materialist

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INTERVIEW
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**WHY MARTY FLANAGAN, CEO OF FUND MANAGER INVESCO, CONTINUES TO BELIEVE IN THE POWER OF INNOVATION, GROWTH AND CORPORATE EARNINGS.**

# "INVESTING IS A JOURNEY, NOT A RACE."

**Will higher inflation rates make it difficult in the future to achieve real returns from financial investments?**
Inflation can erode real savings and investment returns. Very high inflation tends to have a negative impact on stocks and especially bonds, as it forces central banks to raise rates significantly. Moderate inflation tends to be positive for stocks.

**When will the inflation rate fall again?**
That's difficult to say. I remain concerned about the persistence of inflation – it will start to moderate but will likely remain above target for a significant period of time. It is also worth noting the Fed will likely have an easier time cooling inflation than the ECB given that more inflation in the US is being driven by sources the Fed can control, whereas a significant portion of inflation in the eurozone is being driven by energy prices which the ECB can't control.

**Are the big capital gains of the past decade a thing of the past, at least for the time being?**
Even though we are currently experiencing a period of great monetary policy uncertainty and global instability, I still believe in the power of innovation, of growth and of corporate profits. Think of the great leaps of innovation in history, like the invention of the wheel, the printing press and the Internet. They brought progress and prosperity – regardless of crises and wars. I'm sure that today's innovations – whether it be blockchain, robotics, clean energy or others – will also lead to corporate profits and the associated capital gains in the long term.

**How do you see the future of funded retirement plans?**
I am very optimistic. Because, once again, the highest returns can only be generated with equities over the long term, and pay-as-you-go retirement schemes represent no competition to this. Just think of the unfavorable demographics (for retirement schemes) in many countries, such as in Germany. Fewer and fewer employees have to finance more and more pensioners. This system is reaching its natural limits. That's where funded retirement planning comes into play. Investors have increasing confidence in this system, as the rising number of ETF savings plans impressively demonstrates here in Germany. Private investors have learned an enormous amount in recent years and now understand very well that stock market slumps are of a temporary nature, and that you can profit over time if you're patient and invest for the long term.

**What exactly is behind the concept of so-called factor-based investing or smart beta investing?**
Fundamental fund managers often carry out company research in order to identify interesting stocks that they expect to outperform in a particular business, macroeconomic and market environment. Their considerations typically produce high-conviction portfolios whose objective is primarily to profit from stock-specific performance drivers.

**What do factor investors do differently?**
They analyze the market on the basis of so-called factors, which were identified through academic research and largely explain long-term equity performance. In order to consider factors, a portfolio manager systematically selects stocks on the basis of certain characteristics.

**And how about risk management?**
While a fundamental manager aims to construct portfolios with stock-specific risks, a factor investor strives to eliminate stock-specific risks through diversification by constructing portfolios with exposure to intended factor characteristics.

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**For many people, their own home is often their most important asset. Is real estate generally still a secure form of investment?**
We wouldn't recommend real estate investments solely as a hedge against inflation. Anyone who already owns and occupies a private property saves on rent. The situation is different when it comes to rented property. Particularly in

the German market, I believe the strong regulation makes it doubtful whether rents can rise significantly and therefore offer a hedge against inflation. Our clients are much better positioned with a globally focused real estate product.

**Do so-called strategy funds offer more protection against capital loss than other funds?**
Anyone who opts for investment funds is making a good choice in principle. Neither a highly concentrated portfolio that tracks a particular strategy, nor a broadly invested ETF, offers a guarantee of success. In the end, it's the mix that counts. At Invesco, we offer our clients a comprehensive suite of capabilities that includes all asset classes across all investment regions.

**Are ETFs the solution to everything, or are they generally the wrong instrument for the current market phase?**
This is an important question. ETFs are a very good invention that can meet a variety of investor needs – there's no doubt about it. But every investor must also check to see what exactly is held in such index funds. Most ETFs follow the principle of market capitalization, meaning that stocks with a high market value also have a high weighting in the ETF. This is the case with technology stocks, for example, which are now under pressure. As always, we recommend a portfolio constructed of active, passive and alternative capabilities, making sure investors understand what is in their index fund to avoid an unhelpful concentration.

**How much longer will the dollar's surge continue?**
Textbooks tell us that there are a wide variety of factors that impact the US dollar, and that is of course true. However, there have really been three key drivers of USD: growth differentials, rate differentials and demand for the US dollar as a safe haven. So we are likely to see continued dollar strength until something changes with one or more of those key drivers – and the US Fed has a lot to do with those key drivers. It seems that when the Fed does pivot and slows down the pace of hikes, we are likely to see the dollar start to weaken – especially if other central banks continue on their paths to higher rates.

**Where do you see the Dow Jones in five years?**
I don't have a crystal ball. But long-term history has demonstrated that it will be higher than it is today.

**Should we be worried about mid-sized businesses in Europe?**
No. Publicly listed small and mid-sized companies generally have – not just in Europe – special growth potential compared with blue chips, which is reflected

in attractive corporate earnings over the long term. Small and mid-cap companies are still interesting components of a globally diversified portfolio, regardless of whether they are located in Europe or in other regions of the world.

**To some experts, climate risks also represent investment risks. What is your view?**
Certain clients, especially our institutional clients, have shared their concerns regarding the potential for climate-related investment risks. As always, we consider a range of risks – including climate-related risks – across our investment teams. We offer a broad range of investment strategies for those clients who are looking to take advantage of the growing interest in technology and innovation related to climate issues.

**The European equities market is now one of the cheapest around. When will be the right time to re-enter this market?**
Valuations are very attractive right now. However, investors should recognize that valuations are rarely predictive in the short term, although they have historically been predictive in the longer run. We do believe European equities offer a compelling buying opportunity, but caution that investors should be willing to be patient, as there could be significant volatility and some headwinds in the near term. In general, we encourage investors to take a long-term approach to investing. For most investors, that means continued exposure to European equities as part of a well-diversified portfolio.

