

10 Surprises for 2022 and 22 Predictions (2022 – 2025)

One of the traditions I like to observe at the start of the year, is to see what could be the surprises in store for RMH to try and navigate. Several days ago, Blackstone's Vice Chairman Byron Wien and Chief Investment Strategist Private Wealth, Joe Zidle issued their list of Ten Surprises of 2022. Byron has done this for 37 years, **and he defines a surprise as an event an average investor would think has less than 1/3 chance of taking place, but which he believes is probable and has a greater than 50% likelihood of happening.**

Byron and Joe's Ten Surprises of 2022 are as follows:

1. The combination of strong earnings clashes with rising interest rates, resulting in the S&P 500 making no progress in 2022. Value outperforms growth. High volatility continues and there is a correction that approaches, but does not exceed, 20%.
2. While the prices of some commodities decline, wages and rents continue to rise and the Consumer Price Index and other widely followed measures of inflation increase by 4.5% for the year. Declines in prices of transportation and energy encourage the die-hard proponents of the view that inflation is "transitory," but persistent inflation becomes the dominant theme.
3. The bond market begins to respond to rising inflation and tapering by the Federal Reserve, and the yield on the 10-year Treasury rises to 2.75%. The Fed completes its tapering and raises rates four times in 2022.
4. In spite of the Omicron variant, group meetings and convention gatherings return to pre-pandemic levels by the end of the year. While Covid remains a problem throughout both the developed and the less-developed world, normal conditions are largely restored in the US. People spend three to four a days a week in offices and return to theaters, concerts, and sports arenas en masse.

5. Chinese policymakers respond to recent turmoil in the country's property markets by curbing speculative investment in housing. As a result, there is more capital from Chinese households that needs to be invested. A major asset management industry begins to flourish in China, creating opportunities for Western companies.

6. The price of gold rallies by 20% to a new record high. Despite strong growth in the US, investors seek the perceived safety and inflation hedge of gold amidst rising prices and volatility. Gold reclaims its title as a haven for newly minted billionaires, even as cryptocurrencies continue to gain market share.

7. While the major oil-producing countries conclude that high oil prices are speeding up the implementation of alternative energy programs and allowing US shale producers to become profitable again, these countries can't increase production enough to meet demand. The price of West Texas crude confounds forward curves and analyst forecasts when it rises above \$100 per barrel.

8. Suddenly, the nuclear alternative for power generation enters the arena. Enough safety measures have been developed to reduce fears about its dangers, and the viability of nuclear power is widely acknowledged. A major nuclear site is approved for development in the Midwest of the United States. Fusion technology emerges as a possible future source of energy.

9. ESG evolves beyond corporate policy statements. Government agencies develop and enforce new regulatory standards that require public companies in the US to publish information documenting progress on various metrics deemed critical in the new era. Federal Reserve governors spearhead implementation of stress tests to assess financial institutions' vulnerability to climate change scenarios.

10. In a setback to its green energy program, the United States finds it cannot buy enough lithium batteries to power the electric vehicles planned for production. China controls the lithium market, as well as the markets for the cobalt and nickel used in making the transmission rods, and it opts to reserve most of the supply of these commodities for domestic use.

“Also Rans”

Every year there are always a few Surprises that do not make the Ten, because we either do not think they are as relevant as those on the basic list or we are not comfortable with the idea that they are “probable.”

11. The FDA approves the first ex vivo gene-editing treatment. This stimulates further research into genomic medicine, and progress is accelerated on developing in vivo gene therapies. Ethical concerns around CRISPR technology inspire heated debate, but also focus investor attention on the pharmaceuticals and health care sectors.

12. The digital economy gets a major boost when Jamie Dimon reverses his position on cryptocurrencies and J.P. Morgan seeks to become a leader in the space. Crypto becomes a major factor in the financial markets.

13. The United States and China both seek to become the global leader in advanced semiconductor capabilities in order to reduce their dependence on offshore manufacturing of the technology. The US government commits major funds to private contractors for semiconductor research, while China focuses on state-owned enterprises to get the job done.

