



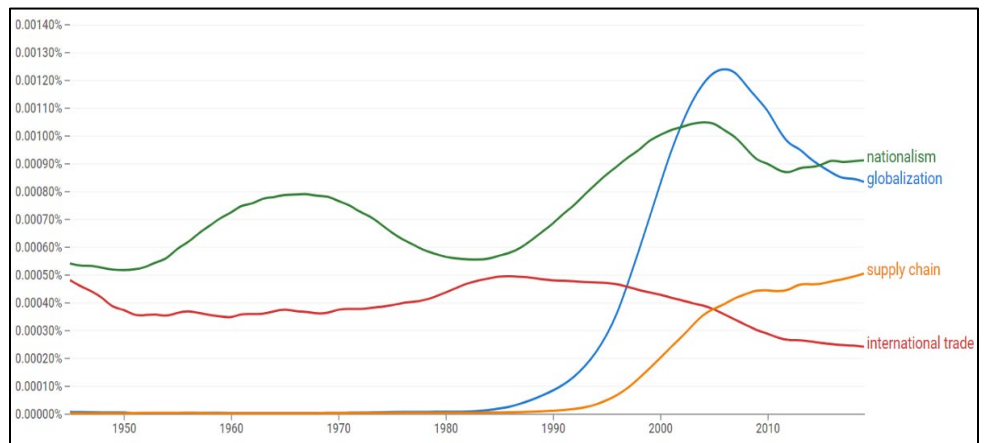
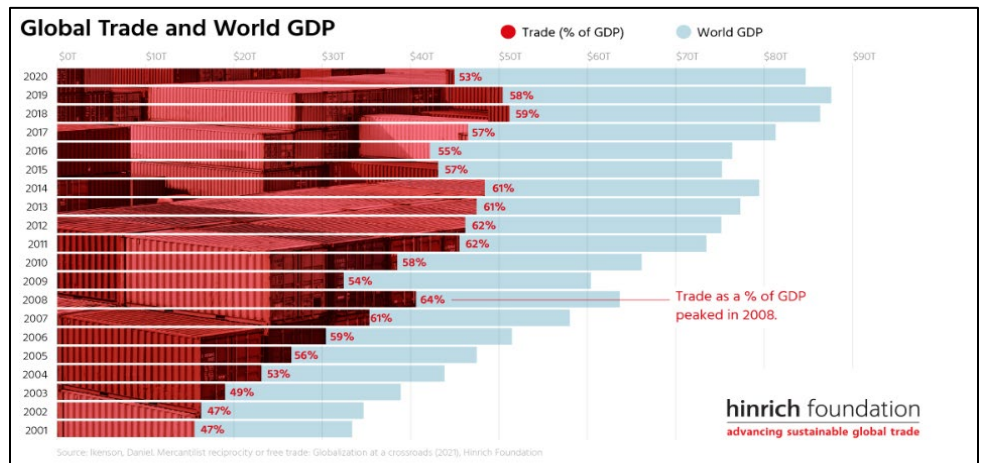
Market Commentary: The Longer-Term Rhythm and Consequences of Globalization August 2022

Despite its global empire, the only item the British could effectively sell to China in the 1800s was opium grown in India. Selling opium was important to maintain the international trade balance and keep all of Britain’s gold from moving to China. Because opium was illegal in China, the British had to send warships along with their opium supply to protect shipments. Eventual tensions over the continued import of an illegal and highly addictive drug led to the Opium Wars during the early – mid 1800s. Great Britain won those conflicts, leading to the legalization of opium. Reverberations continue to play out from that war today – Hong Kong was a spoil of war in 1840.

Interestingly, by forcing China to legalize opium, Great Britain lost its monopoly on selling the drug to China. Originally, the British government fully controlled opium trade routes and security because of the necessity to send warships along with their shipments. This gave the British a de facto monopoly. Once opium sales were legal, shipping costs declined dramatically because protection was no longer necessary. At that point, competition was introduced.

Globalization as we know it seemed to have hit its peak around a decade ago¹. Global trade as a percentage of global GDP as well as the use of terms like “globalization” have both declined over the last decade. What had been a stellar relationship of sorts for decades with China², where we received cheap goods and China increased its population’s quality of life, has recently turned dark for a variety of reasons. Covid highlighted some of the cracks in every country’s defenses in the reliance they have on international partners. And Russia’s attack on Ukraine exposed the weakness in Europe’s over reliance on Russia for energy and the world’s over reliance on Ukraine for wheat.

However, “Globalization” defined as world trade is not going anywhere. World trade has existed for millennia and will continue to exist. The Silk Road was not only about international trade but the exchange of ideas – which ultimately led to global



¹ NGAM is a Google search engine that provides the frequency of words/terms in published sources on an annual basis.

² This is a large generalization but ultimately, China has been able to pull a huge percentage of its population out of poverty while Americans have been able to buy goods cheaper than they otherwise would have been able to.



benefits³. The original intent of much of Western Europe's Atlantic travel was to find a sea route to the Indies for commercial reasons. Disruptions occurred and innovation followed.

It has been decades since the world order was as stressed as it is now. Uncertainty is high. While the US has generally gone back to business as usual, China has not⁴. Supply chains have not normalized, and consumers have not quite gone back to pre-Covid spending patterns. Companies reliant on international trade have been busy exploring ways to cover up weaknesses that were not evident prior to Covid. One example of this is the push to find new countries from which to build factories and export goods. Global energy flows will be disrupted for the foreseeable future as the world realigns based on Russia's recent aggressions.

While disruption can feel uneasy, it also tends to result in opportunity. We have made a couple of longer-term adjustments to our models, including an increased bias to US markets and an investment in robotics and automation. Our US market bias is primarily due to our energy resources while robotics and automation is due to the longer-term cost effectiveness of automation in the face of worker uncertainty, inflation, and global trade.

In summary, world trade has been around for millennia and, we believe, will continue for the foreseeable future. Though, as with most, if not all, world characteristics, there are ups and downs, disruptions, and uncertainty, countered with more tranquil times. That disruption and uncertainty lead to opportunity through innovation.

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³ Though also led to miserable diseases like the plague and Covid spreading globally.

⁴ The US population and governance is generally ignoring Covid for a variety of reasons while China is not.