Our investment themes for 2022

Our two main investment themes for 2022 are:

- **Inflation, and how we can try to mitigate it for discretionary portfolios through investment in equities, automation and infrastructure**
- **Climate transition, focusing on opportunities in clean energy, sustainable food and electric vehicles.**

This leaflet explains why we have chosen these themes, and gives a brief overview of how we believe they will influence decisions in the year ahead.

You can read more detailed versions of these articles, and supporting articles on the sub-themes underlying them, on our website at canaccordgenuity.com/investment-themes/.

Your Canaccord Genuity investment manager will be delighted to discuss any of these topics with you, and explain how they will affect the way we manage our clients' discretionary portfolios in 2022.

Beating inflation in 2022

Inflation came back with a vengeance in 2021.

Investors were prepared for the Consumer Price Index to rise in March-May 2021. What they didn't expect was the onslaught of bottlenecks and supply chain issues, as well as product and staff shortages, which relentlessly drove up prices.

It started with economic reopening after the COVID-19 lockdowns. Goods, ships, lorries and drivers were stranded in the wrong places when countries opened up, causing massive delays, product shortages and inevitably higher prices.

The cost of services we hadn't used in a long time (such as air fares, car rentals, accommodation, restaurants) surged, some of it due to prices collapsing in the previous year. Bottlenecks did not ease quickly, and markets also began to worry about the possibility of soaring rents and wages.

The number that matters most for markets is the US Core Personal Consumption Expenditures (PCE) Index. It rose to above 4% recently, but it is likely to fall next year, particularly between March and June, as the comparison with 2021 becomes more favourable – but probably won't return to the previous sub-2% levels. It may therefore be consistently above the 2% target used by most central banks.

Are equities the best way to beat inflation?

As inflation looks set to persist in 2022, investors will be exploring different options to generate a return on investment greater than inflation – otherwise wealth falls in real terms. If you leave your money in the bank, you are highly unlikely to get deposit rates that will cover price rises and beat inflation. Likewise, if you buy fixed interest securities, where the coupon and the final repayment levels are fixed, you may not get your money back in real terms.

Commodities generally manage to eke out a positive return after inflation, but it's not always easy for investors to buy petroleum and industrial metals profitably.

Historically, equities have offered the best opportunity for delivering real returns over the long term versus other major asset classes, but there are still risks for investors. Higher inflation tends to reduce share valuations, which are ultimately a calculation of future earnings at today's interest rate (if interest rates go up, share values historically go down).

Here at Canaccord, a key investment theme for 2022 is aiming to protect discretionary portfolios against inflation, and we will try to achieve this by exploring three different equity-based options: global equities, automation and infrastructure.

Markets fear inflation because central banks can destroy investment returns by raising rates to high levels, which may trigger an economic slump. This time around though, the US Federal Reserve (Fed) will be patient with nascent inflation, at least for the next few years. Let's take them at their word, rather than trying to second-guess them.

The equity plays we mention should be able to cope with various inflation scenarios, as long as the Fed does not step on the brakes abruptly to cause a recession.

Global equities

Data shows us that well-selected global stocks can offer better protection against inflation than other major asset classes over shorter periods. This is partly because many companies increase their prices during inflationary periods to maintain earnings, creating a positive relationship between company earnings and inflation, which then rise and fall together. Visit canaccordgenuity.com/equities-and-inflation/ to find out more.

Automation and robotics

We believe robots can support modernisation, increase efficiency and help solve the worker shortage in key industries. They should also reduce the cost of repatriating manufacturing facilities to Western countries from China. Over the past few years, the shortfall in workers has been particularly apparent in three main industries: food and agriculture, manufacturing and healthcare.
Is automation the way forward? Read more in our blog at canaccordgenuity.com/investing-in-automation-and-robotics/.

