

# A CHANGING GLOBAL INVESTMENT ENVIRONMENT

FOUR KEY TRENDS POINT TO LOWER FUTURE RETURNS AND  
INCREASED VOLATILITY IN THE MARKETS.

UNCHARTED  
POLICY-MAKING  
GIVES **HIGH** DEBT LEVELS  
AND **LOW** INTEREST RATES

**INTENSIFIED**  
HEADWINDS FOR  
GLOBALISATION

**ASIA** TO SEE  
RISING  
HEADWINDS  
BUT *outperform*  
IN THE **LONG TERM**

**INDUSTRY**  
**CONSOLIDATION**  
WILL INCREASE





# UNCHARTED POLICY WATERS – HIGH DEBT, LOW INTEREST RATES

## HIGH DEBT, LOW INTEREST RATES

- LONG-TERM INTEREST RATES ARE AT THEIR LOWEST IN 140 YEARS!
- THIS ACCELERATED DEBT LEVELS AS:
  - \* CORPORATE BORROWING TO RISE FURTHER TO WEATHER ECONOMIC CRISIS
  - \* GLOBAL COVID-19 EFFORTS HAVE SPIKED PUBLIC DEBT LEVELS

## PARADIGM SHIFTS FOR POLICY-MAKING

THESE FUNDAMENTAL SHIFTS MAY BE HARD TO CALIBRATE BACK WHEN THE ECONOMY STABILISES:

THUS RESULTING IN

ASSET PRICES ARE **BOOSTED**

MORE  
unconventional  
POLICIES AGAINST  
SUB-ZERO  
INTEREST RATES

CENTRAL BANKS  
ARE BUYING A WIDER  
RANGE OF ASSETS  
WITH REDUCED  
QUALITY OF  
COLLATERAL

EFFECTS ON  
INVESTMENT  
MARKETS

### MONETARY

- \* CENTRAL BANKS ARE WILLING TO ACCOMMODATE PERIODS OF ABOVE-TARGET INFLATION

### FISCAL

- \* PLAYS A BIGGER ROLE IN **STIMULATING** THE ECONOMY + **GREATER** IMPLICIT OR EXPLICIT COOPERATION WITH MONETARY POLICY
- \* LOWER-INCOME ECONOMIES AND THOSE RELIANT ON FOREIGN CAPITAL FLOWS TO BE **WORSE** AFFECTED

RISK OF  
HIGHER INFLATION  
IN MEDIUM TERM

CURRENCY PLAYS  
A BIGGER ROLE IN  
ASSET RETURNS

- IF LOW RATES ARE MAINTAINED, ECONOMIES MAY OVERHEAT, PUSHING PRICES UP
- BONDS AND EQUITIES BECOME POSITIVELY CORRELATED, MAKING DIVERSIFICATION HARDER

- INCREASING PURCHASES OF DEBT AND CAPPING INTEREST RATES MAY LEAD TO CAPITAL FLIGHT AND DEPRECIATING CURRENCIES



# INTENSIFIED HEADWINDS FOR GLOBALISATION

## 1 SHORTEN GLOBAL SUPPLY CHAINS, FOR RESILIENT PRODUCTION SYSTEMS

\* ACCELERATE



ADOPTION

DIGITAL CONTENT

ADDITIVE MANUFACTURING

ROBOTICS

\* REDISTRIBUTE GLOBAL PRODUCTION TO BE MORE

(A) GEOGRAPHICALLY DIVERSE, AND  
(B) LOCALISED

## 2 PRESSURE TO PROTECT NATIONAL INTERESTS

\* RE-SHORE NATIONALLY STRATEGIC RESOURCES



\* RESTRICT LABOUR & CAPITAL FLOW FOR DOMESTIC SECURITY

## 3 STRAINED US-CHINA RELATIONSHIP TO CONTINUE

EXCLUDE CHINESE FIRMS FROM ICT SUPPLY CHAINS

RESTRICT ACCESS TO US-ORIGIN TECH

RE-SHORE STRATEGIC SECTORS HOME

PRODUCE IN MEXICO TO REACH US

SUBSTITUTE WITH LOCAL SUPPLIERS

GLOBALISE SPECIFIC SECTORS

### PROS

#### A ROBUST GLOBAL PRODUCTION SYSTEM

- MANUFACTURERS ARE INTRODUCING REDUNDANCIES IN THEIR SYSTEMS
- COMPANIES ARE DIVERSIFYING SUPPLIERS
- PROCESSES ARE BECOMING STANDARDISED, MODULAR, AND REPLACEABLE

### CONS

#### WEAKENED GLOBALISATION DAMPENS PRODUCTIVITY GROWTH

• REDUCING:

- \* Efficiency in GLOBAL RESOURCE ALLOCATION
- \* COMPETITION BETWEEN COMPANIES
- \* INTERNATIONAL KNOWLEDGE TRANSFER

• RESULTING IN REDUCED ACCESS FOR:

