Looking forward from the future

Highlights from the BlackRock Future Forum and insights on what comes next
Summary

While the global health pandemic has affected our ability to gather in person, it hasn’t impacted our desire to connect with clients to share insights on the topics that are influencing markets and impacting society, and to foster debate on the issues that matter most.

With those goals in mind, we convened the Future Forum, a virtual conference, for two days this July. The event brought together BlackRock leaders including CEO Larry Fink, President Rob Kapito and Chairman Barbara Novick; outside experts including former Treasury Secretary Larry Summers, Mayo Clinic CEO Gianrico Farrugia and Microsoft CEO Satya Nadella; and senior BlackRock investors across asset classes.

Over the course of the event, more than 5,000 investors joined us for a series of conversations on topics ranging from the future of globalism, to healthcare in the age of the coronavirus, to the role of corporate purpose. And some of our leading investors shared their insights on how these issues are affecting the investment landscape.

What follows are some of the key takeaways from the Future Forum, links to full replays of each of the sessions. We’ve also included results from polling that we conducted throughout the event, to highlight attendees’ views on how the current environment is reshaping their investment views and where they see attractive opportunities.

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We hope you find the insights illuminating as you navigate the uncertain road ahead, and we look forward to continuing the conversation, both virtually and — when conditions permit — in person, once again.

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**Corporate purpose**

Society is frustrated with government and is looking for large corporations to play a bigger role. If corporations don’t have a strong purpose, they’re not going to get the best and brightest young people joining their firms. It’s a time for companies to be courageous, to focus on stakeholder capitalism and to put corporate purpose at the core of the business model. We believe those that do so will be the big winners in the future, while those that don’t are going to fall.

**Sustainable investing**

Given the challenges that Covid-19 presents to corporations, and to entire industries, there has been much speculation that as companies hunker down and focus on survival, they will be forced to scale back their efforts to combat climate change. But we don’t believe that this will be the case. We see parallels between the effects of the pandemic and the effects of climate change, and we view the pandemic as an accelerant that will likely increase focus on climate change and sustainability.

“*If we don’t focus on the positive impacts of globalization, we are going to leave billions of people in society behind.*”

Larry Fink, BlackRock CEO

After the conversation, Kate Moore, BlackRock’s Head of Thematic Strategy, provided perspectives on how the evolution of globalization is affecting the current investment landscape.

As globalization evolves, companies are rethinking their supply chains, and that’s going to provide some interesting investment opportunities. From an industry perspective, we’re focused on three broad themes. The first is automation. If companies are going to re-shore to locations where manufacturing and production are more expensive, or labor costs are higher, they’re going to invest in automation and systems, in an attempt to produce goods at comparable prices to what they might have done in China or in another emerging market with lower labor costs.

The second theme revolves around logistics, infrastructure and transportation. For example, we’re likely to see some dislocations in global shippers, but greater opportunities in just-in-time shipping in domestic markets. The third theme is all about technology. We expect to see more investment in software, systems and technology services that enable companies to manage multiple different supply chains and maintain their efficiency.

Finally, I’d echo something that Larry and Satya talked about: The evolution of globalization is not going to slow down the trend toward sustainable investing. In fact, the evolution of globalization is also about sustainability. We see more and more companies combining investment decisions with ESG considerations, and we think those that do so will have a long-term advantage.
For additional insights on how the evolution of globalism is affecting clients’ approach to asset allocation and portfolio construction, Simona Paravani-Mellinghoff, BlackRock’s Global Head of Investments for Client Portfolio Solutions, shares her perspectives.

For investors, one of the underappreciated effects of the evolution of globalism is the potential impact on inflation. As Kate Moore mentioned at the Future Forum, many companies are looking at re-shoring their supply chains. As they do, they are likely to experience higher labor costs, and if those are not fully offset by improvements in productivity, the net effect would be inflationary.