Infrastructure

We believe the broad sector of infrastructure and transportation is worth considering for several reasons. Infrastructure builds fixed assets that reduce operating costs and offset higher prices, and investments often have explicit inflation protection built in. There is also a global push towards infrastructure spending by governments, and much of the money is directed into areas that are working towards decarbonisation. Learn more at canaccordgenuity.com/investing-in-infrastructure/.

You can read an expanded version of this article and find out more about our views on inflation and its impact in 2022 at: canaccordgenuity.com/investing-to-beat-inflation/.

Investing in the climate change agenda

The urgent hunt for solutions to the climate crisis, where new, increasingly investable industries are disrupting old economy stalwarts, makes climate transition a lasting and powerful investment theme for 2022 and beyond.

We are not climate scientists or policy makers, and we make no specific predictions here about the future path of the climate emergency. We are simply seeking to identify where value is being created for our clients.

The background

COP26 in Glasgow was meant to check in on progress towards the climate change targets set in previous conferences, and to keep countries on track in meeting those targets.

Signed by 180 countries, the earlier Paris Agreement sought to reduce greenhouse gas emissions and limit the global temperature increase to below 2°C above pre-industrial levels by the year 2100. Ideally, the increases should be kept to 1.5°C or below.

Before the commitments made in Glasgow, base case estimates had global temperatures rising to 2.8°C above pre-industrial levels, despite all the work done over the preceding six years. Even after all the pledges at Glasgow, on a good outcome we might be looking at 2°C as the base case – which is not a good outcome.

The vast majority of damage to our climate has happened since 1972, when the world's population was around 3.7 billion. Today it is around 7.9 billion, an increase of 114%. At the same time, average real GDP per head has increased significantly.

So we have seen a population explosion and have made ourselves richer too – and that means making more stuff, which means burning more coal and oil, and creating more methane. In 1970 global crude oil production was around 40 million barrels per day. Now, without COVID-19, it would be around 100 million barrels per day.

Today, of the five or six major sources of greenhouse gases, energy production contributes 25%; food, agriculture and forestry 24%; general industry 21% and transport 14%. Each of these areas is under huge pressure to reduce their outputs.

Within our climate transition theme, we are looking at sectors where a combination of rapid technological improvements, cost-effectiveness and increased regulation has created a compelling investment case.

Clean and renewable energy

Sharp falls in the cost of generating wind, solar and other renewable energies (not to mention nuclear), allied with judicious use of government subsidies, have transformed the competitiveness of green alternatives to carbon-based power. This is a trend reinforced by burgeoning concerns over air quality in fast-growing and huge emerging markets like India, China and Nigeria. Read our blog at canaccordgenuity.com/investing-in-renewable-energy/ to find out more.

Sustainable food production

Methane emissions from cows, alongside deforestation linked to intensive soybean cultivation, are powerful additives to the greenhouse effect. With more efficient plant biotechnology and enormous productivity and waste management improvements from farm to fork, there is a real prospect of making inroads into this large contributor to global warming. Discover more at canaccordgenuity.com/investing-in-sustainable-food-systems/.

Electric vehicles

In transport, advances in battery technology, software and power management semiconductors now mean that it is not just automobiles that are decarbonising, but also trucks, railways, marine transport and even aeroplanes. Consumer demand is soaring and electric vehicle infrastructure is proliferating, making this a compelling investment theme for 2022 and beyond. Find out why in our blog at canaccordgenuity.com/investing-in-electric-vehicles/.

Combined, energy production, food production and transport cause nearly two-thirds of greenhouse gas emissions. In each case, what makes them particularly timely as investment themes is the rapid development of technology that replaces traditional, carbon-heavy industries with more climate-friendly businesses that could generate potentially strong cash flows.

At the same time, the cost of doing business is set to rise for carbon-intensive industries such as coal mining or oil production. Many large institutional investors are already excluding them from portfolios, while banks are withdrawing from financing their activities.

We see our three themes as a positive approach to investing that in the longer term will align good client outcomes with a sustainable future for our planet, our children and their children.

You can read more about these topics at: canaccordgenuity.com/investing-in-climate-change/.

Important information

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