**Does China also belong in a broadly diversified investment strategy? The tensions between the West and China have risen significantly in recent times. There is a risk that China could go a similar way as Russia.**
We live in a world of enormous worries – geopolitics tension, inflation and a potential global recession – but some concerns may be overdone. From an investor's perspective, you certainly shouldn't lose faith in China too soon. It is the world's second-largest economy and one of the fastest-growing, and China continues to open its markets. Of course, there are risks, but there are risks in every market, particularly in every emerging market.

**Is there anything that you are afraid of?**
Fear is always a poor adviser, both in real life and in the business world. But anyone who has no fear at all is in danger of overlooking the risks and throwing themselves into unpredictable adventures. We are privileged to manage $1.3 trillion (as of Sept. 30, 2022) for clients all over the world. This is a tremendous responsibility because with the money entrusted to us, we are helping our

clients to achieve their goals in life, whether it be maintaining their living standards in retirement or paying for their children's education. This reminds me to check constantly that we are doing the right thing and making the right decisions to help our clients achieve their investment objectives.

**You recently launched the Invesco Metaverse Fund, which invests in sectors that profit from the development of immersive virtual worlds. What makes you sure that this will pay off for investors?**
While the metaverse's applications to entertainment are increasingly well-understood, the interconnectivity that it enables will likely have a transformative impact across industries as diverse as healthcare, logistics, education and sport. Our investment team believes that there are exciting opportunities for businesses in several sub-segments of the metaverse – beyond the well-known metaverse platforms. At this early stage, some of the greatest opportunity is for those involved in developing the infrastructure that is required to be in place for the metaverse to reach its true potential.

**You are placing a lot of trust in the blockchain as a technology of the future. Why is that?**
Because it will make all our lives safer and easier. In the next 20 years, it will change the global financial system in a way that we can't yet imagine today. The financial services industry is already well advanced in the development of the blockchain. In 2021, it invested around USD 8 billion in blockchain research and development, and will spend USD 19 billion annually by 2024. In its own way, it is as revolutionary as the invention of the Internet.

**What is your own personal winning strategy?**
My experience has led me to believe the following: Investing is a journey not a race. Common sense is the foundation of a successful investment program. It is important to understand that markets are volatile in the short-term. Furthermore, one must realize that it is nearly impossible to be consistently correct in predicting markets in the short term. Therefore, successful investors invest for the long term through a well-diversified portfolio that meets their personal objectives.

**What role does the entry point play?**
Time in the market beats timing the market! Wise investors have learned that if they consider the world of investment possibilities as they build their portfolio, they are more likely to increase their returns and, at the same time, reduce their risk. A regular saving plan designed to meet one's investment objectives and risk tolerance is a very powerful tool.

**"FROM AN INVESTOR'S PERSPECTIVE, YOU CERTAINLY SHOULDN'T LOSE FAITH IN CHINA TOO SOON."**

**At what age should people start to invest?**
It is never too early to begin saving and investing for the future. Remember, meeting one's personal long-term investment objectives is more important than beating the market. Invest wisely.

**At the moment, however, we don't have a particularly good basis for initial public offerings, all things considered, as long as equity valuations are well below previous levels. Furthermore, we're seeing a kind of market shakeout. Many start-ups are having to quit. What market signs are needed for the investment climate to improve again?**
Above all, we need monetary policy stability again. Then a climate of confidence will return, in which boldness and entrepreneurial engagement can flourish. I am optimistic that we are on a good path here because central banks are doing everything to combat the inflation that is still rampant at the moment. We are already seeing the first signs of success with falling commodity prices.

**Globalization currently appears to be going into reverse to some extent for geopolitical reasons. Is this really so bad, or are there also opportunities in the return to national priorities?**
What we are sometimes seeing at the moment are indeed nations going it alone, and the after-effects of the Covid-19 crisis. But I don't believe that this will be long-lasting because the world benefits too much overall from global interconnectedness. Do we really want to go back to a world of protectionism, tariffs and trade restrictions? I don't think that globalization overall can be wound back, but the coronavirus and the energy crisis have demonstrated that supply chains can be unstable, and it is sensible not to rely on one single supplier, particularly in Germany, with its energy dependence on Russia.

**What conditions are needed for the next big equity market boom to start?**
Above all, it requires renewed confidence in the stability of our money. When market participants notice that global inflation is beginning to stabilize, the uncertainty will ease, paving the way for more boldness once again and faith in technologies that can change all our lives in a positive way. Take blockchain as an example. At the moment, it is still mainly linked with bitcoin and remains in the shadows. But when the smoke clears, the vast potential that this technology offers will be quite obvious – beyond digital currencies.

**What is your outlook for the next year?**
Global growth rates continue to slow. Inflation is high and will hopefully peak soon, but a decisive turn has not yet happened. There is a growing risk of a policy mistake that could lead to recession and potential global consequences. Europe is very vulnerable given it is being so negatively impacted by Russia's war with Ukraine. And near-term recession in the US is growing increasingly likely as the Fed continues to hike rates. In addition, US dollar strength, driven by an aggressive Fed, is creating global strains. Aggressive central bank tightening in the face of slowing global growth is a negative for markets, and we expect continued market volatility. This is likely to continue for some months.

**So where do you get your optimism?**
Our base case for the global economy next year is that the contraction (which we define as below-trend growth that is decelerating) will be relatively short-lived. Inflation should slowly moderate, allowing central banks to pivot in the first half of 2023, resulting in a recovery environment later in the year where growth will be below trend but rising, and stocks will perform better.