

Julius Bär

VISION



MARKETS

MARKETS

Throughout history, markets have been centres of trade, commerce, and social exchange. They are sources of prosperity that have made the world richer in many more ways than just financially. But markets are not perfect, the financial markets in particular. They can be asymmetrical, unfair, unstable, and even fail completely.

It is for precisely this reason that we should not place markets on a pedestal. While they are vital for our understanding of the world, and indeed for its continued prosperity, they must be kept in perspective, kept in check, and most of all challenged and improved by all their participants and stakeholders when necessary.

One way in which we at Julius Baer, and many of our peers in the industry, are trying to improve the financial markets and create value that goes beyond wealth, is by supporting the shift towards responsible wealth management that is taking place today. We want to help our clients to invest in industries and companies that are supporting a positive sustainable transformation.

Investors have the potential to drive real change – they have the opportunity to make capital available that can have a positive impact on the planet and society. Of course, buying and selling securities in the market like equities or bonds will not directly finance the future, but those flows set important signals for the value of companies and the preferences of investors. These flows can therefore strongly support the transformation of industries. In addition, as entrepreneurs, executives, shareholders, and members of their communities and families, private investors have the



unique ability to shape market sentiment by using their votes, their business decisions, and their voices to drive positive change and push for a more sustainable world.

In this issue of Vision magazine we take a broad and unexpected look at markets. From revolutionary new stock exchanges, private markets, and the technological transformation of trading, to dating, collecting, supermarket shopping, and the circular economy, we dive into the multifaceted world of markets and the roles they play in our lives. I hope it proves to be an enjoyable and informative read.

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PHILIPP RICKENBACHER
Chief Executive Officer



4

4-7

MARKET FUTURES

How markets have developed and changed over time.

8-11

TOOLS OF THE TRADES

Meet the man who launched his own stock exchange.

12-17

TRADING PLACES

The digital revolution has altered share trading beyond recognition – and more change is on the way.



18

18-21

PRIVATE FUNCTIONS

Why private markets are growing in appeal among many high-net-worth investors.

22-27

TREASURE HUNT

The right market conditions can boost the value of the most unlikely items, from antiquated tech to trainers.

28-31

SOCIAL CLIMBERS

A new social media trend is making some companies' share prices hugely volatile and unpredictable.



32

32-37

CHANGES OF PACE

A look at the markets that are likely to experience the most dramatic overhauls in the coming decades.

38-39

INSIDE THE MARKETS

Christian Gattiker, Head of Research, Julius Baer, on whether it is possible to beat the markets.



40

40–45

THE NEW CIRCLE OF LIFE

The circular economy can help the global fight against climate change, but making it work is a huge challenge.

46–55

SILK ROAD

A series of stunning photographs taken along the historic trading route.



46

56–61

SUPERMARKET SWEEP

After shaping 20th-century shopping, supermarkets are now adapting to serve a digital, green, post-Covid world.

62–67

MATCHING EXPECTATIONS

Use of dating apps rose when the pandemic struck – but people are also turning to offline options to find love.

68–72

JULIUS BAER AT A GLANCE

DISCLAIMER

MASTHEAD



56

VISION

MARKET



FUTURES

Markets have always played a central role in human societies, not just as centres of exchange, but also as places where people come together and new ideas are formed and tested. What is it that defines and drives them, and how do societies best use their energy and dynamism to serve larger purposes?

By Janet Anderson

The trading floor of the New York Stock Exchange, a throng of people shouting and gesticulating as vast sums of money change hands in the blink of an eye. Intense focus, triumph, and devastation – all are etched on the brokers' faces. What image could better capture the 20th-century idea of 'the market'?

But it's not the only idea of the market – a form of human interaction that has played a central role in societies across the world as far back as recorded history. Looking at how they have evolved, mirroring economic activity, and their diversity can provide clues as to how markets might be developed in future as the world continues to manage the upheavals and challenges of the current times.

BUILT ON RULES AND TRUST

Patrik Aspers is professor of sociology at the University of St Gallen in Switzerland and has focused much of his research on markets. "I grew up in the 1980s, when markets were expanding, and I became interested in their dynamics," he says. "We've had markets of one kind or another for thousands of years, but it isn't until quite recently that we started to think about the market as more than just a specific physical location."

For centuries, markets were organised places that provided security for traders under the rule of some form of authority, whether it be a state or a prince. "Think of the Roman forum or the Greek agora – these are clearly defined physical spaces with clear rules," say Aspers. "Most started on religious sites where people came together and then started to trade. In England, the King gave people the right to

organise markets and made money out of this by taxing the traders. Societies that have organised trade in sophisticated ways have profited – trade has driven the creation and distribution of wealth across societies."

The shift to a new way of thinking about markets was driven by new technology in the form of, for example, the telegraph. This allowed people in different locations to know prices and volumes in other markets almost concurrently for the first time. It not only connected places, but also extended competition over place and time – a phenomenon first articulated by the 19th-century British economist William Stanley Jevons.

However, the original notion of the market as a secure place for trade is as relevant today as ever. Think only of Amazon as an example of a highly organised marketplace in a modern digital context. Buyers and sellers go to the digital space, log on, and in so doing agree to abide by the marketplace's rules. It is this that gives people confidence to trade.