**PRODUCERS**

**CONSUMERS**

\* CHEAPER, QUALITY INPUT

\* LOWER PRICES, WIDER VARIETY OF PRODUCTS

- ADVERSE EFFECTS ON EMERGING MARKETS RELYING ON EXPORT AND FDI GROWTH



# ASIA SEES RISING HEADWINDS, BUT WILL OUTPERFORM OVER THE LONG TERM

## SHORT TERM

- \* **BIG HITS**  **TO ASIA'S ECONOMIC GROWTH**
- \* **AN OUTFLOW OF GLOBAL PRODUCTION** 
  - TAIWAN
  - INDIA
  - ASEAN
- \* **Capabilities TO DEAL WITH THE PANDEMIC VARY - UNEVEN RECOVERY ACROSS THE REGION**



## MID TO LONG TERM

- \* **INVESTMENT IN HEALTHCARE WILL BRING POSITIVE EXTERNALITIES** 



PREPARED FOR  
FUTURE PANDEMICS



HIGHER LIFE  
EXPECTANCY



IMPROVED  
QUALITY OF LIFE

- \* **SOLID FUNDAMENTALS, SELF-SUSTAINING GROWTH ACROSS ASIA - INCLUDING CHINA**

- IMPROVE INSTITUTIONS & MACROECONOMIC POLICIES
- RESOURCEFUL & ADAPTIVE ECONOMIC MODELS
- **GROWTH** IN URBAN, MIDDLE-INCOME POPULATION INVESTMENTS IN INFRASTRUCTURE & HUMAN CAPITAL
- DEEPER REGIONAL MARKET **INTEGRATION**
- GOVERNMENTS NEED TO CONTINUE THEIR **STRUCTURAL REFORM** EFFORTS



# INDUSTRY CONSOLIDATION TO INCREASE

## 1 THE PANDEMIC HAS WEAKENED COMPANY FINANCES, ESPECIALLY SMEs

\* MANY WILL BE FORCED TO TAKE **DRASTIC ACTIONS**



\* **HIGHEST** DEFAULT RATE OF LISTED COMPANIES SINCE THE **GLOBAL FINANCIAL CRISIS**



## 2 INVESTORS ARE PRIORITISING COMPANIES WITH RESILIENT BUSINESS MODELS AND BALANCE SHEETS

\* **SMALL CAP SPACE** WILL BE **VULNERABLE** **DUE TO** **HIGH LEVERAGE** & **Rising COMPETITIVE PRESSURES**



\* **LARGE COMPANIES WITH STRONG** **FINANCE** **AND TECH** **FUNDAMENTALS WILL GROW BIGGER AND STRONGER**



## 3 PRIVATE EQUITIES DRY POWDER REACHED RECORD HIGHS IN JUNE 2020

\* **LONG-TERM INVESTORS** WILL BE **PIVOTAL TO**



**HELP SUSTAIN GOOD BUSINESSES DURING THESE difficult TIMES**



# GIC'S RESPONSE TO THIS CHANGING ENVIRONMENT

OUR STRATEGY REMAINS DRIVEN BY TWO KEY INVESTMENT PRINCIPLES:

## PREPARE, NOT PREDICT

- \* WE STRESS-TEST INVESTMENT ASSUMPTIONS & CONSENSUS BELIEFS – AGAINST A WIDE RANGE OF ALTERNATIVE SCENARIOS
- \* OUR *diversified* PORTFOLIO CREATES MARKET RESILIENCE 
- \* WE MUST STAY HUMBLE & LEARNABLE AGAINST AN *unpredictable* FUTURE

## FOCUS ON THE LONG TERM

- \* WE EMPHASISE CORE FUNDAMENTAL TRENDS OVER *transient* MARKET SENTIMENTS
- \* WE CONTINUALLY BUILD ON LONG-TERM *PARTNERSHIPS* TO PROVIDE FLEXIBLE CAPITAL 

WE MUST HAVE A DEEP UNDERSTANDING OF WHO WE ARE, INCLUDING OUR MANDATE, VALUES, RISK CAPACITY CAPABILITIES, AND CONSTRAINTS.

STAY VIGILANT AGILE & RESILIENT

REFINE OUR PLAYBOOK & PROCESSES

ADHERE TO CORE VALUES & INVESTMENT PRINCIPLES

DO OUR BEST TO ACHIEVE STEADY LONG-TERM RETURNS

## CONTAIN RISK AT THE TOTAL PORTFOLIO LEVEL

- \* RISK OF PERMANENT PORTFOLIO IMPAIREMENT IS ELEVATED DUE TO HIGH ASSET VALUATION AND PROFOUND UNCERTAINTIES
- \* THUS WE NEED TO EMPHASISE *RESILIENCE* AND *OPTIONALITY* IN OUR INVESTMENTS, AND TAKE ADVANTAGE OF MARKET VOLATILITY TO FIND ATTRACTIVE DEALS

## MAINTAIN ORGANISATIONAL RESILIENCE

- \* CONTINUE *ROBUST BUSINESS CONTINUITY PLANNING* TO ENSURE OUR GLOBAL OPERATIONS, DIGITAL INFRASTRUCTURE AND PEOPLE ARE ABLE TO *SUSTAIN PERFORMANCE*, ESPECIALLY DURING CHALLENGING TIMES

