Dear Client,

The world economy is undergoing a structural transformation. For decades globalization has been the dominant force shaping trade, supply chains, and corporate strategy. **However, recent geopolitical, economic, and technological developments suggest that this era of hyper-globalization is slowing and giving way to a new paradigm: regionalization.**

Globalization accelerated rapidly from the 1980s through the early 2010s, fueled by falling trade barriers, technological innovation, and the expansion of emerging markets. As corporations moved manufacturing to countries with lower costs, supply chains became breathtakingly efficient and intertwined. Global GDP increased as nations developed and engaged in economic competition, resulting in lower prices for American consumers, higher profit margins, and improved standards of living in developing countries. Yet, over the past decade, cracks in the foundation have become visible:

- **Cultural and Political Backlash**: In advanced economies, income inequality and job losses linked to offshoring have fueled populist movements on both sides of the aisle.
- **Geopolitical Realignment**: The US/China rivalry, Russia's invasion of Ukraine, and rising protectionism have reintroduced political risk to global commerce. Sanctions, tariffs, and investment restrictions have all surged.
- **Supply Chain Disruptions**: COVID exposed vulnerabilities in stretched and weaponized global supply chains, leading to a reevaluation of the "just-in-time" model. Firms are now prioritizing supply chain resilience over cost savings.
- **Technological Sovereignty**: Nations are increasingly focused on protecting and developing strategic technologies domestically. Semiconductors, AI, and energy independence are at the center of new industrial policies.

Globalization is gradually ceding to r**egionalization** - **the strengthening of economic, supply chain, and investment ties within geographic blocs.** Companies are slowly relocating production closer to home or to politically aligned allies. North America is seeing a manufacturing renaissance driven by the US/Mexico/Canada economic corridor.

This trend is rapidly accelerating. **The rise in industrial automation has made it easier and more cost effective to manufacture closer to home.** China, once the world's factory, is suffering from demographic decline and rising labor costs after two generations of a one child policy. Covid lockdowns exposed the fragility of far-flung supply chains, prompting companies to seek friendlier, more predictable locales. **Meanwhile, new tariffs have become a powerful – if blunt – catalyst for companies and countries to reassess where and how they source, manufacture, and trade goods.**

Regionalization promises greater resilience and alignment, but it is not a risk-free or cost-free substitute for globalization. Regionalization may reduce some risks but it introduces others:

- Costs could go up and inflation may be stickier, as efficiency and savings give way to reliability. This could be bad for consumers and profit margins of select industries.

- Local labor markets might not have the right skills or infrastructure and many jobs that “come home” could still be replaced by automation.
- Fragmentation could shrink the overall size of the global economic pie.
- Favoring regional integration over global diversification can increase vulnerability to localized shocks such as weather events or catastrophes.
- Regionalization could fuel further economic nationalism and retaliatory trade policies, creating a detrimental feedback loop in tit-for-tat trade wars, or more.

The pivot towards regionalization is already underway but it will take time, measured not in years but in decades. We see opportunities in industrial real estate and energy infrastructure needed to accommodate higher levels of manufacturing. We like industrial automation companies that provide the robots and software to power next generation factories as well as regional logistics and transportation companies. Domestic providers of financing solutions such as regional banks and business development companies should also benefit. **While globalization may not be over, its most aggressive form is unlikely to return. The new world may be more fractured, but it is still full of opportunity.**

As always, we thank you for your trust and welcome any questions you may have. Summer is officially here, let’s enjoy it while we can!

Sincerely,

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