But the market is not currently pricing this in. In fact, talk these days seems to be mostly focused on the opposite risks: disinflation or deflation. For example, in Europe, both the inflation-linked bond market and the swaps market indicate that investors are expecting core inflation to stay well below one percent for the next 10 years. (See the chart.)

While this view may be justified based on the history of inflation — not just in Europe — over the past 20 years, there’s no guarantee that inflation will remain ultralow for another decade. We believe this creates an opportunity to invest in inflation-linked bonds, which look attractive compared to nominal bonds in many markets. And given the paltry yields available on nominal government bonds, we also see an increasing role for investment grade credit in many portfolios, especially given the supportive policy framework in both the U.S. and the eurozone. To be clear, government bonds still have a role to play, but we believe their role as portfolio ballast is somewhat diminished as rates approach zero or negative territory.

Another topic with meaningful investment implications that was discussed by multiple speakers at the Future Forum is the decoupling of the U.S. and China. In a world where companies are operating on a less global basis, investors will need to rethink how they get exposure to China. In most of the client portfolios that we look at, the vast majority of exposure to China — and to Chinese growth specifically — is indirect exposure. The exposure largely comes from companies that are incorporated outside of China but are generating revenue from the country.

This is fine in a world of globally integrated companies. But if we move to a less-integrated world, investors are likely going to wind up with less indirect exposure to China — and to Chinese growth. In order to maintain current exposure levels, investors may need to re-evaluate their mix of direct versus indirect exposure to the country.

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Looking forward from the future

Healthcare in the age of the coronavirus

Mark McCombe, BlackRock’s Chief Client Officer, hosted conversations with three senior leaders from the healthcare industry — Gianrico Farrugia, President and CEO of Mayo Clinic; Craig Thompson, President and CEO of Memorial Sloan Kettering Cancer Center; and David Wichmann, CEO of UnitedHealth Group. They discussed how the efforts to combat the coronavirus are progressing, how technology and telemedicine are impacting the industry and what the future of healthcare may look like.

Combatting the virus
Without testing, you simply cannot know who has the infection, you cannot contact trace and, therefore, you cannot limit spread. Therefore, if we want to be able to safely reopen our economy, if we want to be able to control this surge and future waves, we have to be able to test and give results to people as quickly as possible. We need a national strategy of testing that we all can feel confident in, and it’s got to be done in real-time.

Rise of telemedicine
The use of telemedicine has exploded during the pandemic, and it will continue to be utilized going forward. But we also need to see further advances in the technology. As telemedicine grows, it’s critical to make sure that physicians and patients have access to unified portable medical records that leverage artificial intelligence to help determine the best course of action. We need a much more informed and engaged consumer and physician experience based upon the best available evidence in order to achieve a triple aim: to reduce healthcare costs, improve experiences and improve outcomes for the patient. And we’ve shown that we can do this by managing integrated systems of care that are supported by information and technology.

Future of healthcare
In the past few months, a lot of myths have been shattered about the quality of services that patients can receive and the scope of practice that can be conducted in home or ambulatory settings. We showed that these alternative places of care can serve the needs of consumers in a much broader way than they have in the past. As a result, we believe the home and ambulatory markets, from primary care through ambulatory surgery, look to be set for tremendous growth.

“We need a national strategy of testing that we all can feel confident in, and it’s got to be done in real-time.”
Craig Thompson, President and CEO of Memorial Sloan Kettering Cancer Center

After the conversation, Erin Xie, BlackRock’s Head of Health Sciences Investing for Active Equities, provided perspectives on how the topics discussed are affecting the opportunity set for healthcare investors.

As our panelists discussed, the rise of telemedicine is one of the big themes driving healthcare investment right now. We agree that we’re very early in the adoption phase, and we believe that the growth trend will be sustainable. We also see opportunities in non-hospitalized patient care, including alternative surgical centers, outpatient surgical centers and home health.

