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# The 5 Ds shaping the global economy

**isio.** Private Capital

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# The 5 Ds shaping the global economy

## Background

Portfolio construction has typically revolved around asset classes, geographies, sectors and styles. We believe that the next enhancement to this process comes by way of thematic investing. In essence, thematic investing is underpinned by a top-down approach, cutting across sectors, factors, and styles to identify prominent trends. The aim is to capitalise on investments whose returns will be significantly impacted by these trends and associated structural shifts, which are likely to occur over an extended period.

Drawing on our extensive connections with asset managers and financial institutions, we have identified several interconnected trends that we believe are important for investors. We have organised these insights into five megatrends, which we call our '5 Ds'.

**Figure 1: Megatrends, example sub-themes/ investable ideas**

Megatrends	Sub themes/ investment themes
 <b>Decarbonisation</b>	Carbon and biodiversity credits
 <b>Digitisation</b>	Building and roll out of digital infrastructure
 <b>Demographics</b>	Providing healthcare to an ageing population
 <b>Downturn of West (Rise of the East)</b>	Financial inclusion and education in emerging markets
 <b>Deglobalisation</b>	Delivering on national energy security

Decarbonisation, Digitisation, Demographics, Downturn of the West (Rise of the East) and Deglobalisation 2.0 are the five megatrends we have identified that we believe will shape the economy for the decades to come.

There are specific investment ideas that we reference within each megatrend, acting as an example of an opportunity that we have identified (see Fig 1). We note that this is not an exhaustive list, rather, is intended to bring a real-life example to each megatrend.

# Megatrends in focus



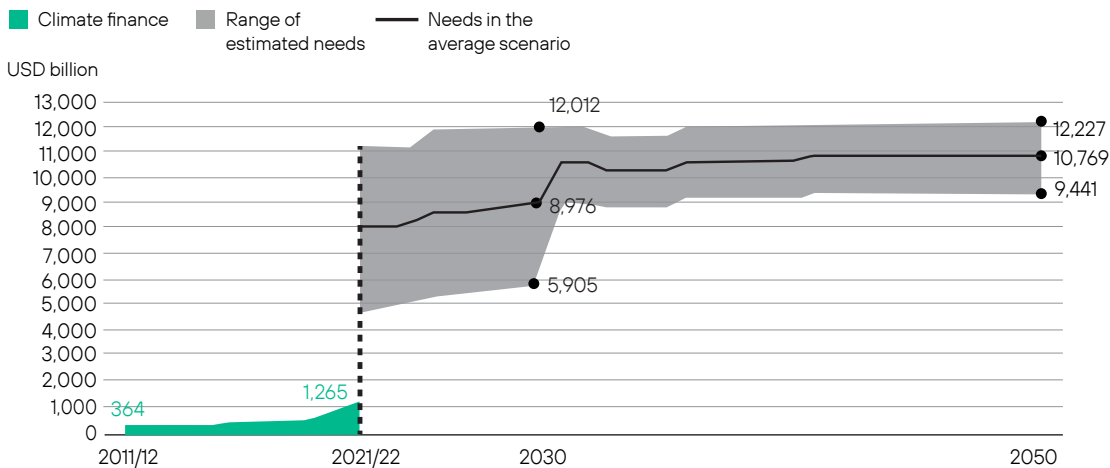
## Decarbonisation

This has been driven by the urgent need to combat climate change (given the severity of the issue) and transition towards a sustainable and low-carbon economy. Global regulatory changes, where many governments have pledged to be carbon neutral within the next few decades, make this trend inevitable, as well as consumer and corporate demand for sustainable products and practices.

### Example investment area

An area which remains in its infancy but is growing at a notable pace are carbon markets. By purchasing carbon credits, companies can commit to offsetting their emissions from business activities. The market continues to evolve as it becomes increasingly institutionalised but remains to be a relatively unique opportunity to provide a hedge against the impact of climate policy on company earnings.

