

## TURBULENCE AND TRANSFORMATION

### INVESTMENT TRENDS TO WATCH FOR IN 2017

Last year, we titled our end-of-year investment trends article, “Tipping the Apple Cart: Investment trends to watch for in 2016.” This year, the apple cart has tipped, flipped, and fully overturned. Change is happening faster than ever, and with the election of Donald Trump as President, we are likely to see a great deal more of it this coming year.

Here we explore a few of the trends we are watching for in 2017. As always, a trend does not equate with a smart investment; we offer these predictions not as investment recommendations, but as an interesting look into the cultural and political changes that may affect the investment environment for everyone.

#### I. GLOBALISM VERSUS NATIONALISM

The past decade has been one of ever-expanding globalization, but first with Brexit and then with the rise of both Bernie Sanders and President-elect Trump, the world is seeing a backlash.

Anti-globalization dates back to the extensive protests at the 1999 WTO conference in Seattle, dubbed “The Battle of Seattle”; what surprised Americans then as a fringe movement has now found a deep root with mainstream voters across the globe. Protectionist and nationalist sentiments are experiencing a resurgence, with resulting tensions in the U.S. and overseas. Globalization has far too much momentum to fully reverse direction, but if it were a train speeding down the tracks, we’d see some sparks flying as the brakes are applied.

Over this next year, we anticipate that the push and pull of globalization versus nationalism will be a backdrop against which other events play out, especially as a number of elections across the globe reflect a similar contrast. On top of that, we may see some reshuffling of global alliances as trade partners and political allies shift. The world is facing the difficult issue of defining what national borders really mean and how we interact with one another on the global stage. For investors, we



anticipate numerous bouts of volatility as the battle between globalism and nationalism plays out.

#### 2. ACTIVE MANAGEMENT: THE COMEBACK KID

Passive investment management has been a growing trend for several years, as investors have sought lower-cost options. But the disruption and uncertainty that we anticipate in the markets may very well result in a return to active management. There has been a wider dispersion across equity returns recently, meaning that there has been greater contrast between winners and losers in the stock market. In the face of global uncertainty, active managers have the flexibility to adapt to changing conditions and take advantage of opportunities that present themselves. We anticipate that investors will take note and look to active management to help guide them through the unpredictability.

#### 3. EYES ON INFLATION AND INTEREST RATES

In late 2016, signs of inflation were on the horizon as the U.S. economy continued its recovery and showed increasing indications of resumed growth. Looking to 2017, many of the actions on Trump’s agenda could further boost both inflation and interest rates if they come to pass. For example,

more infrastructure spending and restrictions on external trade and labor could be contributors to potential inflation.

Interest rates have already risen slightly and we may see this continuing. Borrowing costs have been so low for so long that many businesses and consumers have come to take low interest rates for granted, but that may change in 2017. The cost of borrowing, as interest rates rise, may again become vitally important for business growth, mortgages, and other borrowing and investment decisions.

#### 4. PARTICIPATION, ACTIVISM, AND IMPACT INVESTING

One consequence of the 2016 election cycle, which was characterized by unprecedented passion and polarization, is that people are recognizing that politics is a participatory process and not just a spectator sport. There are many avenues for people to get involved and we expect activism to become a trend in 2017, especially as people begin to feel more empowered through social media. Activism may mean different things for different people — voting with their wallets, donating to activist organizations, marching in the streets — we anticipate seeing all

of these activities and more grow in popularity.

We think this will also translate into a desire on the part of investors to make a difference with their dollars. Impact investing, which has already gone more mainstream over the past year, is poised for major progress as this trend unfolds. This is one way that people are able to make their mark and create real transformation in the world.

#### 5. SECTOR OPPORTUNITIES

We see several dynamic sectors that are likely to experience change in 2017. The energy sector may be impacted by reduced incentives for alternative energy, as well as by deregulation and privatization that could open up access to natural resources. Healthcare continues to be a sector to watch, not only due to potential changes to the Affordable Healthcare Act, but also because the American population is aging and healthcare needs are growing, and new healthcare technologies are emerging. The Financials sector is also facing possible deregulation on the horizon that may create investment opportunities. We expect investors will be watching these sectors with particular interest.

The apple cart has tipped, and we are likely in for some surprises in 2017. The political arena has experienced a shake-up, and citizens are beginning to realize their power to shape the future. For investors, this year is likely to be a volatile time, accompanied by social disruption and global economic changes. Investors should remember that with challenges come opportunities, and we think there will be plenty of opportunities in the year ahead for thoughtful and disciplined investors.



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