Goldman Sachs The Markets

Market takeaways from 2024's

World Economic Forum

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Sam Grobart: What issues were top of mind for world leaders as they met in Davos, Switzerland this week? And what does it mean for the global economy? This is The Markets.

Hi, I'm Sam Grobart. Today I'm joined by Luke Barrs, Global Head of Client Portfolio Management in Fundamental Equity within Goldman Sachs Asset Management. Luke, thanks so much for joining us today.

Luke Barrs: Thank you for having me, Sam.

Sam Grobart: World and economic leaders met this week in Davos, Switzerland for the annual World Economic Forum. What were some of the big takeaways you and clients were paying attention to from that conference?

Luke Barrs: Well, look, Davos is always a very interesting reference point. It comes early in the year. We hear a lot, both from the political side of the agenda, but also from clearly corporate leadership. And this year there is a marked change. We are seeing more optimism on global growth.

There are still lingering concerns around inflation dynamics, around macro economic volatility, and I would say specifically the lingering issues around geopolitical tensions and cyber risks that, universally, corporate CEOs are referencing. But clearly, the economic path seems more favorable. And so, there is a degree of optimism that maybe wasn't heard quite as evidently last year.

Sam Grobart: Luke, I want to ask you a follow up question about this regarding AI. That has, obviously, been a major topic over the past year. Was there anything out of Davos that you were seeing related to that?

Luke Barrs: Very significant optimism, I think, is the short summary on that, Sam. Both in terms of the innovators behind some of those large language models. What that means in terms of productivity enhancement. And obviously, for a lot of corporates, the ability to utilize those innovations, those new technologies to enhance the efficacy of what they're delivering.

Now, I would say there are some cautions that people will present around what it means for jobs, what it means for labor markets. There are clearly going to be parts of the labor market that are more disrupted. But if we take the optimistic and positive side of this, it is about enhancing productivity for the way in which people operate. And that should be net positive for corporate margins, and hence, for earnings growth going forwards.

Sam Grobart: Earlier you referred to geopolitical issues. Geopolitical stability, obviously, has come into increasing focus over the past year. How are markets thinking about the various conflicts across the globe?

Luke Barrs: I think first and foremost if we take a step back there has been a structural shift in the last three to four years around geopolitical tension. We see it both qualitatively just, unfortunately, in the news flow. But actually, also quantitatively if you look at volatility indices, if you look at geopolitical risk indices there has been a marked step change in that last four-year cycle.

Now, to a degree the market is still absorbing some of that information. And looking through some of that information as we go forwards over 2024 with a more positive global growth backdrop. But clearly, it is driving change and strategy and change in corporate mindset, specifically as we get into things like supply chain dynamics, resource and economic security related issues that are part and parcel of that more challenged geopolitical environment.

Sam Grobart: Let's talk a little bit more about supply chain issues. Obviously, that rose to prominence during COVID. And in its wake, as you point out, geopolitical issues certainly contribute to that. What does that mean for the investing landscape today?

Luke Barrs: Well, so first and foremost from a macro economic perspective, I think it does create challenge for risk assets. We are in a scenario where post COVID companies are having to rethink their supply chains. Part of that was naturally happening anyway because China was becoming less cost competitive on the labor side of things. So, light manufacturing exports were being re-offshored from China to other parts of South Asia in particular.

But actually, post COVID what companies are looking at is how do I build a supply chain that solves for just in case supply as opposed to just in time supply? And that is going to be inflation. As you go through that cycle of restructuring supply chains, it involves capital investment. Involves changing corporate strategy that isn't necessarily positive from a macro economic standpoint.

All that said, it does create opportunity. If you're selective and [UNINTEL] around what it means at the industry level, actually, there are a lot of businesses that we're investing in on the equity side that are core beneficiaries of that trend.

Let's just take one simple example. Think about the semiconductor industry. The world has a dependency at this stage on Taiwan, specifically one company, TSMC as it relates to semiconductors. That is why you see such a huge political agenda, US CHIPS Act being the most obvious example where we're putting 100 plus billion dollars of capital into rebuilding US chip manufacturing to alleviate that geopolitical risk and that political dependence we have on other markets.

Now, that's not to say we will say TSMC suffers from that. TSMC building fabrication facilities in the US to maintain market share is a very interesting dynamic. But that 100 billion dollars of capital that's going into building those facilities involves a lot of other derivative plays, picks and shovels type businesses, that will be beneficiaries of that capital investment and capex expansion.

Sam Grobart: You mentioned TSMC. Of course, you mentioned Taiwan. That is a nation that recently just held an election. This is a huge election year. In fact, 2024 is going to be the biggest election year in history. Countries representing more than 60 percent of the world's economic output, and more than half its population will go to the polls this year. What's top of mind for you, Luke, as you look across the election calendar around the world?

Luke Barrs: Yeah, you're absolutely right. We see 76 countries going to the polls this year. That is a significant part of the global population. It's a significant part of the global economy. I think there are some very pertinent ones. As we all know, the US election. The Indian election. The UK election. European Parliamentary elections that are happening across the EU as well just to name a few.

Now, I think, obviously, as we look at it from a markets context, we have to think about the potential for change in direction from political leadership. So, if we were to see change in leadership, for example in the US from Democrat to Republican, or in the UK from Conservative to Labor, that may lead to some change in fiscal policy. It may lead to some change in dynamics, which will have a bearing on markets.

Now, all of that said, as much as it is a year where we're seeing significant number of polls taking place and that should create some volatility in markets, we don't think it necessarily has a significant bearing on changing the direction of travel we're already in. And by that, I mean the dynamics we referenced a second ago around supply chain restructuring, around economic security, around ensuring you have confidence in your supply partners, whether it is around traditional manufacturing or areas like energy and resource security, regardless of what we see on the political side of things, I think some of those dynamics are entrenched and likely to continue even past the course of 2024.

Sam Grobart: Luke, last question, what is going to be on your radar for next week?

Luke Barrs: We have some big data points that are coming out next week, whether it's in the US we have GDP data. We have PMIs, the initial Jobless claims. From Europe we have PMIs as well as some additional commentary from the ECB. So, I think there are a lot of data points to watch.

There is still a sense in the market that good news is bad news, bad news is good news. But overall, it does feel like we're progressing gradually towards a better economic outcome. And if that does give central banks some flexibility further through the course of this year to start cutting rates as inflation continues to moderate, I think that can give us a better backdrop. But each of those incremental data points will be useful in validating that perspective.

Sam Grobart: Luke Barrs, thank you so much. Really appreciate it.

Luke Barrs: Thanks for having me, Sam. Great to speak to you again.

Sam Grobart: That does it for another episode of The Markets. Be sure to find us on Apple Podcasts, Spotify, or wherever you get your streaming audio.

I'm Sam Grobart. Thanks so much for listening.