The Long View: Issues to Watch in 2022

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Going into 2022, it's easy to focus again on the pandemic: Many business leaders expected the world to move past Covid in 2021, but it didn't. Persistent or intensifying challenges with supply chain disruption and inflation, worker malaise and labor shortages, truth decay and political polarization, climate change, and geopolitics have also been clouding the outlook.

This brief pinpoints regions and questions to watch, what questions to ask about them, and what will become clearer in the coming year.

But the positives of the last year are notable too. Along with the essential progress made on vaccines and economic recovery, businesses and governments have become more adept at managing the shocks of the last two years, and they have embraced new ways of doing things with striking speed. In the US, corporate profits reached record highs.

Yet so much is in flux in this unusual time: The complexity and foundational nature of the economic, social, and political issues on the business leader agenda defy ready explanation, ordering, or resolution. Unsurprisingly, experts' views about 2022 vary widely—on inflation and interest rates, the top geopolitical risks, the future of work, cultural values and priorities, and the course of Covid. Expect continued, rapid change and seesawing conditions but also learning and perhaps a leveling out.

The sweet and sour mood fuels uncertainty in the US.

Americans satisfied with the way things are going (%)

Source: Gallup, November 2021.

President Joe Biden campaigned with a pledge to restore a sense of predictability and science to issues of importance to business. His administration delivered vaccines, but the pandemic did not end, so the US (as well as Europe and Asia) remains stuck in watch-and-wait mode while mask and vaccine hesitancy have metastasized into angry pushback. ▶

The national economy is booming: Consensus expectations for growth in 2022 are around 4%—more than twice the US long-term average. Household bank accounts are flush, and consumers are spending freely but Americans are among the most pessimistic people in the world. In spring 2021, the Pew Research Center polled people in 17 advanced economies about their views of the present and the future. Only 29% of those polled in the US rated the economic situation as good—down from 30% in 2020 and 60% in 2019. In December, consumer sentiment on the University of Michigan index was significantly lower than a year before and at the lowest level in a decade. Few—from the left, right, or center—are happy with the country's direction.

What to watch and ask in 2022:

- **Will the political whiplash continue?** The midterm elections will dominate the 2022 narrative. The Republican Party is expected to do well which would result in yet another sharp political swing. Given the speed of the news cycle, today's hot-button topics of inflation, shortages, and mask and vaccine mandates may not be the issues voters care about in the fall, so basing election predictions on them at the outset of the year is not helpful. In 2022, stakeholders abroad will again question the direction and commitments of US—on issues such as climate, tax, and national security.

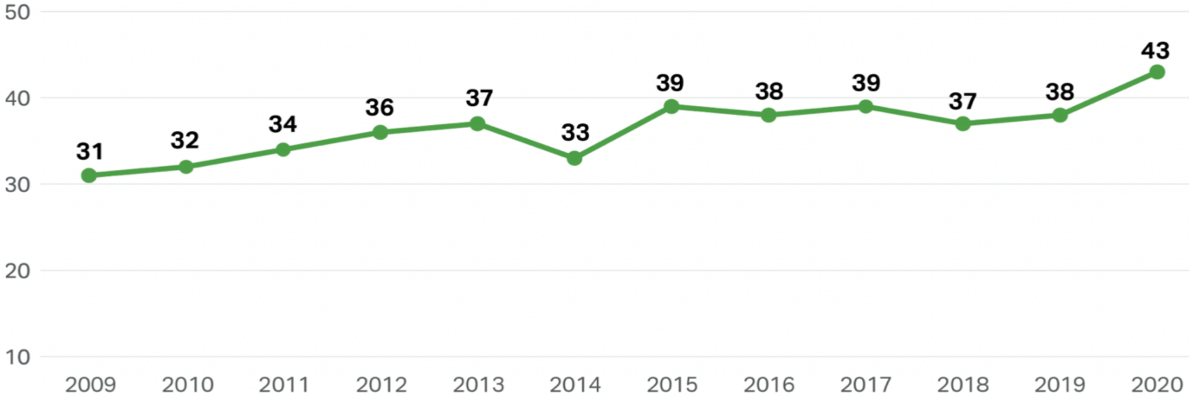
- **What should business leaders say?** Leading up to election day, the wedge issues used to activate voters—race, nationalism, book bans, vaccine mandates, abortion, climate denialism, and elections integrity—will differ from and often go against key business interests. Political pressure will come from both sides of the aisle in Washington. According to an October Public Affairs Council survey, Republican voters now hold a significantly lower opinion of business than Democrats, and the GOP has announced plans to pursue populist business bashing. At the same time, the Biden administration is seeking heavier regulations—on taxation, governance, competition, labor, and the environment. To these points, a survey of corporate communications by Brunswick Group found that not only are US business leaders and voters not aligned on policy issues, executives overrate the effectiveness of their messaging: "Statements from corporate leaders are received with a raised eyebrow, a side-eye or, worse yet, ignored."

