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FINANCIAL SERVICES

Outlook 2022: Inflation, digital remain dominant forces in wealth management

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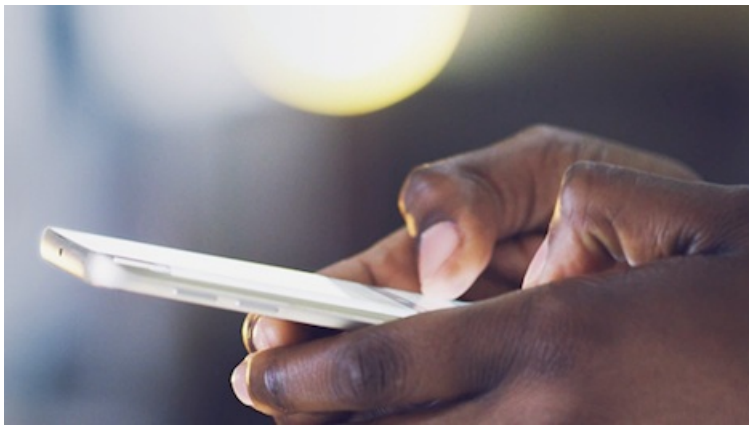


The cryptocurrency industry continues to grow. Image credit: Bank of America

By SARAH RAMIREZ

Investors are looking for big returns and stability in 2022, as confusion lingers on Wall Street amid rising inflation and COVID-19 infections.

Both investors and wealth managers believe the next year will bring a greater sense of normalcy to a post-pandemic world. While COVID is likely to remain disruptive to an extent, another major disruption awaits the financial sector: cryptocurrency and digital assets.

"While inflation poses a number of long-range economic issues, interest rate policy presents institutional teams with immediate investment challenges," said Dave Goodsell, executive director at Natixis Investment Managers, Boston.

"The upside is an expansion of investment opportunities."

Here are some of the key trends for the financial services sector heading into 2022:

Inflation impact

Initially dismissed as a "transitory" period by the Federal Reserve, the inflation rate remains high in the United States as well as around the globe.

Inflation has been an ongoing issue in 2021 and will continue to impact wide swaths of the economy into next year. Coupled with increased demand and supply shortages, inflation has pushed up prices for goods and services (see story).

The rate of inflation has climbed throughout the year. Image: Unsplash

Despite inflation concerns, consumer spending also continues to show strength.

"With the move into a post-pandemic world, 62 percent of institutional investors expect pent-up demand for big-ticket items to be a significant driver of growth in 2022," Mr. Goodsell said. "Fifty-two percent of U.S. institutional investors expect consumers to spend more next year, and 22 percent see high levels of revenge spending' as people splurge after a long period of isolation and restrictions."

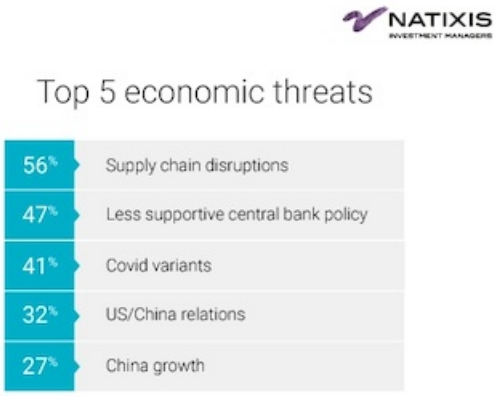
According to Mastercard SpendingPulse, retail sales between Nov. 1 and Dec. 24 were up 10.7 percent from the 2019 holiday season and 8.5 percent year-over-year the highest rate in nearly two decades.

"The financial sector definitely will benefit from the Fed tapering asset purchases and possibly raising rates, especially if inflation continues," said Anne Wickland, portfolio manager at Easterly Investment Partners, Pittsburgh.