14. Puerto Rico becomes the new retirement destination of choice. People are attracted by the good weather and low tax rates, and they put aside fears of hurricanes.

For a number of years I have been going to the CFA Institute Global Conferences to hear speakers and see colleagues where we talk shop and catch up. Vikram Mansharamani was one of the individuals who presented twice (Singapore and Frankfurt), where it was standing room only and a rush to get seats. In addition he presented for the CFA Society of New Mexico annual forecast dinner and I drove over. I find his observations a must read.

[Vikram Mansharamani](#) 22 Predictions for ‘22 - ‘27

2021 is a year that reminded me of the Rodney Atkins song, “If You’re Going Through Hell.” His opening lines capture the essence of what transpired last year: “things go from bad to worse, you think they can’t get worse than that...and then they do.” Hmm, sure sounds like COVID

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lockdowns, delta, ok...vaccines are here, light at the end of the tunnel? Nope, another variant! But Atkins offers sage advice: “Keep on going...you might get out before the devil even knows you’re there.”

There are many comprehensive reviews of the past year, most of which highlight the January 6th attack on the US Capitol; the ups and downs of COVID rates and vaccine debates; the NASA mission to Mars and billionaire visits to space; Tom Brady’s continued reign at the top of the NFL; the surge in wokeness, racial and other social tensions; America’s disastrous withdrawal from Afghanistan; [the Biden Administration’s infrastructure repair plans](#); and the economic impact of rising prices, too few workers, and broken supply chains.

Three specific developments merit further attention here: the wokeness movement, the escalating US-China rivalry, and the rising prices affecting all of us.

Humorist [Dave Barry’s 2021 year in review](#) does a fabulous job of capturing the spirit of the cultural dynamic at play: *Dr. Seuss joins the lengthening list of individuals who are deemed to be Problematic, which also includes George Washington, Thomas Jefferson, Pepe LePew, and Mr. Potato Head. Also people are starting to take a look at the Very Hungry Caterpillar, and if you have to ask why YOU ARE PART OF THE PROBLEM.* I have nothing to add.

The US-China rivalry visibly escalated in 2021 with the news that [China had tested what many believe was a hypersonic weapon](#). I’m going to again defer to [Dave Barry’s](#) description of what happened: *American military and intelligence officials express concern over reports that China tested a nuclear-capable hypersonic missile, although a Chinese Foreign Ministry spokesperson states that it was “probably a bat.”* America’s [decision to diplomatically boycott the Beijing Olympics](#) due to the ongoing genocide in Chinese-occupied East Turkestan is further evidence that tensions are not dissipating.

And finally, on the economic front, the surge of pent-up demand resulting from COVID lockdowns met insufficient supply due to global disruptions, generating a perfect storm of [inflationary pressure](#). Oh, almost forgot, this was in the midst of unprecedented monetary debasement, sorry, I mean stimulus. The fragility of global supply chains was on full display when [the Suez canal was shut down for days](#) when the *Ever Given* was wedged across the essential water passage. Not to be outdone by developments in Egypt, [Vancouver port was de facto shut down](#) by flooding, preventing the movement of goods into both the US and Canada. And of course, the labor shortage (exacerbated by low participation) was visible to almost everyone.

As I’ve stressed before, **uncertainty and change are unavoidable realities of life**. Yet all of us are asked to make decisions in the face of these fluid dynamics, shifting relationships, and seemingly constant instability. What’s the best way to do so? Sadly, there is no one correct answer, but I believe we must look through some of the day-to-day noise to have any chance of identifying the structural signals. Long-term trends that drive seemingly disconnected developments offer a compass to guide us through the numerous cross-currents that plague our

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lives; and as I’ve noted several times in the past, I believe this approach is at least marginally more useful than my [Ouija board](#) or [Magic 8 ball](#).

Unlike many others who tend to make predictions on a one-year view, I opt for a 5 year look as I believe time allows signals to surface amidst the ubiquitous noise. I’ve been doing this since 2012 and have publicly posted my predictions since January 2015. (Links: [2015](#), [2016](#), [2017](#), [2018](#), [2019](#), [2020](#), [2021](#)). I’d encourage you to revisit any or all of them, not just to see how wrong (and sometimes right!) I can be, but perhaps also to notice how the mere act of considering alternatives can be useful.

