REDW Wealth LLC insights.
thoughts on investing

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Global Realignment?

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In the first quarter of 2022, inflation and the Russian invasion of Ukraine dominated the headlines. And now, in recent days, news from China has entered the scene with its lockdown of Shanghai, a city of around 25 million (about 2.8 times the population of New York City). The draconian measures enacted in Shanghai are a reflection of the government's zero tolerance policy toward COVID—which mirror similar regulatory crackdowns on education, real estate, finance, and technology that intensified in 2021. Last year the Chinese government indicated a shift toward "common prosperity," though the exact meaning of the term has yet to be defined. Some contend that the regulatory environment in China is their way of bringing about greater balance, where common prosperity means the orderly transition of hundreds of millions into the middle class, which has the means to increase consumption and achieve higher standards of living.

However, we would contend that such central planning for success is not achievable and, rather, that such actions risk the long-term economic growth of the nation. Back in 2017 we wrote about the four pillars of economic growth—Monetary Policy, Taxation, Regulation, and Trade—which arise from the long-standing principles of personal choice and the velocity of money. In the near term, the zero tolerance policies toward COVID risk economic growth when entire cities can be locked down and the movement of about 25 million souls largely curtailed for days and weeks. While large swaths of the world are learning to live with COVID, can China really afford to maintain their current policies? Their stated goal of 5.5% GDP growth now seems less achievable than at the start of the year.

Couple this with the economic sanctions against Russia. During the Winter Olympics, China and Russia released a 5,000-word document re-affirming their friendship and areas of mutual cooperation. Is it possible that China and Russia will increase their trade where China will exchange goods and services for Russian energy and wheat? It certainly appears that Europe is interested in being less dependent on Russian energy exports, which means they must either develop their own energy resources or import from other sources. We may be seeing a realignment of interests and we would continue to contend that those regions that uphold the pillars of economic growth will see ongoing growth and a rising standard of living.

CHANGES AT HOME

Closer to home, as more and more of us are comfortable getting out and resuming our lives, it would appear the hybrid work environment is here to stay. Job growth continues to be relatively strong and unemployment is at record lows, while the job quit rate and job openings continue near recent highs. As we enter this new phase of the work environment, we expect issues like corporate culture, teamwork, and interconnectedness to be explored and redefined.

In the near term, we expect the Federal Reserve to continue its focus on fighting inflation, and as rates increase in the U.S., we would expect capital to flow into the country in search of the higher yields available here. At this time, we do expect to see continuing economic growth in the U.S. and not a recession. While we do not expect hyperinflation or a return to the inflation of the 1970s, inflation will be much more persistent until the gap between money supply and economic growth is addressed.

A FINAL WORD

We end by thanking our clients for the ongoing trust you have placed in us. The capital markets are places where information is being constantly weighed, assessed, and evaluated. Things can get noisy, and we never want to take you for granted. If you have questions, please reach out to your relationship manager.