> Rather than seeking guidance from Big Business leaders, politicians and voters want business leaders to hew to their point of view.

- **The risk of violent extremism returns.** The US population is politically mobilized over what Biden has described as a battle for the soul of the nation. Declines in trust in government and the rule of law are exacerbated by the left's anger over gerrymandering and voter restrictions and the right's claims of vote fraud. Few will be satisfied with the midterm election results, and the nationwide surge in violent crime points to the risk of more widespread lawlessness. ▶

The future of work is now.

Employees in advanced economies feeling stress during a lot of the workday (%)



Source: Gallup, *State of the Global Workplace,* 2021.

The rapid shift to remote work in 2020 showed that operations model can boost productivity in the short term, but executives often attribute their firm's long-term competitive edge to its people and the 4Cs—collaboration, community, culture, and cohesion—which businesses traditionally thought occurred when everyone shared the same four walls. Yet staffing shortages and the Great Resignation highlight how the pandemic has motivated a rethink of work and life priorities and primed workers for change. At the same time, the pandemic has accelerated innovation that is rapidly transforming the way people work. Business thinker and adviser Keith Ferrazzi has argued that rather than cling to past norms and practices, companies must "go forward to work" in new ways to retain and engage employees.

What to watch and ask in 2022:

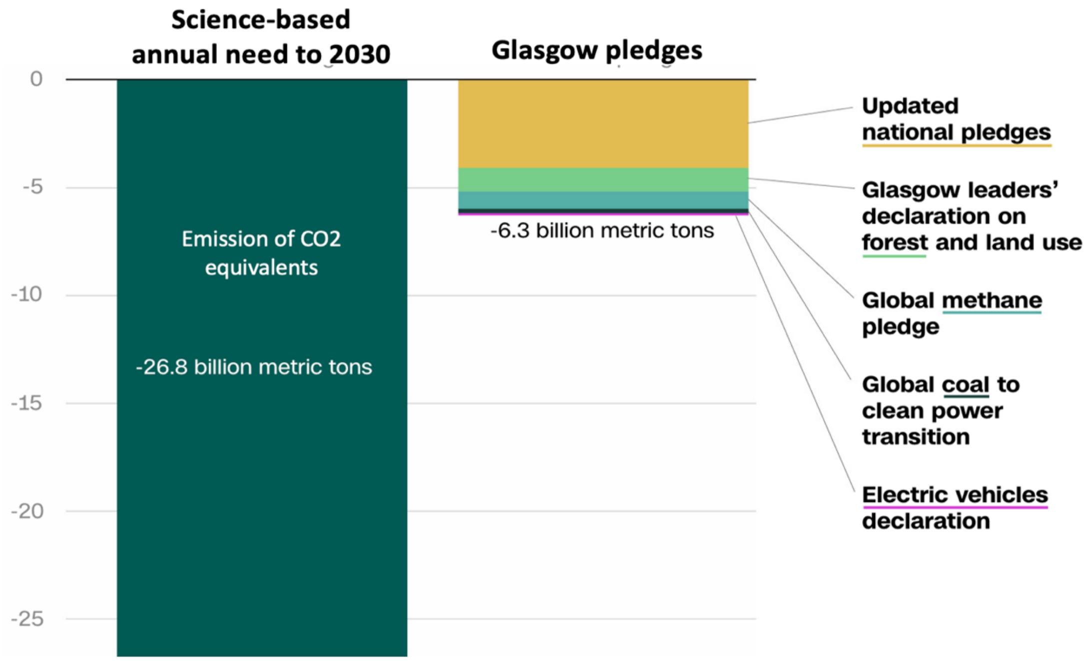
- **Who returns, and on what terms?** The full reopening of offices keeps getting pushed back, and the terms of how people will return constantly change. Hybrid work has become the standard, but executives differ on workplace strategies—for example, imposing in-person mandates or "magnetizing" the office. According to a Future Forum survey of white-collar workers across six advanced economies last summer, the preference for remote work was three times higher among staff than among executives. In the coming year, business leaders will learn whether a critical mass of people is still willing to gather at work. In any event, office footprints, talent strategy, and the best way to promote the 4Cs must be reworked. Morgan Stanley CEO James Gorman in December summarized the situation: "Everybody's still finding their way."

