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The important role technology and geopolitical forces will play in shaping the economic road ahead

Count
The confidence to look ahead

The important role technology and geopolitical forces will play in shaping the economic road ahead

The global economy is being shaped by conflicting triggers. These include productivity-boosting technology innovations, geopolitical tensions and the strident efforts of central banks to bring inflation under control. We examine the economic outlook and discuss the implications for your retirement savings.

As countries around the world isolate from globalisation, we're seeing an increasingly fragmented global economy. While governments manage their economies in response to local and global pressures, they're pushed and pulled in different directions. Some countries, like the USA, appear to be thriving, while other regions, like Europe, are struggling. Three overarching themes look set to shape the global economy in the year ahead: transformational technology, geopolitical conflicts, and the actions of central banks to win the war against inflation.

Productivity-boosting technologies

In recent years, we've witnessed ground-breaking developments in generative artificial intelligence, life sciences and sustainable energy.

If you're old enough to remember, we've seen times like these before. The 1990s was also a transformative decade when the rise of the world wide web and the widespread take up of personal computers and mobile phones reshaped the global economy. We saw increased productivity, new jobs and the birth of a new digital economy.

Today's technological advances could also unlock higher growth and deliver long-term productivity gains as they roll through industries across the world. However, with US companies – specifically the 'magnificent seven' – driving most of these gains , the benefits won't be evenly distributed.

Heightened geopolitical temperature

For many commentators, geopolitical tensions are at their greatest heights since the end of the second world war. What's more, tensions percolate across several fronts: the Middle East, Europe and among China, it's neighbours and the USA.

As people, we're naturally concerned about these conflicts. However, it's important to note that, as long as factories continue to produce and trade continues around the world, the global economic engine will keep turning. Where we could see economic risks is if geopolitical deterioration makes it hard for major economies to operate, or leaders make politically motivated decisions that are harmful to their nation's economic interests.

On a positive note, geopolitical tensions aren't always negative for investors. Certain assets can perform strongly, such as assets that support energy-independence or strengthen cybersecurity.

Central bank actions to rein in inflation

Although inflation is coming down, it has proven to be stickier than expected and interest rates have remained higher for longer. Around the world, high interest rates have significantly eroded the savings of households and businesses and have increased debt levels. The longer central bankers wait to cut interest rates, the greater the risk of recession and financial instability, with adverse consequences for households, businesses and the broader economy.

In summary, the global economy faces a bumpy road ahead. The three issues to watch include the timing of central bank interest rate cuts, the resilience of consumer spending and whether productivity-boosting innovations can offset geopolitical headwinds. Tensions between these drivers makes forecasting difficult, with likely outcomes ranging between continued growth, flat growth or a recession that brings financial instability.

Fortunately, there are three ways you can seek to protect your retirement savings from an uncertain global economy.

1. **Take a long-term view**. When there's a lot of political and economic news, it's important to take a medium to long-term view and avoid making knee-jerk investment decisions.
2. **Diversification**. Spreading your investments across regions, assets and companies is a strong defence against geopolitical uncertainty, volatility and dispersion of returns.
3. **Expert investment management**. Professional investment managers watch events closely, monitoring geographic and sector risk to smooth out negative impacts while also positioning for the opportunities that emerge.

How your Count Financial adviser can help

If you have any questions about how technological innovation, geopolitical risks or interest rate changes are impacting your investment portfolio, talk to your Count Financial adviser. They'll be able to advise you on whether any adjustments to your portfolio are warranted, taking into account your financial goals.

References for compliance approval:

What impact will interest rate cuts have on income investors? The March 2024 Quarterly Market Update (perpetual.com.au)

World economy: Fragmentation means the world won't respond to shocks as it did before (afr.com)

The numbers

Household saving to income ratio remained at

0.6%[1]

2.1 million

people without a job did not want a job, with a further

3.4 million

either retired or permanently unable to work[2]

The monthly CPI indicator rose

3.5%

in the 12 months to July[3]

GDP rose

1.5%

in 2023–24[4]

New loan commitments rose

3.9%

for housing[5]

1 Australian Bureau of Statistics
2 Australian Bureau of Statistics
3 Australian Bureau of Statistics
4 Australian Bureau of Statistics
5 Australian Bureau of Statistics

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