

A Conversation with Larry Fink

Larry Fink

Chairman and CEO
of BlackRock

How should investors view the current landscape for risk? How are geopolitics affecting financial markets? What are the threats, and where are the opportunities? In a wide-ranging discussion with BNN Bloomberg's Amanda Lang at the 2018 Canada Investor Summit in Toronto, Larry Fink, Chairman and CEO of BlackRock, gave his perspectives on those and other issues.

On risk, the short answer is "It's OK"

Looming trade wars, regional conflicts and political scandals dominate the headlines, while volatility has returned to markets, creating among many investors a sense that risks are intensifying. Yet the fact is that "geopolitical risk is more muted than it was last year," Fink said to Lang. "China is doing better, Japan is doing better and Europe is doing better."

Meanwhile, fiscal stimulus from the U.S. government "should pour sugar everywhere on the economy," which should help further the growth both domestically and internationally. Trade confrontations are escalating, but Fink - a self-described globalist - said he is confident "we will find solutions."

Yet while Fink added that he is "calmer today a year ago," he also suggested that this is no time for complacency. "Let's be clear: there are many issues on the table," he said. "If we don't focus on the problems, they actually become bigger problems."

Fear of the future - and opportunities

Among the problems, Fink said that he is concerned about the extent of government borrowing in the U.S., necessitated by the recent tax reforms. As well, he worries that China - for decades the low-cost manufacturer to the world and, effectively, a net exporter of deflation - might become a "net exporter" of inflation if it successfully reorients its economy towards consumption.

Yet more generally, Fink said, a widespread "fear of the future" lies at the root of many of the economic and political challenges societies face today. In the U.S., that fear not only helped shape the 2016 presidential election, but is also

behind Americans' chronic under-saving. In Europe, fear is also feeding populist movements, while fuelling underinvestment (and over-saving) among citizens in France and Germany. In China, it's behind a household savings rate of 45 percent.

Those factors are creating a looming retirement crisis in much of the world, because there is a "huge gap" between those invested in capital and those who aren't, Fink said. Yet that also represents an opportunity. Even though they are valued "probably a little high" on a relative basis, he argued that world equity markets might actually be underinvested when you take into account the investing gap. If it closes, the potential could be huge. Fink particularly sees opportunities in China. "Imagine how fast it could grow," he said, if its citizens began to invest more. As capital markets mature, however, he sees "a very strong active market" there over the long run. "I think most investors might be heavily underweight in China."

Fink, who travels extensively, said government and business need to work together - and take the long view - if they hope to address the social and economic challenges of the 21st century. But he's confident they can.

"Every place I go," he said, "we're moving forward, not backward."

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