Genomics is another area that’s very exciting. We’re at the inflection point of the genomics revolution and the digital revolution. The biopharma industry is benefiting from decades of research, and we now have a much deeper understanding of human biology and the causes of diseases. There are some exciting new medicines emerging across multiple therapeutic areas. For example, we’re seeing new ways that medicine can target cancer cells specifically, and we’re seeing advances in treating autoimmune and genetic diseases.

There are also opportunities in sectors that have been temporarily disrupted by the pandemic. A lot of elective procedures have been canceled or delayed as hospitals focus on Covid-19. There are some high-quality medical device companies that have been affected as a result, but we see attractive long-term opportunities here as we think elective procedures will resume when the pandemic eventually subsides.
Looking forward from the future

For insight on how changes in the healthcare sector are affecting the broader investment landscape, private equity stands at a unique vantage point. Lynn Baranski, Global Head of Investments for BlackRock Private Equity Partners, shares her thoughts on how PE’s fast, flexible funding is helping reshape healthcare, technology and other sectors undergoing rapid change.

Healthcare is at the heart of the Covid-19 crisis, and as one of the largest sectors of the economy, we believe it has a significant role to play in most portfolios. Private equity was already very involved in healthcare pre-crisis, and its role is continuing to grow. (See the chart.)

While Covid-19 is presenting opportunities across the healthcare landscape — from biopharma to life sciences to healthcare services — digital health is one subsector that stands out. It’s a broad area that includes categories such as telemedicine, data analytics, clinical decision support, mobile health, healthcare booking and remote patient monitoring. We see many companies here with strong growth potential as they address pain points in the healthcare system by increasing convenience for physicians and patients or by providing cost savings for payers.

Away from healthcare, the technology sector continues to be a focus of significant investment, given the acceleration of disruptive business models and software applications as businesses move data and data management from on-site to the cloud. We’ve also seen a big uptick in interest in tech-related sectors that are perceived to benefit from the trend of working remotely, but we think it’s important to distinguish between areas where the shifts are long term, and areas where the positive benefit is more short term and might retreat post-Covid-19.

We put companies focused on cloud migration, e-commerce and payments in the long-term bucket. In the category of short-term beneficiaries, we put digital advertising, video conferencing and restaurant-to-consumer delivery businesses, which we feel will still exist in a post-crisis world, but may see volume reductions.

The other area we are excited about is the intersection of technology with more traditional industries. For example, we believe the auto industry is on the verge of a multi-decade-long transformation, driven by electrification, the shift to self-driving and the move to shared ownership. While this industry had experienced early Covid-19 impacts related to labor and supply chains, we think the heightened focus on sustainability and clean transportation is a strong tailwind that may ultimately provide additional attractive opportunities.

Do you plan to overweight or underweight healthcare across your equity portfolios in the next year?

55% Overweight
3% Underweight
42% Neutral

Source: BlackRock. Number of respondents = 317.
Predicting the path of recovery

Mike Pyle, Chief Investment Strategist for the BlackRock Investment Institute, moderated a discussion between Lawrence H. Summers, Economist and Former Treasury Secretary, and Rick Rieder, BlackRock’s CIO of Global Fixed Income. The two discussed the importance of continued fiscal stimulus to help the economic recovery, how monetary policy may evolve, the stability of the financial system, and where they see opportunities in fixed income markets.

Fiscal policy
The health pandemic decisively marks a change in the basic paradigm of macroeconomic policy that has been underway for the past decade. It used to be about maintaining a stable economy and avoiding inflation. For the next decade, we believe the central problem will be absorbing the glut of private savings without creating deflationary stagnation. With fiscal stimulus running out, if Congress doesn’t act strongly, we run the risk of a W-shaped recovery. We’ve failed to recognize sufficiently that if people are scared of going to work, scared of going to a restaurant, scared of getting on an airplane, then it doesn’t really matter what the interest rate is, and it doesn’t even really matter what the budget deficit is.

