Technology and Transformation: Investment trends to watch for in 2019

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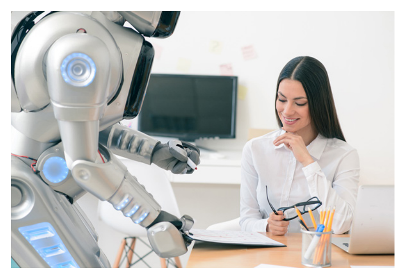
In 2018, amid denuclearization talks with North Korea and a trade war with China, mid-term elections, spreading cannabis legalization, U.S. withdrawal from the Iran nuclear agreement and the United Nations Human Rights Council, and historic wildfires in California, we saw the first company reach the trillion-dollar valuation mark — that was Apple in August, soon followed by Amazon. The market seemed unstoppable for most of 2018, in spite of volatile world events and a creeping divisiveness at home. We saw the continued rise of the FAANG stocks (Facebook, Apple, Amazon, Netflix, and Google), as they each grew larger than many countries' entire stock markets, only to see an ensuing fall as investors began to question the ability to maintain their lofty growth trajectories (and avoid regulation).

As we look toward 2019, we see continuing, accelerated changes in technology shaping our world in new, different ways. But we also see transformation, with new trends and opportunities such as impact investing and Opportunity Zones. Following are some of the shifts and cultural changes we think may affect the investment environment next year. Please note that we offer these predictions not as investment recommendations, but as an interesting look into the potential future investment landscape.

Impact investing is going mainstream.

Arnerich Massena began exploring "sustainable" investing over ten years ago, but the world was not really ready at that time. Now, there is a burgeoning awareness of the opportunities in impact investing. With wealth transferring to millennials, a growing general interest in environmental consequences, and consumer demand for conscious governance, impact investing is officially on the mainstream map. ESG (environmental, social, governance) ratings are becoming more widely available, and institutional investors are increasingly integrating these factors into their investment decision-making processes. Even the Department of Labor has chimed in on ESG investments for ERISA retirement plans. We think this trend is only going to gain in strength, as new technologies become more available, awareness of the opportunities grows, investment strategies evolve, measurement and analysis improve, and as investors begin to see the returns.

The age of the machine is taking hold.



We don't want to say that the robots are taking over, but well… the robots are taking over. As artificial intelligence becomes ever more sophisticated, and engineers apply machine learning to everything from facial recognition to medical diagnosis, we are seeing the digital world entering into every aspect of our lives. Machines will be driving us, building for us, cleaning for us, and even creating for us. There will be investment opportunities as part of this shift, but there will also be changes to the job landscape that could dramatically affect the economic order. Prepare for a delicate navigation into a mechanized world.

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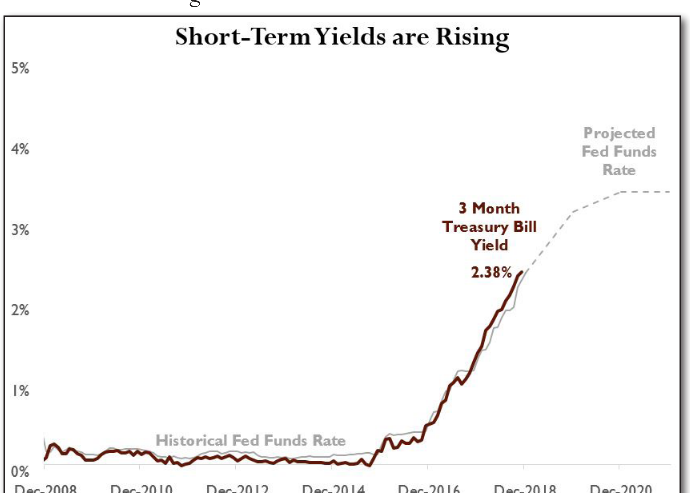
Donor-advised funds are the new "Thing."

The philanthropy landscape is changing too, and donor-advised funds are a giant leap forward in charitable giving planning. Donor-advised funds allow donors much greater flexibility in their charitable gifting, while retaining the tax advantages. Donor-advised funds benefit the charities as well, by both increasing donations through earning an investment return, and by making it possible to make grants that are timely for the charity's beneficiaries. As the charitable topography becomes more complex, and as philanthropists seek out ways to better measure the impact their donated dollars are making, donor-advised funds are a welcome solution.

Investors rediscover cash yield.

It seems like ages since holding cash was anything but an interim strategy, simply acting as a means for buying and selling. As interest rates begin an upward journey, though, cash is again becoming valuable in its own right — and in effect raising the return requirement investors will demand for higher-risk assets. Investors will rediscover that cash can work for them, and will be looking for the best ways to find cash yield.

Source: Bloomberg



Blockchain technology is winding its way into numerous industries.

Blockchain technology is not just for crypto-currencies; this tool has uses far beyond bitcoin, as engineers continue to discover new potential applications for this decentralized database technology. For example, real estate and art investors can now invest in a percentage of a building or painting thanks to the blockchain, which also may be helpful in keeping health data secure. The travel and hospitality industries are getting on the blockchain train for ID, security, loyalty rewards, and baggage tracking. Financial transactions may be revolutionized by blockchain technology, from cashless payment systems to reporting and compliance. Voting is another blockchain frontier, with the potential to build a system in which all votes can be verified and traced, and where data storage is perfectly secure, eliminating the risk of hacking.

Investors will revitalize Opportunity Zones by taking advantage of Opportunity Funds.

The Tax Cuts & Jobs Act created "Opportunity Zones" or "O-Zones" to incentivize investing in underserved areas that are in need of economic growth. In exchange for a reduced and deferred capital gains tax bill, investors can invest their capital gains in qualified Opportunity Zones, which are identified by state governments. The tax benefit is so attractive, and we anticipate the rise of some very compelling investment opportunities, which are coming together to create a highly appealing vehicle. And it's a win-win: we should

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see Opportunity Zone areas beginning to thrive and flourish with the boost from these investment dollars. This is a trend investors can truly get excited about.

Volatility is returning to the market.

Younger investors may not remember a time when there was an extended bear market. Since the great financial crisis of 2008, we've seen the stock market make a long, consistently upward climb with no significant corrections. Some volatility has already started to re-enter the environment, and we expect there will be more as the Federal Reserve tightens monetary policy. Investors will need to dust off their risk management strategies and be prepared for the volatility that used to be the norm but which may seem jarring after such a long bull run.

Technology and transformation will characterize 2019, as we're likely to see leaps and bounds on both fronts. Where they converge is where we are especially interested, such as new technologies in healthcare and resource efficiency. Our focus on thematic impact investing is predicated on both investing in "what the world needs" and on the developing technologies that will make that possible. As investors look to make a difference with their investment dollars through impact investing and Opportunity Zones, philanthropists are seeking to apply a new rigor and analysis to their charitable giving planning, for which we are providing philanthropic advisory services. And we suggest that investors prepare for a bumpy ride into 2019, on the alert for both opportunities and challenges. We look forward to this next year, and to crafting a continued thoughtful and disciplined investment strategy for the future.