MIDDLE CLASS
BEATS INNOVATION

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> New technology will obviously generate new growth, but the most important global growth engine looks completely different ....

Some investors frequently ask if there are any innovative Chinese companies that develop high capacity electric batteries for electric vehicles? In addition, I notice that investors spend energy finding companies within technology for self-driving cars etc.

The investor dream is that the consumer heads on holiday in the self-driving electric SUV family car with sleeping facilities and during the night the family is taken to the holiday destination while sleeping. It is unbelievably easy to imagine, further are the electric cars already rolling on the highways and the first self-driving cars are in action in Silicon Valley. In my view it's where investors can engage in an irrational hunt for investment opportunities.

Because the self-driving electric car seems so straightforward the question about investing in Chinese electro-battery developers surfaces. The answer is, by the way, that probably more than 50 Chinese companies are competing in developing a high capacity

battery. But I can not say if any of them are close to having developed a battery that can compete with the range of a petrol or diesel powered car. The reality is that only a very limited number of electric cars are sold because they do not satisfy consumer needs though some investors now and then ignore this fact.
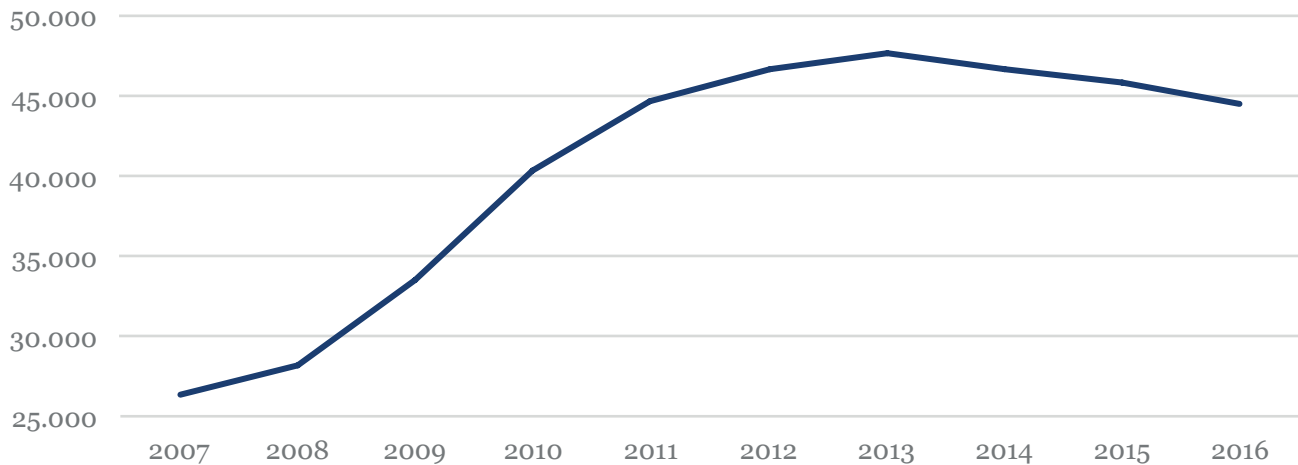
Who knows maybe the car of the future is build of extremely light and strong material so a "superdrone" can fly the car to the holiday destination during the night. More realistic is that an electric car can be charged on certain parts of the driving route while it is still moving, thus reducing the importance of the battery.

This example serves to describe how uncertain an investment in the development and manufacturing of high capacity batteries can be. Further, as time goes the risk increases that another development simply overtakes the battery as solution.

In the recent years, I have explored a growing investor focus on these uncertain future opportunities. The intensive search for new investments is of course healthy and the opportunities should definitely be considered. However, the risk is that the focus is centred too heavily on new products / concepts where other basic developments are overseen. I further argue that there is a tendency to trust that new technologies and concepts will give global growth a new boost, or at least a new impulse to the American economy, but it does not happen.

In 2009, 1.8 billion people belonged in the global middle

NUMBER OF AMERICANS THAT RECEIVES FOOD-STAMPS(IN 1,000S)

Source: USDA, Foof and Nutricion Service

class measured on income. The OECD forecasts that by 2020 it will be 3.2 billion and 4.9 billion in 2030 (graphic one). This growth in the middle class almost exclusively happens in Asia, which is remarkable. The development takes place every single day and I argue that it remains the most important global development – also for the years to come but in my opinion, this development has lost focus in the financial market during the past years. The growth in the middle class income segment is moving even more economic growth and purchasing power to Asia. I have met several western companies who expect this development to result in a demand for products of increasing quality as consumers move upwards in the product chain. This is not my primary scenario, on the contrary, I expect a continued „disruptive" development in the global consumption. The reason is that many people who achieve a revenue increase to reach the lower middle class income won't experience a continued income growth, thus they remain in the low middle class income segment.

I argue that the purchasing power for this reason continuously will be centred around the cheapest products on the market, and not moving towards high tech and / or innovative products. For the individual company, it can be innovative to create a „disruptive" product that creates a cheaper solution for middle class consumers. The said company generates a strong increase in turnover but from a macroeconomic perspective it seems „disruptive".
In the United States a move towards the lower middle class income also happens though it's a downwards move. Different analyses show that through the past 40 to 50 years the purchasing power of the middle class

relatively has shrunk in size compared to the purchasing power that the lower middle class incomes represent. As consumers want to consume the same quantity this development also supports an ongoing pressure on prices and a desire for cheaper products.

I am a fan of new developments, innovation and creativity because it is exciting and opens opportunities. Therefore, investments in innovative companies are justified, but it is far from the strongest force in the global economy. The most significant force is by far the need for the cheapest products as possible. It probably leads to a „disruptive" development that is more extreme than what we explore today. I can very well imagine that products increasingly will be given away for free against a customer relationship, revenue from other fees, advertisements, sales of associated products etc.

This development fits well with my expectation of a sustained very low inflation far out in the future
The increasing number of services and sales of products to private consumers that takes place across borders and over longer distances, I expect to grow even faster. One of the consequences is an ever-increasing demand for logistics and transportation. In addition, I expect that global companies, who already constantly are putting pressure on prices, have an advantage of a sustained „disruptive" economic environment - but most challenging is that our imagination about the global economic development the coming years will be seriously tested because the price pressure, or disruptive trend, will generate even more extreme development in the global economy.