Monetary policy
We believe it is critical that central banks maintain flexibility to react as conditions change, and that they don’t abandon any potentially effective, but unconventional, tools. At the same time, central banks shouldn’t use all their firepower at once, and some tools — like yield curve control — may be better left unused. Yield curve control is like pegging an exchange rate: It’s something that’s much easier to enter than it is to exit.

Financial stability
The magnitude of what we’ve had to do to keep the financial system stable illustrates that we do not yet have a financial system that is, on its own, resilient without a hyper-aggressive central bank, and that needs to be the cause for a lot of soul searching in both the private and public sectors. We stress-tested our system of financial regulation and it didn’t come through so well, because our system of financial regulation once again was a hyperactive central bank.

Fixed income markets
Within fixed income, credit markets have largely become the only game in town. Investors have traditionally approached credit by taking risk in high yield and looking for stability in investment grade, but those distinctions don’t apply anymore. In today’s market, volatility and risk-adjusted returns are determined more by industry and sector than by credit rating. Country selection is also becoming much more important. The resilience that China has shown this year and its ability to recover have been very impressive. And for the first time in a long while, Europe has become an interesting place to invest.
For additional insights on the opportunities and risks developing in credit markets, Jimmy Keenan, CIO and Global Co-Head of Credit for BlackRock Alternative Investors, shares his perspective.

While there is a tremendous amount of uncertainty within financial markets, one thing seems clear: This is a credit cycle like no other. Swift and massive government policy actions helped credit markets recover rapidly from the initial pandemic shock, but they did not eliminate the need to confront a challenging and uncertain environment after economic activity resumes. Among other consequences, this will likely increase the number of companies seeking non-traditional funding solutions.

As Rick Rieder mentioned at the Future Forum, we believe credit will be called upon to fulfill a larger proportion of investors’ income requirements, and we expect this will increase demand across both public and private credit.

In traded credit, we see multiple opportunities around the globe. In the U.S. energy sector, the 2022 maturity wall is likely to drive restructuring as many firms will be unable to survive with oil below USD 50 a barrel. In Europe, the automobile sector is experiencing structural change as the EU’s fiscal stimulus seeks to promote electric vehicle development. And in China, the property market has seen sales and construction rebound toward pre-virus levels, and valuations look attractive relative to comparable global markets.

In the private direct lending markets, the 2.5-3y average life of transactions means middle market borrowers from the 2015-2017 vintage deals must return to the market to refinance. In the post-Covid-19 environment, senior secured loans are being underwritten to relatively higher yields with better lender protections in the form of tighter financial covenants. We believe this should improve deployment opportunities for investors putting capital to work.

We also see a significant need for capital solutions among stressed and distressed companies. The market implied five-year forward cumulative default rate for CCC issuers is over 60%, and the volume of high yield and loans trading at distressed prices is historically high. (See the chart.) The significant economic disruption and changes to the growth outlook put greater pressure on a larger universe of companies in need of capital solutions. We expect this to play out over the next two-plus years, with a wide range of potentially attractive investment opportunities.

Which asset class do you think will perform the best over the next year?

69% Equities
6% Government bonds
17% Credit
7% Cash

Source: BlackRock. Number of respondents = 474.
Technology: Our new virtual reality

Cisco CEO Chuck Robbins spoke with BlackRock COO Rob Goldstein about the trends that will shape the technology industry in the coming years, the future of work, fostering innovation and how corporations can engage with the communities in which they operate.

Trends shaping technology

Artificial intelligence (AI) and machine learning are at the top of the list of transformative technologies, as are augmented and virtual reality. When companies can apply AI and machine learning to the massive corpus of data that is available today, and they can utilize ultrapowerful computers that can be dynamically deployed anywhere, they’re going to be able to accomplish things that were impossible in the past. And we’re going to see virtual reality move rapidly from where it is today — primarily in the gaming world — into more and more business applications.

