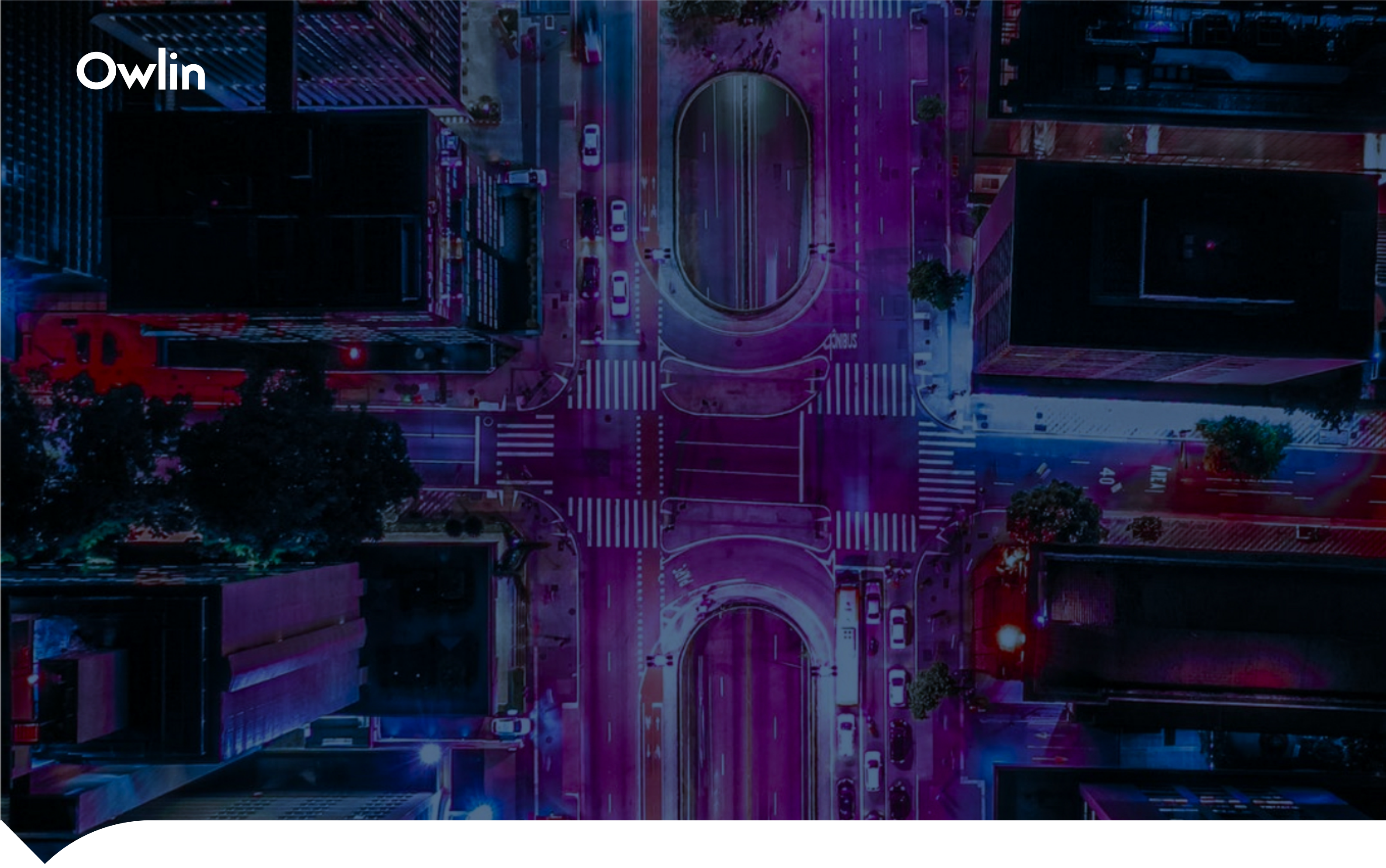

Financial Market Outlook

Opportunities, Trends, and Challenges in 2021

The past year was challenging. It changed the way we live, work, and interact. When such dramatic shifts occur, financial markets are the first to react.

The roller-coaster market ride affected asset managers, pension funds, private equity firms, and banks.