"All markets rest on a sense of trust that can be taken for granted – the belief that if you trade with a stranger, it will be a peaceful interaction and that if that person deceives you, they will be sanctioned by the authorities," says Aspers.

On top of this, markets develop their own sets of customs and rules, and ways of monitoring behaviour. Those who misbehave can be expelled. "Trust has to be there first and the institutions built around that. You cannot simply install a market economy without it. We have seen attempts to do this fail over and again."

EXPLODING OUT OF NOWHERE

Few would question the purpose that the traditional market serves, where people gather to buy and sell goods that meet their everyday needs. Yet markets do not always make sense. Sometimes new markets emerge that seem to have no rational basis for their existence – for example, the recent frenzy around meme stock trading (see page 28). What drives a market that seems so divorced from fundamental value?

“Most often these sorts of markets emerge in a space where, intentionally or not, there is a lack of rules, or when existing rules are not enforced, due to, for example, corruption,” says Aspers. But sometimes something else kicks in – a kind of frenzy. “This is what we see with speculation bubbles, where speculators trigger each other until stakes are very high. Psychology can answer some of these questions. But in many cases, it is simply a lack of knowledge and insight on the part of the market actors that explains these phenomena.”

Yet if people are prepared to engage in even the most outlandish markets with little rational prospect of returns, can anything be traded? “‘Market’ is a neutral term in relation to its object, but there are, of course, limitations. These are set by a society’s beliefs and values about what is right.” These shift and vary, not only between places, but also across time. It is not acceptable today to trade slaves, but it is acceptable to sell life insurance – a product that was viewed as morally suspect until the late 19th century in large parts of the Western world, says Aspers.

TECHNOLOGICAL TRANSFORMATION

It is not only society’s needs and mores but also technological innovations that have always transformed the way markets are organised, and how we trade goods and exchange information. “The development of the first standardised weights was hugely important for trade,” says Aspers. “It enabled traders to compare goods, and only in relation to some standard does price function as an easily transmittable signal of scarcity. Being able to compare and choose between competing offerings is a fundamental feature of all markets. Without choice and competition, it would not be a market, but simply an exchange.”

Today, artificial intelligence, big data, and machine learning are transforming financial markets and opening up access (see page 12). Most people can now trade from anywhere at any time. However, there are concerns that reliance on

technology could see an increase in ‘flash crashes’. There are also complex legal questions around ultimate responsibility. But these worries have not held back the development. This is no surprise to Aspers. “The law tends to run after human behaviours,” he says. “Markets are always evolving, always on the move. The use and introduction of new technology is just the continuation of a long tradition.”

CAN MARKETS MEET OUR BIGGEST NEEDS?

Markets evolve and adapt fast, but can they meet any challenge? Growing concern over climate change and the impact our activities have on the planet has led many to question whether traditional capitalist economies can continue to operate as usual.

Not long ago, the term ‘circular economy’ was virtually unknown. Today, there’s hardly a business that doesn’t refer to it in some form (see page 40). They see collaboration, partnership, and knowledge sharing as the way forward. Do these changes undermine some of the fundamental drivers of markets?

Aspers does not believe so. “Competing companies cannot decide the identities they gain in markets on their own – their identities are decided by customers. In the past, this was based primarily on product quality and price. Now, in addition, customers want companies to behave well and be sustainable.”

For business leaders, this means thinking about how your company is perceived in relation to how the competition is perceived. As a CEO, you want your company to be the one that is identified as ‘good’ in terms of price, quality, and the environment. “This is not just a question of marketing or discourse,” says Aspers. “A company’s identity in the market is not just what it says it is, it is a function of what it does.”

THE RETURN OF THE STATE?

In terms of tackling climate change, however, we are still in the foothills of this new thinking. Thanks to the way our markets work, it is still often cheaper to replace a piece of equipment, rather than buying spares and fixing it. There are also very human factors that inhibit change. Take the fashion industry as an example: “The driving force behind fashion is about replacing things not because they don’t work but because they don’t look right,” says Aspers. “It’s a logic that does not fit well with sustainability; it is almost a contradiction in terms.”

The pandemic has meant that in most parts of the world, the state has taken on a much bigger role than in previous decades. This has led some to question the role of capitalism. They doubt that it can solve urgent challenges such as climate change and growing inequality. They argue that markets need reform and more regulation if they are to serve society's larger purpose today.

"Since the 1980s we have seen markets expanding. The promises and hopes were fulfilled to some extent, but it is clear there are areas in which they are less successful, so reflection is kicking in," says Aspers. But the marketplace, its rules, and mores are evolving. "Increasingly, companies

are seeing themselves as citizens of society. Profit is seen as a consequence of doing well, not the sole aim in itself."

In the end, whether markets serve society's larger purpose or not depends on how we frame them – not just the rules we set to control them, but also how we use them and where we deploy them.

"To have a society that hangs together, it has to be made up of citizens that take an active part – it is not enough just to have traders who buy and sell," says Aspers. "It is the job of government to regulate markets to avoid conflicts in society. But getting the balance right is critical."