It’s in the spirit of productive thinking and consideration of potential futures that I offer you this year’s set of global developments to watch over the next five years.

1) The **era of a rules-based, international world order governed by multilateral institutions ends** as the world increasingly recognizes that China has hijacked most global institutions through influence over voting members. As the US-China rivalry is increasingly understood as a full-spectrum, multi-domain war of values, countries are forced to pick sides, rendering institutions such as the [UN Human Rights Council](#), impotent.

2) Price volatility will increasingly cause **indeflation**, that nauseating feeling of being torn between inflation and deflation, among central bankers and policy analysts alike. As supply chains are re-formed within geopolitically acceptable geographies, the additional costs and friction proves inflationary. Yet under the surface, technology’s relentless march forward proves deflationary.

3) A **new political party**, initially backed by a handful of billionaires with bipartisan instincts, fields [Matthew McConaughey](#) for office. As the media begins referring to the new group as a party of “aggressive centrists,” the group gains immediate credibility as patriotic Republicans and Democrats alike join in droves.

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4) Once thought to be a promising basis for global cooperation, mitigating the impact of climate change turns into a competitive endeavor as **rare-earth magnets and other critical electrification materials** are allocated to countries based on political loyalties. [Niron Magnetics](#) emerges as the world’s hottest company. (Disclosure: I have no economic stake in Niron, although I wish I did!)

5) [The much-anticipated “Really Big One” \(~9.0 on the Richter scale\) finally hits the Pacific Northwest](#), with devastating consequences on the region’s economy and physical infrastructure. The strong America-Canada bond is on full display as both countries pool support to rebuild and revitalize the region.

6) The [Panama Canal runs out of water](#) on several occasions, preventing vessels from transiting through the critical waterway.

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7) Through constant and repeated incursions into Taiwanese airspace, Chinese military aircraft desensitize radar operators on the island nation into slower reaction times. At an opportune time (after US midterm elections?), Beijing directs a change to flight patterns and convinces an on-edge island defense apparatus to shoot down several PLA aircraft, thereby justifying their **forced reintegration of Taiwan** into China. The western world issues strong statements and imposes sanctions, but fundamentally does nothing. Much of the world dismisses the situation as an “internal” Chinese matter.

8) Understanding that technological innovation will put consistent downward pressure on the need for labor, many societies around the world prioritize social stability over economic efficiency and follow [the UAE’s lead to reduce the workweek to less than five days](#).

9) Eager to harness the power of entrepreneurial energy and the **start-up innovation culture**, boardrooms across almost every industry start encouraging [corporate venture capital endeavors](#) and direct equity investing in promising new companies. In era of abundant capital, the ability of an investor to also be a strategic partner, major customer, and technology validator proves a valuable differentiator.

10) The **cost of capital**, which has been effectively declining for four decades, begins a structural rise, driven in part by climate change mitigation efforts, many of which fail to generate positive economic benefits, given the costs. [Rising inequality and populist policies](#) further contribute to this dynamic.

11) *Time* (or another major media outlet) identifies a **new committee to save the world, this time from climate alarmism**. Its members are Steve Koonin, Bjorn Lomborg, and Michael Shellenberger. Some climate change activists are aghast and begin petitioning bookstores everywhere to stop selling each of their books: Koonin’s [Unsettled: What Climate Tells Us, What It Doesn’t, and Why It Matters](#), Lomborg’s [False Alarm: How Climate Change Panic Costs Us Trillions, Hurts the Poor, and Fails to Fix the Planet](#), and Shellenberger’s [Apocalypse Never: Why Environmental Alarmism Hurts Us All](#).

12) The global community increasingly views the **Chinese Belt & Road Initiative as part of a territorial expansion project** in which the Middle Kingdom is seeking to de-densify their population by growing their footprint. [China’s “acquisition” of a deepwater port in Sri Lanka is seen as typical of Beijing’s modern-day approach to colonialism](#).