Future of work

One thing that’s become clear is that the notion of a physically enclosed enterprise is over. Corporations will need to allow employees to work from anywhere, and the technologies required to make that happen are going to be very important. This change will obviously impact corporate real estate footprints, and it’s going to profoundly impact the hiring process as well. When employees are untethered from corporate headquarters, that’s going to open up access to a lot of talent. And we’re almost certainly looking at less business travel in the future: The days of a 13-hour flight for a two-hour meeting are probably behind us.

Fostering innovation

Having an open, transparent, authentic communication culture is critical. Most great ideas come from people who are closest to the customer, and those ideas have to travel through the organization. So, companies need to ensure that they’re creating an environment where great ideas can bubble up. While it may be counterintuitive, companies that are managing the transition to remote work effectively may find themselves in a stronger position to innovate than they were in a traditional work environment. When employees are virtually entering their colleagues’ homes every time they have a meeting, it can create a stronger sense of community, which is key to driving innovation.

Community engagement

It’s more important than ever that companies engage with their communities, particularly those most impacted by the pandemic. In addition to community outreach and family assistance, corporations can make a big impact by focusing on three R’s: research, resilience and recovery. The first two have to do with funding to support the development of vaccines and therapeutics, and the third is centered around helping the education and healthcare systems evolve to a new reality. Education and healthcare are going to be forever changed by this experience.

“We need to be comfortable that our personal and business lives are intertwined in ways that we’ve never experienced in the past.”

Chuck Robbins, Cisco CEO

After the conversation, Tony Kim, Head of Technology Investing for BlackRock’s Fundamental Active Equity Team, discussed how some of these trends are translating into investment ideas.

Over the next five years, the two dominant themes that will drive our investment strategy are AI and what we call tech beyond tech. The latter is the notion that technology will impact every sector and industry on the planet. And unlike any other industry, technology attacks other industries. You’ve seen tech take over retail and media, and we’ll see it with many other industries, including manufacturing, automotive, healthcare, financials and agriculture. No industry will be spared.

In AI, we expect to see exponential advances in machine intelligence: AI will be able to program itself and create its own languages. This will drive inexorable growth in the amount of data being created, consumed and analyzed. And that will push the demands on computing power and performance to their very limits. We could also be seeing the beginning of quantum computing, which would mark the dawn of a new era of computing following 50 years of classical computing.

We see investment opportunities in several areas, including AI computing platforms and associated data management software, no-code software, machine-to-machine systems, advances in material science, and the electrification of the transportation industry.
For additional insights on how investors are utilizing data and technology to help navigate volatile markets, Jeff Shen, BlackRock's Co-Head of Systematic Active Equity, provides his perspective.

Twelve years ago, we thought alternative data was important. In 2020, we learned that it is essential. When Covid-19 hit the U.S. hard, market fundamentals — and company fortunes — began to evolve quickly. But investors couldn’t rely on traditional data to keep up: Analyst revisions during April and May plunged dramatically compared to the prior year. Meanwhile, some important alternative datasets, like web traffic, increased. (See the chart.) When markets are volatile and the world is going haywire, you may be flying blind if you rely on traditional data. But alternative data can help provide clear guidance.

When we talk about alternative data today, we mostly focus on economic activity, in both the virtual and physical worlds. To measure virtual activity, we look at everything from app downloads to electronic invoices to job postings. In the physical world, we look at things like foot traffic, driving patterns and shipping activity. These stand in contrast to traditional data, which has already been filtered through lenses such as accounting standards and research reports.

By using big data analysis to track the spread and trajectory of the virus, we’ve found that the experience across countries, cities and individual markets has been very different, depending on factors such as when lockdowns were put in place and enforced, how long they remained in effect, and how virus detection and antibody testing have evolved. The result has been a level and degree of dispersion not seen for some time — and, in turn, an opportunity for active stock selection to make a bigger difference than it has in years.

In an environment where regional recovery is uneven, we see country as a unit of analysis becoming more relevant for investment decision-making. In particular, our data covering emerging countries finds dispersion has tripled since January, reaching its highest level since the global financial crisis.

