A Whole New World

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Thirty years ago—when the Soviet Union collapsed, Germany was reunited and China became America's go-to, low-cost manufacturer—the economic outlines of the post-WWII world were redrawn.

Today this is happening again. It would take an enormous fool to predict exactly how that process will settle out. It would take an even bigger fool to claim he knew how the American economy would reconstitute itself. And it would take the biggest fool of all to predict how the equity market would respond. This isn't just a new world order; it's a whole new world.

Still, there are a number of things we know. Chief among these, I think, is the abject failure of the illusion that Russia and China could be drawn into the free, democratic, capitalistic community of nations. The mad czar in the Kremlin has placed Russia totally beyond the pale; Western companies are fleeing headlong, taking billions of dollars in writedowns.

And even as Xi's China moves closer than ever to a determined onslaught against Taiwan, it faces demographic catastrophe: over the next decade, it will lose 70 million working-age individuals while gaining 120 million senior citizens. As Hal Brands and Michael Beckley have ***recently argued,*** this peaking-power syndrome—the tendency for rising states to become more aggressive as they face impending decline—has caused some of the bloodiest wars in history. (Think Germany in 1914 and Japan in 1941.)

In the short run, the economic fallout from Chinese aggression against Taiwan in any form could be tremendous. But even without such overt aggression, investment is being driven away. Moreover, serious disruptions in the supply chain coming out of China earlier this year deservedly threw a major scare into companies sourcing their manufacturing there.

Western Europe has belatedly awakened to the folly of outsourcing its energy supply to Russia. The most extreme case is that of Germany, which—in the act of completely buying into the green energy chimera—went so far as to dismantle its nuclear power generation capability. Even more than most aspects of Europe's failing “democratic socialism,” this must astonish us. How, one wonders, did the Germans—who killed and were killed by Russians in their millions well within living memory—ever consign their energy fate to a kleptocratic thug like Putin?

Meanwhile here at home, our capacity to supply relatively clean, relatively cheap gas to Europe in potentially enormous volumes continues to be massively constrained by the administration's quixotic war on fossil fuels. This even as China is building more coal-fired capacity than the rest of the world combined. The Chinese “must marvel at their good fortune,” the Editorial Board of the *WSJ* recently wrote, “in having rivals who are so self-destructive.”

Again, no one can confidently predict how all this generational upheaval will play out. But it does seem clear that reshoring—U.S. companies repatriating their supply chains—must become an ever larger factor in our economy, particularly with regard to chips. So too does foreign companies' growing interest in investing in a relatively safe and growing environment. Moreover, there's a multiplier to reshoring: Bank of America estimates that for every $10 billion of manufacturing moving back to the U.S., capital spending goes up $3.8 billion—a third for buildings and two thirds for equipment.

Granted, labor costs here may run to multiples of their levels in China. But even that will surely be a spur to massive improvements in robotics and other industrial automation—all of which should involve increased capital expenditures and high-paying technical employment.

Does all this describe a better world than one whose central economic idea was genuine globalization? Manifestly it does not. The whole point is that we never had true globalization. It was an illusion; Putin, Xi and the pandemic have stripped that illusion away. Now the world is reforming in important new ways to reflect this reality.

As financial planners, we view mainstream equity investing as a beacon of realism in this befogged world. Eight billion people will wake up around the globe tomorrow, and start thinking about the best economic decisions they can make for themselves and their families with the resources available to them. The Brookings Institution tells us that 1.6 billion of these people will have entered the global middle class in the ten years from

2020 to 2030. The great companies in America and the world will compete—as they do globally every day, regardless of geopolitics—to offer this rapidly enriching population the best products and services at the most competitive prices.

History assures us that in the aggregate these companies will continue to prosper in the long run. And that by far the greatest rewards will be enjoyed by we who own these companies, as distinctly opposed to investors who merely lend to the same companies.

The blended value of these companies will continue to ebb and flow around a sharply rising trendline. But again—after declining by roughly 50% three times in the interim—that blended value is today 40 times higher than it was at the end of 1969. And why? Of course: because the earnings are 40 times higher.

There is an immensely comforting logic to long-term ownership of broadly diversified, high-quality companies in a hugely uncertain world. Advisors who can help affluent people appreciate those companies' long-term values—as sharply differentiated from their short-term prices—will be the ones whose careers flourish in the years ahead.

The Spartans will inherit the earth.

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