13) [Psilocybin](#) (the active ingredient in magic mushrooms) is approved for medicinal uses to address anxiety. Although initially used predominantly among terminally ill patients, it proves useful in helping address America’s burgeoning mental health crisis. The stigma associated with the use of psychedelics to enhance creativity and innovative thinking dissipates.

14) Declining yields and rising demand for agricultural products generate a multi-year tailwind for the **fertilizer sector**. Combined with rapidly rising investor enthusiasm for [opportunities in the hydrogen sector](#) and the potential for some commodities to be used in batteries, fertilizer stocks meaningfully outperform today’s technology darlings.

15) The United States takes a page from the WWII and Cold War playbooks and begins [massive expenditures on basic science, research, and development](#) across all areas of current and [potential national security interest](#), including climate change. In addition to re-energizing the American scientific community, the development also lays the groundwork for a multi-decade technological innovation boom that restores American economic leadership.

16) Despite [advancements in autonomous long-haul trucking](#), the [shortage of truck drivers](#) in America persists. The adoption of last-mile autonomous trucking remains consistently “forthcoming.” [Fully self-driving passenger vehicles](#) likewise remain regularly in the near future.

17) Inspired by Kissinger’s opening of China to the West, American Secretary of State [Mitt Romney](#) focuses on building relationships with Russia’s post-Putin leadership, laying the groundwork for an eventual US-Russia alliance in containing Beijing’s expansionism.

18) The **US Presidential Election of 2024** goes more smoothly than anticipated. (Ok, low bar to jump over, I admit). Democrats and Republicans alike fear the loss of the American center and therefore field thoughtful, centrist candidates. (Hope rather than prediction?) Much [common ground](#) is identified, mostly around the urgent need to rebuild a vibrant, optimistic, and productive middle class as well as to address the *de facto* war we’re in with China.

19) The [Special Purpose Acquisition Company \(SPAC\) bubble bursts](#). Many SPACs fail to find merger candidates on terms that make sense for the parties involved. Even among those that de-SPAC via a merger with a private enterprise, many of those fail to generate value for investors. Within years, no new SPACs are formed, creating an opportunity for contrarian investors to re-enter the business.

20) The long-term impact of COVID on educational outcomes becomes increasingly obvious. [Educational inequities were compounded](#) and despite the promise of virtual and remote teaching, data paints a very different picture: almost everyone learns more when interacting in person with peers and a teacher. Acknowledging this reality, many communities dramatically increase teacher salaries.

21) Spurred by the pandemic, widespread individualism begins shifting towards a healthier dynamic in which American community and civic engagement surges. (That’s the kind of surge we can all welcome!) Past failings begin to be seen as opportunities for improvement rather than grounds for polarization.

22) One of the world’s five largest central banks decides to begin holding cryptocurrencies as a reserve asset. The move is seen as validating to the entire decentralized finance domain and many crypto-assets rise dramatically in turn. Using its strong valuation, a leading crypto-focused firm (Coinbase?) buys a traditional finance firm (State Street?).

Each year, I end my predictions with the prescient words of John Kenneth Galbraith, who eloquently captures the essence of forecasters. There are, he notes, two types: “those who don’t know and those who don’t know they don’t know.” Feel free to decide which you think I am, but I do hope that these 22 possibilities are [useful in spurring your thoughts](#). I welcome all reactions to these ideas via the comments section below.

Best wishes for safe passage through the many cross currents in the years ahead!

~ Vikram

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If there are ever any topics you wish for us to explore, please let us know. ***We are here to help and guide you through these times.***

We thank you all for taking the time and reading “Market Watch.” It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us.

On a personal note, RMH is now in the position to bring on new clients so please be sure to share this informational letter with whomever you wish. RMH’s focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients to better understand their goals, values, and passions for what is important in their lives. In expanding our client base, we look forward to working with people who share these same desires

Richard Munding, CFA

Sources:

Blackstone – The 10 Surprises of 2022, 01/03/2022

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