, trade continued to account for a growing percentage of the world economy. This secular uptrend plateaued after the 2008 GFC and declined more notably following 2020's COVID-related production disruptions. The Russia-Ukraine war and recent COVID lockdowns in China have further exacerbated this problem, prompting some policymakers and corporations alike to shift toward deglobalization.

Trade Openness Has Flattened in Recent Years



Source: The World Bank:

* The trade openness index is the sum of world exports and imports divided by world GDP.

A Perfect Storm

China is the U.S.'s largest source of foreign trade, representing over \$500 billion of imports (18% of total) and \$151 billion of exports (6% of total) in 2021. Despite this mutual reliance, the relationship between the world's two largest economies has become increasingly strained – first by higher tariffs and trade barriers instituted under President Trump, then by the pandemic.

The economic impact of the pandemic could not have been much worse for global supply chains. Corporations that had not previously considered the importance of supplier diversification suddenly scrambled to identify new trading and distribution partners outside of China. Product shortages, shipping delays and rising costs have now continued into a third year, highlighting the severity of these disruptions.

China's "Zero COVID" strategy has led to multiple provincial lockdowns in 2022, further prolonging supply chain issues. As a result, this year's global economic growth is expected to be cut nearly in half from the previous year.

Economists expected the supply-demand imbalance to largely resolve itself by the end of this year. Instead, the disruption has been further hampered by unexpected geopolitical events, namely Russia's invasion of Ukraine. Russia accounted for 45% of Europe's natural gas imports in 2021, and both Russia and Ukraine are major exporters of products like wheat, metals and fertilizers.

The increase in energy prices over the past two years has been the largest since the 1973 oil crisis, and food commodities have seen their largest increases since 2008.

The Shores of Supply

Rapidly rising prices have stoked long-dormant inflationary pressures and, in turn, the desire to become less reliant on other nations for food and energy needs. Establishing alternative supply chains could take the form of moving production facilities and supply lines back to one's own country (onshoring), to a region closer in proximity (nearshoring), or to a country with which relations are more favorable (friendshoring).

So far, the U.S. has seen no material increase in construction of domestic manufacturing facilities. Evidence from the American Chamber of Commerce in China showed just 7% of firms shifting activity from China and less than half of these planning to move to the U.S. Recreating supply chains closer to home with comparable supplies, quality and networks, if possible, could take years.

The situation in Ukraine has also forced many investors and companies to divest from Russian interests. Continued growth of ESG or values-based investing could lead to divestment elsewhere as companies or suppliers are deemed unsuitable, whether for ethical or environmental reasons. Pressure to reduce carbon emissions could lead to more localized production, and increased investor scrutiny could have impacts globally and down the supply chain.

What would Deglobalization Mean for Investors?

Many of the world's largest companies depend upon lower-cost suppliers to maintain healthy profit margins. If more production is shifted to higher-cost domestic sources, this could result in more local investment and jobs but higher prices passed along to the consumer (inflation).

Globalization was a process that evolved over many decades, and the progress will not be undone quickly. However, any degree of deglobalization or reduction in trade could have negative implications for investors, in the form of less competition and innovation, leading to higher inflation and/or reduced profitability, and potentially-heightened geopolitical risks.

Deglobalization would likely impact countries, sectors and businesses in different ways, and it is far too early to begin measuring the effect recent events may have on the future world economy.

It is therefore crucial that investors maintain globally-diversified portfolios, with meaningful allocations to domestic and international companies across publicly-traded and privately-held assets. Actively managed strategies further enhance the probability of allocating to the winners and avoiding the losers.

Disclosures and Legal Notice

The views expressed herein are those of Asset Consulting Group (ACG). They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

This report was prepared by ACG for you at your request. Although the information presented herein has been obtained from and is based upon sources ACG believes to be reliable, no representation or warranty, express or implied, is made as to the accuracy or completeness of that information. Accordingly, ACG does not itself endorse or guarantee, and does not itself assume liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

Certain information herein constitutes forward-looking statements, which can be identified by the use of terms such as “may”, “will”, “expect”, “anticipate”, “project”, “estimate”, or any variations thereof. As a result of various uncertainties and actual events, including those discussed herein, actual results or performance of a particular investment strategy may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making investment decisions. ACG has no duty to update or amend such forward-looking statements.

The information presented herein is for informational purposes only and is not intended as an offer to sell or the solicitation of an offer to purchase a security.

Please be aware that there are inherent limitations to all financial models, including Monte Carlo Simulations. Monte Carlo Simulations are a tool used to analyze a range of possible outcomes and assist in making educated asset allocation decisions. Monte Carlo Simulations cannot predict the future or eliminate investment risk. The output of the Monte Carlo Simulation is based on ACG’s capital market assumptions that are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Capital market assumptions based on other models or different estimates may yield different results. ACG expressly disclaims any responsibility for (i) the accuracy of the simulated probability distributions or the assumptions used in deriving the probability distributions, (ii) any errors or omissions in computing or disseminating the probability distributions and (iii) and any reliance on or uses to which the probability distributions are put.

The projections or other information generated by ACG regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Judgments and approximations are a necessary and integral part of constructing projected returns. Any estimate of what could have been an investment strategy’s performance is likely to differ from what the strategy would actually have yielded had it been in existence during the relevant period. The source and use of data and the arithmetic operations used for calculating projected returns may be incorrect, inappropriate, flawed or otherwise deficient.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, you should not assume that your investments will experience returns comparable to those shown in the analysis contained in this report. For example, market and economic conditions may change in the future producing materially different results than those shown included in the analysis contained in this report. Any comparison to an index is for comparative purposes only. An investment cannot be made directly into an index. Indices are unmanaged and do not reflect the deduction of advisory fees.

This report is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.