On top of the volatility, organizations had to deal with continuous uncertainty and political stress, growing regulatory pressure, increasing competition, and widespread consolidation.

The million-dollar question now is:

Will 2021 be a bumpy ride or a fruitful soil for the financial industry?

While no one can predict what the next year holds, organizations must be prepared for either scenario.

The Owlin team curated a list with the top trends and challenges we believe will be shaping the industry throughout the next 12 months. To help financial institutions adapt and smooth their journey ahead, here are our actionable insights and solutions on how to capitalize on the opportunities and overcome the hurdles of 2021.

1. Growing importance of forward-looking indicators & timely insights

The most devastating crises hit suddenly and catch us off guard, which further exacerbates their effect.

In the context of the COVID pandemic, the first reported case dates back to November 2019. The topic first made the global headlines a month later, while the first cases in Europe were reported at the end of January 2020. In March, the WHO declared a global pandemic.

The period November 2019 – February 19, 2020, saw the S&P 500 gain 10.7%. During the following 30 days, it tumbled 33%.

Analyst reports at the time didn't signal an imminent drop in the market. According to Deloitte, in the period January 1 and March 6, 2019, only a small percentage mentioned COVID-19, with just 28% being negative. The majority of the analysts didn't see the outbreak as a bearish trigger.

The past year was yet another instance that exposed the main flaw of analyst reports as a primary information source for investment decisions – they are based on backward-looking ratings and, more often than not, outdated assessments. To hedge the portfolio against "unexpected" events and market rollercoasters, buy-side firms have to rely on forward-looking indicators and timely insights instead of obsolete analyses. An early-warning system is essential when conducting business in a globalized world, where "the butterfly effect" can hit hard even the most resilient ones.

"Without fresh information, processed at the speed at which markets are moving, investment professionals could be operating sub-optimally."

- "COVID-19 and the Investment Management Industry", Deloitte

In 2021, forward-looking indicators will enable firms to capitalize on having the right information at the right time, and better navigate the unknown ahead.

2. The hunt for yield continues – dominance of exotic assets and emerging market investments

The low-yield environment of today, paired with the fierce competition in the niche, forced asset managers to look for alternatives outside the standard check-box portfolio construction model. Exotic assets, emerging, and non-transparent market investments are just a small part of the options firms are considering in a bid to generate above-market returns.

However, operating outside the listed markets goes hand-to-hand with challenges like limited information, lack of timely data, excessive noise, and more.

Overcoming these challenges will ease the hunt for yield and make exotic assets and emerging market investments a highly-fruitful and reasonably risky environment to explore.

To do that, financial organizations have to change how they keep track of their portfolio and the events relevant to its performance. Naturally, this leads to…

How to Remove Informational Barriers From Non-Transparent or Emerging Markets

A white paper covering the challenges and solutions present for Asset Managers when investing in non-transparent and emerging markets.

3. Increased need for adoption of third-party alternative data for complete coverage of portfolios and the surrounding business environment

Albeit a source of high-potential opportunities, investments in underdeveloped and developing markets are accompanied by the problem of limited informational coverage by conventional data vendors.

Exotic assets often are private, traded OTC, or non-listed on lit markets. Financial information can be scarce and structured data might be hard to come by even with the leading market data vendors.

This leaves investors in the dark and translates to inefficient risk and portfolio management.

To overcome this challenge, they have to dig within a spectrum of conventional and unconventional specialized local sources of information relevant to emerging market portfolios.

How can Owlin help?

The platform covers over 3m publicly available global sources in 12 languages, including but not limited to:

- Analyst reports and research insights
- Exchange, corporate, NGO, and regulatory websites
- Official government publications
- Local and regional news sites
- Industry newsletters, forums, and blogs
- Integration of pricing data, ratings, and internal data (e.g., equity and CDS curves, internal exposures, or credit ratings)

In 2021, Owlin's solution will continue to evolve and help investors overcome the barrier of limited data coverage for their exotic asset portfolios. The platform leverages powerful features like the Knowledge Graph technology, which extracts entities from data and structures them by persons, locations, or associated organizations. In addition, the Theme Detection functionality allows for timely identification of emerging trends, providing actionable insights that put you one step ahead of the competition.

