



Touchbutton

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All investors are equal, but some investors are more equal than others

According to the recently published World Inequality Report, since 1980 the wealthiest 0.1% of the global population have increased their wealth by as much as the poorest 50%. The 'Land of the Free' is where we have seen the greatest divergence, where the top 1% have captured as much of the increase in real incomes as the bottom 88%. How has this happened? Why is it relevant to investors?

Much of the cause of the huge divergence in wealth has been the narrative surrounding the 'wealth effect' and 'trickle-down economics'; make the 1% wealthier and it will be beneficial to all as the money trickles down through the economy. Donald Trump currently straddles the political spectrum expertly as a champion for those left behind, while simultaneously passing a tax bill which is just the latest in a history of trickle-down policies which have in fact tended to channel ever more wealth to the already wealthy.

By far the most potent of these policies in modern times has been quantitative easing (QE); central banks around the world have printed trillions of pounds in order to purchase assets, under the guise of creating the inflation the global economy so desperately needed, or more accurately to stave off deflation. However, the only inflation that has been created is asset price inflation. While this has undoubtedly increased global wealth, the distribution of this increase has been extraordinarily uneven. The only people who directly benefit from asset price inflation (only initially according to trickle-down theory) are those who actually own assets. This is not just consigned to stockmarkets; we have seen huge inflation across a diverse range of asset classes, including residential property, since QE began. But, crucially, it is asset owners who have benefitted rather than those who rely purely on wage inflation, which has been stagnant, to further their prospects.

The obvious problem with trickle-down theory is that the 0.1% cannot power a whole economy alone. Jeff Bezos, Warren Buffet and others (one assumes) do not buy millions more suits than the average person, or millions more cars, houses, groceries etc. The vast wealth accumulated by the financial oligarchs of the world is mostly not spent, it is accumulated. A second, larger, problem is that the game has become so rigged in favour of huge corporations that companies such as Alphabet and Apple pay nominal tax compared to the profits they generate. Many would argue that the cash saved will be invested and lead to further job creation, but it's likely that most will eventually be returned to investors in the form of dividends (investors that are asset owners). Taxation exists because capital markets are inefficient at distributing spending for society as a whole, and a growing proportion of

society feel that the super-rich and large corporations are not paying their fair share, leaving the 'squeezed middle' and 'merely rich' to pick up the slack.

So why is this relevant? It is not for us to discuss the morality of inequality, but the wider moral issues surrounding inequality are being reflected in seismic political upheaval. We have seen through Brexit, Trump, the rise of Corbyn and the stark clarity the Grenfell Tower tragedy brought to social divisions that those relying solely on wage inflation are finding their voice. For years making this group of the population feel wealthy through the provision of easy finance worked; walk into that showroom, 'buy' that new car, feel better off. It seems that this smokescreen may have run its course. Now, those left behind may only be satisfied by feeling that the gap is narrowing, whether this be through improvement to their own circumstances, or a worsening for those perceived wealthy.

Asset price inflation has been a major contributor to the explosion in inequality that is now being so widely reported and will likely feature high on the agenda this week in Davos. We as investors should possibly be alert to the growing call for some equalisation on this front.

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