"We expect a steepening yield curve as we head into 2022," she said. "Companies have learned how to weather a low-interest-rate environment for years; a rise in interest rates, especially on the long end of the curve, would create an earnings tailwind for the entire sector.

"Because of the monetary policy in reaction to the pandemic, consumer balance sheets are quite healthy, spending is robust and credit is benign."

While the Dow Jones Industrial Average, Nasdaq Composite and S&P 500 are all up by double-digit rates for the year, Wall Street is ending 2021 with more of a whimper than a bang.



COVID remains an economic concern. Image credit: Natixis Investment Managers

U.S. stock indexes continue to have mixed returns amid the spread of the Omicron variant (see story). COVID-19 cases are hitting record highs, but hospitalizations and deaths are climbing at much slower rates an early indication that while Omicron is more infectious, it may cause less severe disease among vaccinated patients.

"A Natixis Investment Managers survey shows that global institutional investors expect a return to normal conditions, as the world may be learning to live with COVID as an endemic," Mr. Goodsell said. "While a minority, 42 percent, expects that COVID variants, such as the new Omicron strain, will continue to be a disruptive force in 2022, the majority, 58 percent, think the more likely scenario is that much of life will revert to how things were before the pandemic."

Digital communications

Wealth management firms will also continue to build off earlier pandemic-era shifts, specifically an acceleration in digitizing client relations.

"Well before the pandemic, clients were increasingly engaging with our teams through digital channels, particularly in areas where it created convenience in their lives," said the Chief Investment Office for Merrill and Bank of America Private Bank in a statement.

"Today, digital engagement is at an all-time high, with 83 percent of our Private Bank clients actively using our online or mobile platforms, up from 77 percent two years ago," the Chief Investment Office said. "Private banking will always be a relationship-led business based on the sophisticated and often complex needs of clients.

"This highly specialized expertise and team approach help to build deep and lasting client relationships now increasingly supported and enhanced by technology."

Bank of America is investing $3.5 billion annually in technology initiatives to better engage with clients.

The client onboarding experience has been fully digitized, and a suite of integrated apps allows clients to easily manage their financial lives on the go. Secure communications channels also allow advisors and clients to collaborate safely and conveniently.

Cryptocurrencies and NFTs

While cryptocurrencies such as bitcoin as well as non-fungible tokens continue to grab headlines, widespread acceptance has been slower to come by as the industries remain largely unregulated.

Many cryptocurrencies underwent a period of major fluctuations this spring following global regulatory concerns, highlighting the volatility of these investments (see story).

Some think digital currencies may be due for a correction, particularly considering the overall economic climate.

Cryptocurrencies are largely unregulated. Image credit: Unsplash

"If inflation continues to rise, investors will look for higher expected returns and higher real returns," said Easterly Investment Partners' Ms. Wickland. "If the yield curve steepens faster than what investors are anticipating because inflation becomes a longer-term issue, we could have a short-term shock to the system as risky assets reprice."

Cryptocurrencies have seen their market value surpass $2 trillion and are primed for more growth and regulations, according to Bank of America. Meanwhile, NFT sales surpassed $3 billion in August 2021, up from $250 million in 2020 however, the market has slowed since.

Both cryptocurrencies and NFTs have thrived on the strength of blockchain technology. Bank of America does caution that NFT remains a risky investment before true adoption is reached (see story).

Digital currencies remain controversial among investment managers.

According to the Natixis Investment Managers survey, 72 percent of institutions do not believe cryptocurrencies are appropriate investments for most retail investors, while 41 percent of institutional investors do see them as legitimate investment options.

Nearly nine in 10 institutional investors, however, agree that cryptocurrencies will need to be regulated by central banks.

For now, financial services companies are meeting demand with new offerings.

In October, Mastercard partnered with digital asset marketplace Bakkt to provide consumers with a range of crypto and loyalty solutions. The partnership aims to make it easier for merchants, banks and financial technology in the U.S. to embrace and offer cryptocurrency solutions and services (see story).