As we move into the final stretch of 2017, the global economy continues to grind higher, with overall growth for the year slated to improve for the first time in three years. While the stimulus expected from the new Trump administration has languished, the equity bull market in the US nonetheless is charging into its ninth year. Unemployment in many advanced economies has reached multi-year lows, yet wages and inflation remain tame.
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While we may have reached an important inflection point in the global economic recovery cycle, the kinds of structural forces that are transforming companies, industries and economies make it difficult to think in terms of any normal: new, old or otherwise. Instead, we expect that disruptions on many levels are set to accelerate, and discerning investors need to apply an all-change view to the world to understand and capitalize on them.

**Game-Changing Goals**

We start with disruptions in our own investment management industry, where long-term investors are broadening the definitions of value, performance and objectives beyond traditional metrics. Rather than risk-adjusted returns alone, we need...
to focus on risk-adjusted outcomes, defined across a far wider array of criteria. In our latest investment roundtable, we hear from the outgoing head of the second largest pension fund in the Netherlands, Else Bos, on why she believes large asset owners need to account for the broader economic, environmental and social impact of their investments. In her new role at the Dutch central bank overseeing pension plans and insurance companies, she will continue to promote the national sustainability development goals she helped spearhead during her time at PGGM. Other institutional investors are developing similarly broad goals and are pushing their investment managers to develop better data and processes to achieve them, as we learn from Rebecca Fender of the CFA Institute, who leads their Future of Finance practice. We also get an update from Lou Maiuri of State Street’s Global Exchange group, which is already applying artificial intelligence (AI) and machine learning technologies to improve the quality and consistency of ESG data to help asset owners and asset managers better assess those non-financial impacts.

Continuing our all-change theme, we look at how dynamic factor-based strategies are disrupting the hedge fund world. A new generation of long/short systematic approaches is able to capture many of the same premia that were once the sole realm of traditional hedge fund trading strategies, and are now available in a far more fee-efficient format. We have now launched our own version of this approach for investors seeking uncorrelated sources of alpha, which also help to protect on the downside. In addition, we describe a new and more efficient way for institutional investors to source bond liquidity in order to acquire, dispose of, or tactically shift fixed income assets within our large pools of seasoned credit assets.
**Sector Disruption**

Perhaps the quickest acceleration of change is happening in some of the most traditional industries that are being disrupted and disintermediated beyond recognition, as our sector analysts describe. Major car companies are already planning for a not-too-distant future in which the owner-driver model that has prevailed since the industry’s inception gives way to large, automated car sharing platforms. As GM President Dan Amman has remarked, “we expect to see more change in our industry in the next five years than there has been over the last 50.” We look at the first stage of that transition, as battery electric vehicles overtake the machine that ruled the road for more than a century: the internal combustion engine.

The consumer discretionary sector is also transforming before our eyes, with Amazon redefining modern retail value chains. But what would a disruptor of Amazon look like? Our sector analysts describe the three technology-driven trends retailers need to harness to challenge the consumer behemoth.

**Old Titans Versus New**

While aging demographics and technology advances create tailwinds for the healthcare industry, pricing pressures are forcing companies to overhaul their business models to reduce costs and accelerate the time to market for blockbuster drugs. As big data and machine learning transform the drug discovery process itself, mergers and acquisitions (M&A) have become a new form of research and development (R&D), allowing companies to leapfrog the usual 10–15 year development process by acquiring more mature pipelines for innovative therapies.

**Demographic Destinies**

Finally, we introduce the work of Amlan Roy, our new Global Chief Retirement Strategist, who has spent his entire career analyzing the intricacies of global demographics and their effects on economies and markets. Amlan lays out the five most important impacts of demographic changes and discusses how policymakers and investors should respond. Along with technology-driven transformations, demographics is perhaps one of the most disruptive forces reshaping the global economy and capital flows. As such, we consider it a key input into our long-term, top-down analysis and investment decision-making.

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Investing involves risk including the risk of loss of principal.

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All Change


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* Assets under management were $2.6 trillion as of June 30, 2017. AUM reflects approx. $34 billion (as of June 30, 2017) with respect to which State Street Global Advisors Funds Distributors, LLC serves as marketing agent; State Street Global Advisors Funds Distributors, LLC and State Street Global Advisors are affiliated.

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