

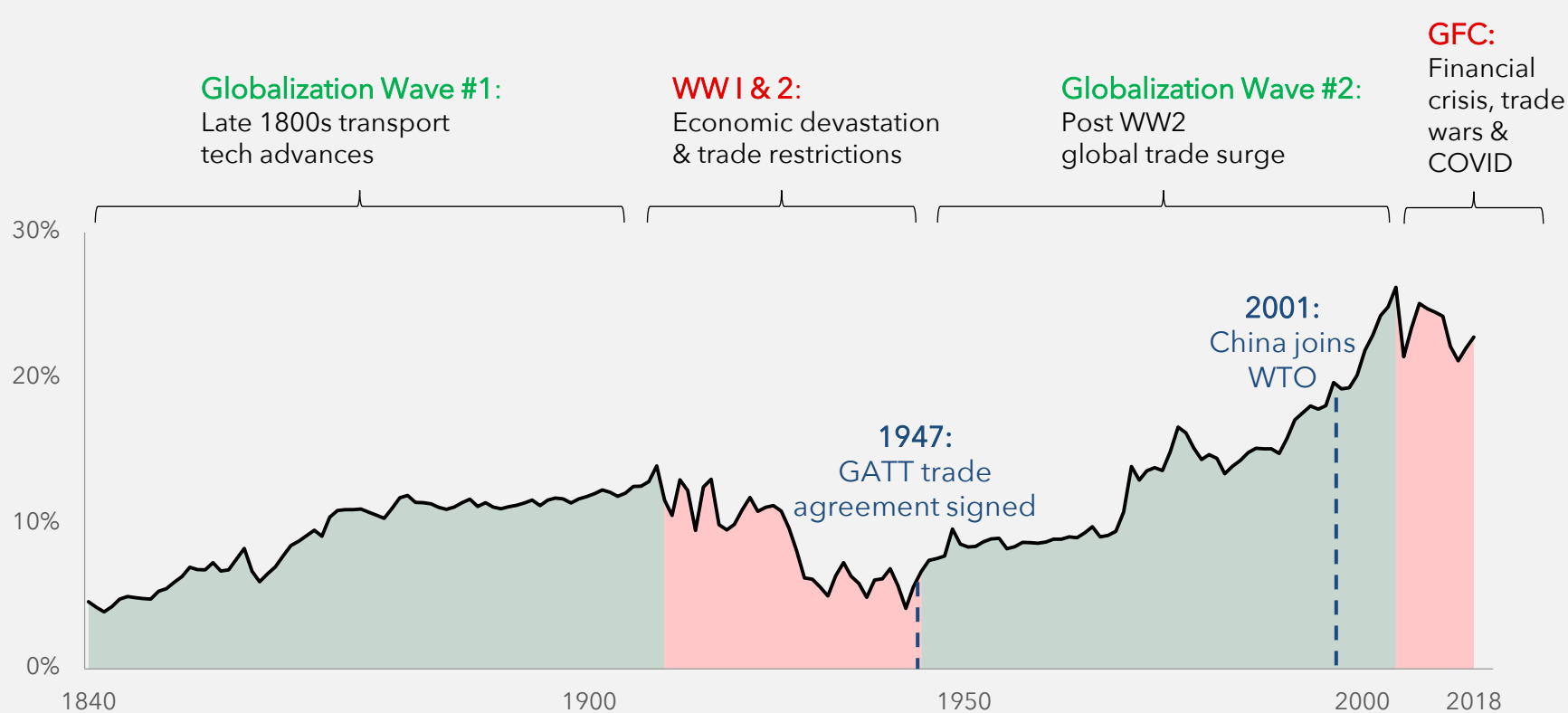
Policy Note

In today's policy note, we highlight an important multi-year theme, "policy" de-globalization, from our comprehensive global market & economics outlook (attached).

Over the past 200 years, two major waves of globalization in the late 1800s and late 20th century were each interrupted by WW1&2, the GFC in 2008-9, and more recently, the US-China trade wars and COVID crisis. While other structural factors have contributed to de-globalization (China slowdown, post-GFC cross border bank deleveraging, slowing global supply chain expansion), a rising tide of government "policy de-globalization" has also been a formidable contributor to the reversal.

Since the GFC, such "policy" de-globalization has been characterized by: creeping protectionism (tariffs, subsidies, restrictions), declining global trade growth, rising techno-nationalism, rising anti-immigration sentiment, cross border bank deleveraging, lower US-China cross-border trade & FDI, and greater scrutiny of cross border M&A.

Global merchandise exports as percent of GDP



Directional impact of increased "policy" de-globalization

Economic Impact:		Market Impact:	
Global growth	↓	MNC earnings	↓
Export - oriented EM	↓	MNC earnings multiples	↓
Low income country development	↓	International bank lending	↓
Economic cycle correlations	↓	Complexity of nation - state regulations	↑
Inflation	↑	IP rights enforcement	↓
Trade volumes	↓	Regional fragmentation of tech	↑
Global capital flows	↓	MNC asset returns	↓
Cross - border FDI	↓	Domestic focused stocks	↑
Immigration	↓	Small cap equities	↑
Corporate Impact:		Bond yields	↑
Tariff costs	↑	Equity market correlations	↓
Input costs	↑	Market volatility	↑
Labor costs	↑	Safe - haven currencies (USD, Yen)	↑
Cost of capital	↑	Trade - heavy currencies (RMB, EUR)	↓

Source: (1-2) Oxford Economics and Investment Management Corporation of Ontario, "De-globalization Implications for Investors" (June 2020). Ourworldindata. Fouquin and Hugot (CEPII 2016). Council of Foreign Relations. Peterson Institute.

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