4. Regulatory burdens and the need of being compliant

Thomson Reuters' report estimates that, on average, a new regulatory alert is issued every 7 minutes somewhere around the world. As a result, ever since the Financial Crisis, the pace in the introduction of new regulations has skyrocketed by over 500%.

For banks, for example, the failure to comply with those regulations has resulted in fines worth [over $243b](#) for just the ten years after the Financial Crisis of 2008.

The truth is that the regulatory landscape in 2021 isn't likely to be eased. On the contrary, with Basel IV just around the corner, financial organizations should be even more cautious.

The case is no different when it comes to KYC and AML guidelines within financial services organizations and the exhausting process of verifying the identity, suitability, and risks involved with maintaining a business relationship.

To better navigate the vicious cycle between growing regulatory burdens and increasing compliance costs, firms should further strengthen their focus on relying on technology as a savior.

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5. Transformation of industries and the impact on portfolios

The global pandemic has reshaped various industries, including biotech, education, retail, e-commerce, and travel, to name a few.

The change in consumer behavior provoked a different reaction, even within organizations in the same niche. Their response is what will continue to make some companies more attractive to investors than others.

The crisis sparked a wave of innovation and bred a new generation of entrepreneurs. Aspiring projects in fields like telemedicine, supply-chain reinvention, remote working, and others now contribute to a pool of potential new unicorns investors would be willing to dive-in as early as possible.

According to [McKinsey](#), on a global scale, PE firms are sitting on almost $1.5 trillion of unallocated capital, ready to be invested. Considering that returns on PE investments made during global downturns tend to be higher than during the good times, it is a matter of where and not when this capital will get distributed.

Previous crises have taught us that the strong ones come out stronger, and the weak get weaker. In that case, however, flexibility, willingness to innovate, and efficiency in capital spending will shape the leaders of 2021.

Once things get back to normal, investments won't start flowing towards the pre-crisis strong ones. It will be the companies that have absorbed the shocks and continued planning long-term that will be favored. Because flexible is the new strong.

6. Building resilient supply chains through technology

The past year exposed many companies' supply chains' vulnerabilities, with the most glaring one being the operational risk. Alternatively, the supply chain's complexity and length. Finding a solution is of utmost importance because supply chain vulnerabilities affect not only the operations of the business itself but also financial institutions, directly or indirectly related to it. Such include banks and loan providers, funding its operations or asset managers, holding the particular entity's shares in their portfolios.

However, fixing these vulnerabilities often requires complete restructuring and hefty budget spending, which in times of economic distress, isn't viable for many organizations.

A more optimal approach is to make supply chains flexible and resilient. Alternatively – to avoid scenarios where the shutdown of just a single country or factory halts production and interrupts global operations.

Because globalization and the unstable political environment we live in currently mean disruptions won't be rare in 2021 and beyond. McKinsey projects that, on average, every company can expect a one-month shutdown every 3.7 years. With a frequency like that, supply chain disruptions should be treated like predictable events, rather than black-swans.

Reducing supply chain vulnerabilities and protecting the business from economic headwinds and geopolitical risk is best achieved through technological adoption and end-to-end optimization, including automation and business analytics to reduce costs and dependence on human labor.

To do that, companies have to:

1. Get familiar with every layer of their supply chains, including the sub-tiers and sub-sub-tiers, where most disruptions usually originate;
2. Constantly monitor the events that may affect the nodes in the supply chain.

This will ensure business continuity and first-hand connection with their supply chains, reducing their complexity and fragility. From the perspective of banks and financial institutions granting loans or guarantees for these business entities, more stable supply chains will help mitigate the risk of their credit portfolios and ensure better capital adequacy.

Similarly, for asset managers with supply-chain-reliant businesses in their basket of investments, more resilience and self-sufficiency will ensure easier forecasting, better portfolio performance, and more optimal risk management.

7. Technological adoption and the work-from-home policy – enablers for higher organizational efficiency and better cost-awareness

The tumultuous events of 2020 might have been a blessing in disguise for financial firms. The industry had long been considered a behemoth, unwilling to transform, but the global pandemic might have put the last nail in the coffin of this theory.