As we approach the next phase of the pandemic, we are looking to identify the main drivers of recovery in countries, industries and companies. Our data has found that even as countries and businesses take steps toward normalcy, consumers can be slow to return. Robust online transactions in China, which is farthest along in the virus trajectory and re-opening, indicate consumers may be content to stay home and have goods delivered.

Attendee polling results

Do you plan to overweight or underweight technology across your equity portfolios in the next year?

67% Overweight
4% Underweight
29% Neutral

Source: BlackRock. Number of respondents = 252.
**Session highlights**

**America in a post-Covid world**

Former Speaker of the House of Representatives Paul Ryan and Chairman of the BlackRock Investment Institute Tom Donilon discussed the current geopolitical landscape, America’s role in a changing world and the policy response to the Covid-19 crisis.

Highlights include:

- The future of the U.S.-China relationship and what changes to expect as the two superpowers decouple
- The policy implications of the upcoming presidential and congressional elections
- The prospects for kickstarting infrastructure spending in the U.S.
- How to move forward from the current state of political polarization

**Looking ahead: A conversation with BlackRock’s President**

BlackRock President Rob Kapito spoke with Zach Buchwald, Head of BlackRock’s Institutional Business for the U.S. and Canada, about the future of the economy and the asset management industry and shared his insights on how clients are managing through the crisis.

Highlights include:

- Why we are likely to see increasing interest in sustainable assets and private markets
- Why investors should prepare for more volatility in the months ahead
- The continuing trend towards whole portfolio investing
- The importance of maintaining a long-term mindset and investing for the future

**Purpose in crisis**

Airbnb Co-Founder and CEO Brian Chesky spoke with BlackRock CMO Frank Cooper about how companies can make purpose real and stick with it, even amid a global pandemic and an economic crisis.

Highlights include:

- Why it’s critical to put corporate purpose center stage during a crisis
- The challenges of managing multiple corporate stakeholders
- How to foster deeper connections with employees and customers
- Why purpose and profit are increasingly intertwined
**Session highlights**

### Governing through a crisis and the likely policy outcomes for 2021

BlackRock Vice Chairman Barbara Novick moderated a conversation between former Governors Jeb Bush and Ed Rendell about the role of government in combating the pandemic, the social unrest gripping the country and their views on the outcome of the November election.

Highlights include:

- The importance of setting aside partisanship to effectively mitigate the challenges presented by the coronavirus
- The roles that the federal government and the states should play to lessen the economic burden
- How early voting and voting by mail can help smooth a potentially chaotic election day
- How changes in the education system can lessen inequality and create better opportunities for underserved communities

### Conversations on race, bias and inequity: Active steps to improve the system

Senator Cory Booker, Dr. Laura Morgan Roberts, and CEO of the Robin Hood Foundation Wes Moore joined BlackRock’s Lyenda Delp for a series of conversations about how racial inequity affects healthcare, business and society at large.

Highlights include:

- How systemic racism manifests itself in everyday occurrences and affects advancement opportunities in the workplace
- How certain policy changes could directly alleviate poverty and racism in America
- The importance of education in forging a more just society

### The renewable revolution

Edwin Conway, Global Head of BlackRock Alternative Investors, moderated a conversation between Jim Robo, CEO of NextEra Energy, and Mark Florian, BlackRock’s Head of Global Energy and Power, about how structural transformation is leading to investment opportunities.

Highlights include:

- The megatrends that are transforming demand for renewables
- How advancements in technology are paving the way for hydrogen to replace natural gas
- Why America may generate a majority of its electricity from renewables by 2030
- How market disruptions are reshaping the opportunity set for energy investors
## Appendix

We would like to thank all of our participants for their contributions to the Future Forum. Participants are listed in alphabetical order.

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<tr>
<th>Name</th>
<th>Title/Role</th>
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<td>Head of Americas Client Relationship Management, Financial Institutions Group, BlackRock</td>
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<td>Erin Xie, PhD</td>
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