**Figure 2: Global climate financing and average estimated needs through 2050**



Source: Global Landscape of Climate Finance 2023, Climate Policy Initiative

# Megatrends in focus



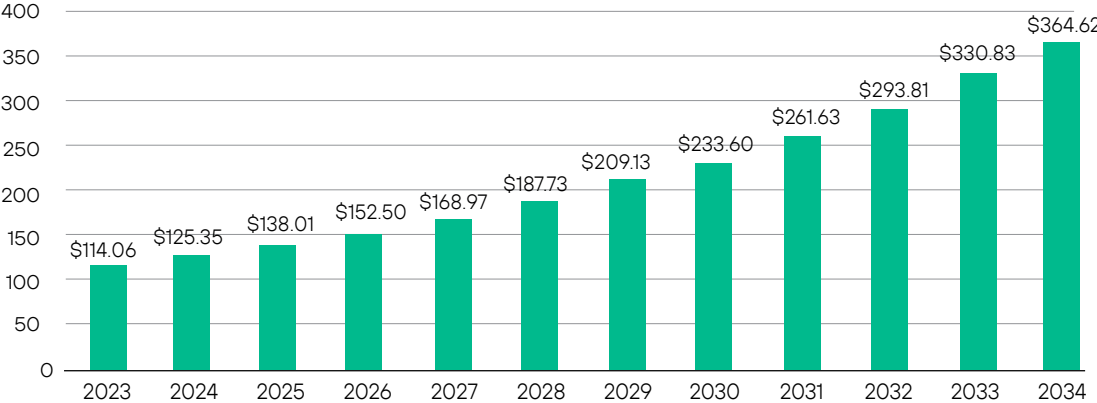
## Digitisation

Technology has been a key driver for economic growth and we believe that this is unlikely to change. This has been driven by rapid technological evolution and digital integration, with the intention to transform business operations and consumer relationships. In order for this to continue, economies are reliant on the proliferation of new digital infrastructure to support ongoing development.

### Example investment area

A key area we identify is the rollout and development of datacentres across developed economies. The world has become increasingly reliant on data management, as a core part of business operations. Having the correct infrastructure in place is key, especially for technology-based businesses which are seeking to adopt artificial intelligence to drive productivity gains.

Figure 3: Data centre market size (US\$ billion)



Source: Precedence Research

# Megatrends in focus



## Demographics

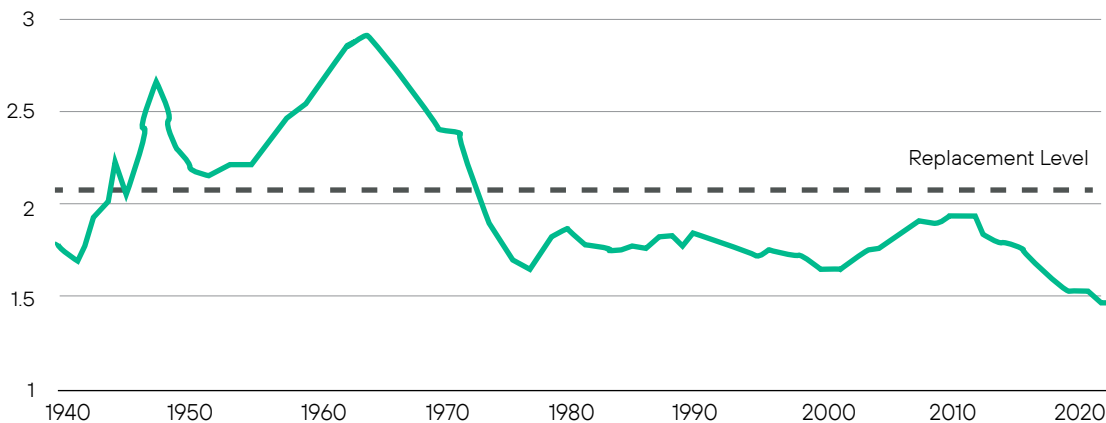
We observe changing demographics across the globe. The global increase in life expectancy and declining birth rates are contributing to an aging demographic, particularly in developed countries such as the US, UK, Japan and Germany. Between 2015 and 2050, the proportion of the world's population over 60 years will nearly double from 12% to 22% (World Health Organisation, 2024). Countries face major challenges to ensure that their health and social systems are ready to make the most of this demographic shift.

On top of this, increasing urbanisation, strongly evident in Asia and Africa, is being driven by economic development and industrialisation as well as the pursuit of improving living standards similar to what we saw in developed economies years ago.

### Example investment area

Investing in healthcare today is essential to ensure that the world is ready for the problems of tomorrow. It is imperative that healthcare continues to advance and vital infrastructure is built to cater for the growing and ageing population. We identify venture capital investing within life sciences as an area to consider, which seeks to invest in early-stage companies producing medicines for hard to control or previously ignored diseases.