Technological adoption proved an efficient way to optimize every node of the organization – from the front- to the back-desk operations, resulting in cost reduction, improved client satisfaction, more resilient processes, and increased efficiency.

2020 also sped-up the arrival of the future of work, way ahead of schedule. On a macro level, it was eased by the availability of technologies to automate work processes without reducing their efficiency.

Quite the opposite - according to official statistics, in Q2 and Q3, 2020, the productivity in the US rose by a combined 15.2% - the largest six-month improvement since 1965.

Digitally-enabled productivity has created an imperative for companies to reshape their operations and sped up the transition to AI-driven business automation.

According to Satya Nadella, Microsoft's CEO, the digital transformation we have seen in the first two months of the pandemic would have otherwise taken two years.

Going forward, McKinsey Global Institute estimates that over 20% of the global workforce is expected to proceed working decentralized for the majority of its time.

The year ahead will see plenty of financial institutions focusing on business transformation in an effort to embrace the new reality and gain competitive advantage, especially in consolidating and highly-competitive niches.

To ensure no efficiency is lost, organizations would have to adopt technologies for better monitoring, interaction, and process execution. Among the end goals of this transformation will be to overcome organizational silos and ensure better communication. As a result, companies should expect to gain higher labor force efficiency, more flexibility, quicker task fulfillment, better monitoring and interchangeability, more efficient collaboration among different divisions, and streamlined links between teams. An added benefit of this transformation is cost reduction as the whole process can be funded entirely by savings from office space, transportation, workplace design, supplies, and lower overhead expenses, thanks to the high level of automation.

How can Owlin help?

- Owlin helps remove organizational silos and improve collaboration between front-office and risk management, thus streamlining portfolio monitoring;
- Owlin works with industry-leading consultancy firms that drive business transformation as implementation partners.

While 2020 forced this digital transformation, 2021 will cement the companies' voluntary technology adoption as it proved its capability to ensure an uninterrupted and equally efficient fulfillment of business processes.

8. ESG investing – ensuring compliance between rating cycles to unlock huge investment potential

The past year illustrated what a global challenge like climate change or a health crisis could result in. This will further establish the importance of ESG investing as a platform for investors to take a stand and will also accelerate corporate and regulatory action.

However, before fully capitalizing on the potential of ESG investments, there is one glaring issue that should be addressed.

Currently, ESG rating reports come out once a year. In the meantime, investors have to find a way to monitor their investments and the relevant events that may affect the next ESG rating. The low frequency means most reports are issued post-factum and don't reflect all available information at all times. This forces investors to rely on information that is outdated for the major part of the year.

Besides, the ESG data is based on qualitative human research and isn't harmonized. Companies aren't required to include ESG metrics in their financial reports. Also, the current sustainability rating system excludes smaller and private entities, foreign companies, suppliers, contractors, or other nodes.

The year ahead is expected to bring further developments on ESG taxonomies and requirements for regulatory disclosures, the extent of which, for now, remains unclear for the most part. Although they are aimed at enhancing transparency regarding the integration of ESG into investment decisions, it is yet to be seen whether they will fix the issues mentioned above.

For now, investors are left in a blind spot, which prevents many of them from fully embracing the opportunities within the ESG investment niche. It also surfaces the risk of market participants not being fully regulatory compliant and further distorts the real perspective about their ESG portfolio constituents.

The best way for investors to address that is to avoid waiting for the niche, alongside the accompanying regulatory requirements to evolve. Instead, they should get one step ahead and ensure access to timely insights and complete market coverage between the rating cycles.

How can Owlin help?

- Capability to analyze large data sets of available information
- Provide real-time notifications for potential ESG rating-moving events
- Serve as an early-warning system to better predict ESG rating changes
- Timely access to new ESG taxonomies
- Ability to drill down on ESG subcategories
- Adjust ESG data to ensure regulatory compliance at all times

Making the most out of 2021

Considering the unique circumstances organizations face, their response to the challenges and trends ahead will determine whether 2021 will be a foundation to build upon or just a life vest to keep their heads above the water. Over the next months, Owlin's team of experts will issue a series of in-depth reports dedicated to each of the trends and challenges listed above.

Would you like to stay ahead of the market? Feel free to reach out and kickstart the conversation.