Why multinationals can survive trade conflicts

Featuring Jody Jonsson, Capital Group equity portfolio manager

Key takeaways

- Multinational companies are adapting to new trade tensions
- Multinationals are going multilocal to get closer to consumers
- Competition is heating up in fast-growing emerging markets

As a portfolio manager who invests in many large, multinational companies, the most common question I get these days is whether I am worried about the impact of global trade restrictions on these firms. At a time when punishing new tariffs are being threatened and imposed in rapid succession around the world, are these trade-dependent companies the most vulnerable to a brewing trade war?

The answer may surprise you: While I certainly follow these political conflicts, I am not overly concerned about the impact on well-managed multinationals. Simply put, they are the best-positioned companies to navigate an uncertain environment and devise effective solutions. Some of them are starting to do it now, employing nimble, multilocal business strategies that put them closer to consumers and local buying trends. And some of them have been doing it for years, reaping the benefits of a tailored approach to local markets.
Multinational companies have multiplied and outpaced the market

The number of companies in the FTSE® Multinationals Index has grown by more than 70% since 1994 and the index has far outpaced the broader stock market.

Turn down the noise

What’s the rationale for my high level of confidence? There is a reason why multinational companies have come to dominate the global economy and the financial markets. For the most part, these companies are run by smart, tough, experienced managers. This isn’t their first rodeo. They have seen all types of trade environments, both favourable and unfavourable. Therefore, in my view, these battle-tested companies are in the best position to survive and even thrive in a hostile landscape.

For investors, I think it’s very important to avoid focusing too much on the noise surrounding trade and protectionism. It’s easy to get lost in the rhetoric over steel or soybeans or whichever commodity is being targeted next. There are new data points every day, and many of them are inconsequential. To the extent that these trade conflicts cause investors to shy away from multinational companies, paying too much attention to the rhetoric is a detriment to successful, long-term investing.

Global companies scour the world for customers

Revenue (%) by region

Sources: Capital Group, company reports. Numbers may not round to 100. All revenues as of 2017. Based on USD.
Rearranging the chess board

If I’ve learned anything during my 29 years as a professional investor, it’s that smart companies will figure it out. Invest in strong, global companies with seasoned management teams and – more often than not – they will find a way to prosper regardless of the environment. I believe the best-run companies in the world will find ways to win even when governments are trying to rearrange the chess board.

For example, the multilocal approach I referenced earlier is gaining traction. As an investor, I search for companies that are establishing successful operations in their local markets, rather than retreating in the face of global trade barriers. More and more, it is becoming crucial for multinational companies to produce where they sell. They must be able to move quickly, stay nimble and respond effectively to local competition.

Just do it, locally

Athletic-shoe and sports-apparel giant Nike optimizes this approach, particularly with some of its newest sales initiatives. This summer, Nike unveiled a new data-driven retail store in Los Angeles that stocks shoes according to online buying trends in surrounding ZIP codes. It doesn’t get much more local than that! In Europe, Nike has launched a speedy supply-chain initiative that allows it to tailor colours and new materials based on individual customer preferences in each city where it operates.

Visa and Mastercard are following much the same approach when it comes to electronic payment processing – which must be tailored not just to the preferences of local customers but also to the often strict financial regulations of myriad governments around the world. As a result, both companies are growing at a healthy pace while simultaneously fending off a slew of other fin-tech giants.

A company you may have never heard of, Switzerland-based Temenos, is rapidly growing its highly local business of providing and upgrading enterprise software programs for banks. Many of its customers are woefully behind the times, using old technology, and they require ultralocal solutions to comply with state and federal banking regulations in their home markets. This European company is currently in the midst of an ambitious expansion into the United States.

A new breed of multinational companies has arrived

Select emerging markets are home to many world-class companies.

Sources: Capital Group, FactSet. Figures for 2017 reflect the latest reported annual net sales available at the time of publication.
Emerging competition

In many ways, this multilocal approach is crucial for multinational companies based in the U.S., Europe and Japan that are looking to stay relevant or expand into faster growing emerging markets. Many of those countries — China, India, Brazil, etc. — are nurturing their own multinational giants, as well as smaller single-country-focused competitors, and they are not waiting for the traditional global players to catch up.

Aside from all the trade worries, some large multinationals are being leapfrogged by smaller, more nimble competitors who are more in touch with local markets. In my view, that is a bigger threat to multinational companies than any political issues. Emerging markets consumers are looking for brands that they can trust and companies that know the local marketplace. So large multinationals that can break themselves down, think locally, act nimbly and launch products more quickly should be better positioned for success in the long run.

Ultimately, I believe cooler heads will prevail and these global trade disputes will be resolved. But the challenge posed by fierce local competition will continue to be a very effective motivator in the global economy, as it always has been.

Jody Jonsson
Equity portfolio manager

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Portfolio manager’s years of experience as of December 31, 2017.

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