- **Purpose and mission aren't enough.** Over the past decade, companies elevated the notions of mission, purpose, and wellbeing as part of their value proposition to workers, but in the last couple of years, those amenities have often taken a back seat to the pandemic imperative of keeping the business going. Around the world, the number of employees reporting daily workplace stress reached a record high in 2020 (43%) according to Gallup, with the highest levels (57%) in the US and Canada. A late 2021 McKinsey survey of Americans found that 37% were diagnosed with or had sought treatment for mental health issues. In 2022, employers will have to rethink their financial as well as social and wellbeing commitments to workers. ▶

> Workers are experiencing a burnout pandemic, as a loss of purpose in work is giving rise to feelings of distress.

Climate is a momentum story in 2022.

Need versus pledges for the reduction of greenhouse gases



Source: Climate Action Tracker*,* via CNN*,* November 13, 2021.

COP26 in Glasgow drove up awareness and momentum on important climate issues—methane, coal, cars, measurement and disclosure, and finance—and galvanized the attention of business leaders and investors. But the pledges achieved are far short of the science-based target to mitigate destructive climate impacts. In fall 2022, the fate of the Amazon will be in focus in Brazil's general election, and the missed opportunities from COP26 will be on the table again at COP27 in Sharm el-Sheikh.

What to watch and ask in 2022:

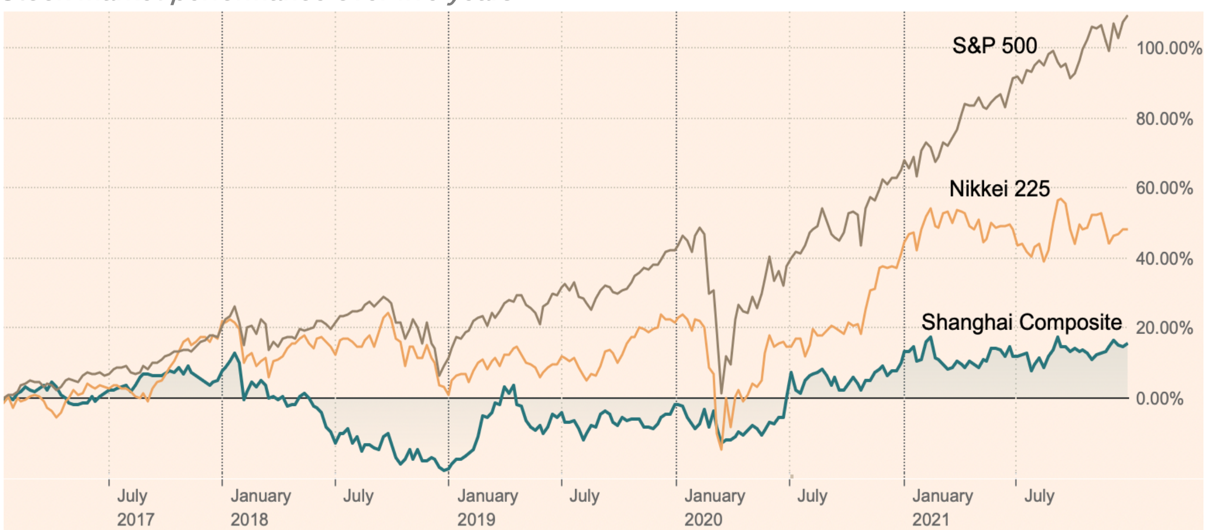
- **2030 is the new 2050.** In 2021, pledges to attain net zero by 2050 became a common baseline in the business community. But climate disasters have added a sense of greater urgency, and in August, the Intergovernmental Panel on Climate Change called for "immediate, rapid and large-scale reductions" in GHG emissions. Automakers' plans to shift electric vehicles by 2035 or sooner illustrate how the climate agenda is accelerating in industry, and new R&D partnerships to secure technology solutions for other hard-to-decarbonize sectors (such as steel, cement, and aviation) will come to the fore in 2022. The EU's new mandate to cut emissions by 55% by 2030 illustrates how companies must take action in 2022.
- **How do businesses close the say-do gap?** In 2021, companies and regulators advanced reporting standards and practices. In 2022, disclosures will invite greater scrutiny of how companies are materially reducing emissions across their value chains. Emissions trading and offsets will gain currency even as detractors decry their impact and inequity. Media and stakeholder pressure will also intensify because of the increasingly tight linkage of weather events and economic costs. ▶

Catch-2022: Climate pledges and disclosures invite scrutiny and allegations of green-washing.

- **The green premiums and brown discounts will grow.** Surveys indicate that investors are more concerned about climate change than corporate leaders or the public. Record inflows to ESG funds are expected to continue in 2022, but weak climate responses at both the portfolio and company levels will spur allegations of financial greenwashing. Pressure for divestment will also rise as activist investors' impatience with moral money and quiet conversations escalates. And BlackRock's decision to allow its institutional investors to vote directly on shareholder issues will increase the pressure on management and boards to take much more aggressive action.

A new business environment emerges in China.

Stock market performance over five years



Source: Financial Times, December 31, 2021.

The pandemic hasn't played out in China as many expected. Zero-tolerance Covid measures have exacerbated supply chain disruptions and undermined consumer and market confidence, yet Beijing in 2021 instituted a raft of new regulations targeting e-commerce, social media, education, fintech, ride-hailing, gaming, and real estate. The EU aborted its nascent investment agreement with China in May after Beijing's prickly defensiveness against human rights concerns, and both Beijing and Washington are imposing rules and bans that deter Chinese firms from listing and raising capital abroad. President Xi Jinping's nationalist-authoritarian mojo got a boost in November when he attained the status of exalted leader (on par with Mao Zedong). His internal circulation economic strategy also promotes sovereignty from the West, and his reboot of the Communist ideal of common prosperity aims to curb the excesses of market capitalism.

What to watch and ask in 2022:

- **How will China's slowdown impact global businesses?** Global companies have come to depend on fast-paced growth in China, but growth slowed sharply in 2H21 and is forecast by the IMF at just 5.1% in 2022. Although Evergrande is not Lehman Brothers, its default also brings risks because real estate accounts for about one quarter of GDP and an estimated 70% of household wealth. As of October, the US Federal Reserve warned that China's slower growth and financial system stresses were also creating risks abroad. ▶

Additionally, nationalist rhetoric in official and social media and Chinese consumers' and workers' rising interest in domestic brands is curbing global firms' long-term growth potential. Rather than being a partnership and marketing opportunity for businesses, the Winter Olympics will highlight risks in China.

- **Are investments in China paying off?** Beijing has liberalized its domestic capital markets, but a key takeaway from 2021 is that the Communist Party remains fearful of foreign capital flows, technology platforms, cultural icons, and businesses that it cannot control—what it terms the "unorderly expansion" of capital. As a result, IPOs by Chinese firms abroad will become a rarity in 2022, and many of those that trade on US markets will pull their listings back home. Even though China represents an important portfolio diversification opportunity, market returns consistently underperform global benchmarks, and ESG screens will make China less attractive. When Evergrande fell into default in December, global investors were left in the dark.

China is the world's top FDI destination, yet Beijing is turning inward and showing less regard for outsiders' interests.

- **How will Cold War II impact our business?** The question is hyperbolic but worth contemplating. As Hong Kong has lost its autonomy, Taiwan has become a geostrategic flashpoint, with microchip, mobile phone, and other supply chains at risk of getting caught in the crossfire. Europe started turning away from China in 2021, and Beijing's Asian neighbors have been scrambling for political distance even as they seek to sustain trade and investment flows. In 2022, the Biden administration's efforts to seek strategic stability will be flustered by China-bashing in the run-up to the US midterm elections. Meanwhile, global companies will still be pressured to pledge allegiance to one flag as policymakers in Beijing, Washington, Brussels, and elsewhere aim for greater economic, technology, and cultural autonomy.

Other issues to watch:

- **The future of Europe.** EU leaders are pivoting from the pandemic to forge new opportunities to make Europe greener, more digital, and more economically robust. Initiatives such as the new European Chips Act, the European Defense Union, and the new Global Gateway connectivity strategy underline the objective to achieve greater geostrategic sovereignty and impact vis-à-vis the US and China. The political makeup of Europe could also be much different in 2022: It remains to be seen whether Germany's new chancellor and leftward-tilting government can maintain the country's leadership of Europe. France's President Emmanuel Macron is likely to be reelected, but two far-right candidates have shifted the political narrative and clouded the political future of the country and the continent. And parliamentary elections in Hungary will serve as a referendum on an authoritarian government that has undermined European unity and weakened the country's democratic institutions and rule of law. In 2022, expect Europe to be focused inward as it aims to build its geostrategic stature.

- **New logistics.** Over the past generation, companies optimized for low-cost labor and regulation, with just-in-time systems predicated on trust that partners could deliver. But that strategy looks played out given the fragilities and ripple effects exposed in the pandemic, new policy barriers to the ▶

The 3Cs—Covid, climate, and China—are driving a rethink of trading patterns and norms.

movement of goods and people, rising wages and complexity in China, and greater attention to ESG transparency and compliance. As the world becomes more fragmented politically, "friendshoring" will gain currency. Similarly, the EU's proposed Carbon Border Adjustment Mechanism, which could spark trade tensions, is catalyzing a rethink of global trade norms and practices.

- **Taper tantrums.** Inflation, a big surprise in 2021, begat 2022's big unknown: interest rates. The unwinding of monetary stimulus in the US and Europe is expected to transmit shocks to middle- and lower-income markets across much of Africa, the Middle East, and Asia. Even without volatility in capital flows, the growth differential between advanced economies and emerging markets will narrow in 2022: The IMF forecasts 4.5% in the former group and 5.2% in the latter. Plus, limited vaccine access and rolling waves of infection mean that full economic recoveries from the pandemic in many markets aren't expected until 2023 or beyond. In 2022, pandemic pain, economic hardship, poor governance, and inflation will continue to propel social and political instability in and migration from Latin America, Africa, and the Middle East.

> The pandemic pushed emerging markets off the global business leader agenda. A rebalancing will bring them back into focus and create new opportunities and risks.

- **The Transformational '20s.** Many of the challenges noted above come with opportunities presented by disruptive innovation—AI, digital currencies, Web 3.0, work-from-anywhere and the new labor-price supercycle, entrepreneurship, cleantech, and a renewed focus on human wellbeing. Change and innovation were accelerated by the rise of Covid, and these transformations will deepen and become more profound in the pandemic's third year. ■