**Figure 4: Total fertility rate, children per woman in England and Wales**



Source: Office for National Statistics

# Megatrends in focus



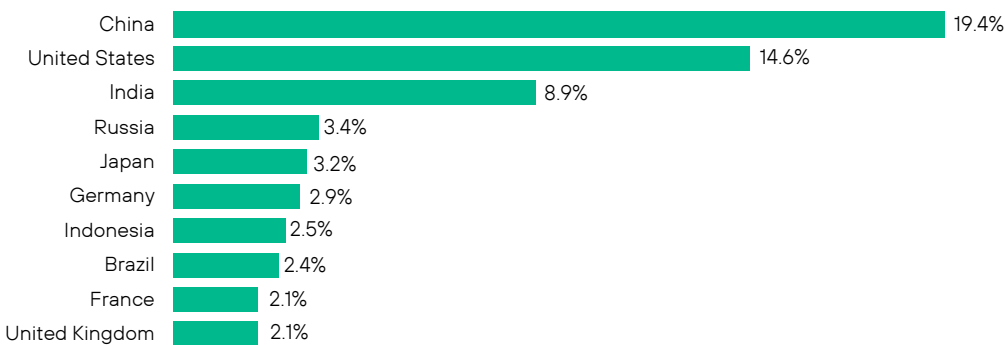
## Downturn of the West (Rise of the East)

China and India have been significant contributors to economic growth in the past and this trend is expected continue (see Fig 5). This is underpinned by robust economic development, an increasing global influence and ongoing demographic shifts. In particular, we believe the rise of India is a key sub-theme in itself, due to the tailwinds the country has to offer for the long-term – a favourable political landscape and associated policy reforms, a growing middle class and a lack of correlation with the rest of the world. On top of this, increasing urbanisation, strongly evident in Asia and Africa, is being driven by economic development and industrialisation as well as the pursuit of improving living standards similar to what we saw in developed economies years ago.

### Example investment area

A key investment theme is the advancement of financial inclusion and education within emerging markets. Consumers require access to secure banking services, as well as lending and investment services, such that they can buy and sell assets, whilst safely managing their own capital. Significant investment needs to be made to facilitate the build out of necessary services. We believe consideration should be given to gaining exposure to 'impact' focussed companies within emerging markets, which have the potential drive change and advancement.

**Figure 5: Top 10 contributors to global Gross Domestic Product (2024-2029 annual average)**



Source: IMF World Economic Outlook database: October 2024



# Megatrends in focus



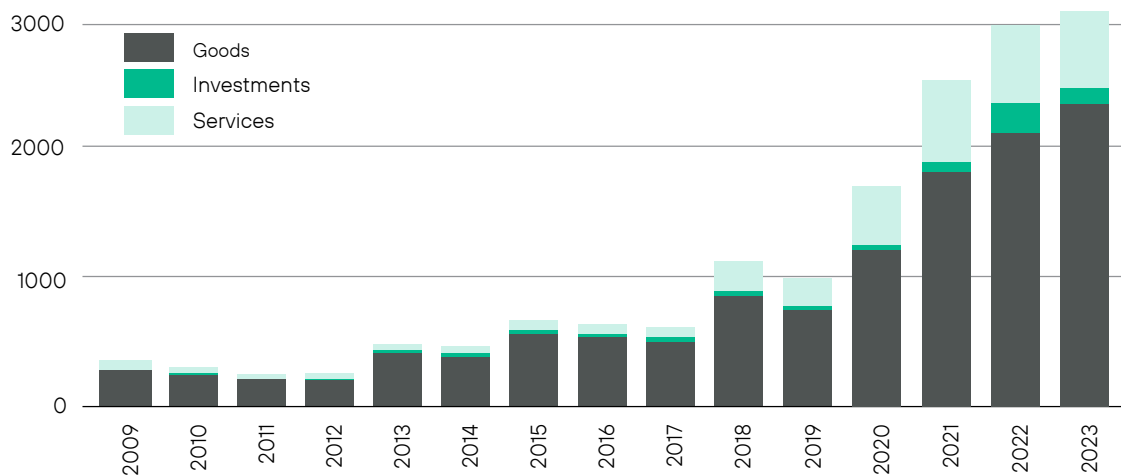
## Deglobalisation

This trend is marked by reduced international economic integration and co-operation, including the potential for greater geopolitical risks (see Fig 6). As governments and businesses seek to alleviate risks tied to global interdependencies as a result of changing political dynamics, there is a global trend towards prioritising national interests with increased protectionism and stricter policies. Moreover, sovereignty is becoming paramount for national security and economic competition, leading to infrastructure strengthening through investments in telecommunications, AI, and cybersecurity.

### Example investment area

Economic resilience against global disruptions has also been recognised as important, especially since the COVID-19 pandemic, and hence nations are localising supply chains and investing in domestic energy production to reduce dependency on international supplies and unstable energy sources. We believe the onshoring of company supply chains will be a key theme that continues to play out moving forwards. We expect the development of national infrastructure to be key, which can be accessed from both an equity and debt perspective.

Figure 6: Number of trade restrictions



Source: IMF; Global Trade Alert

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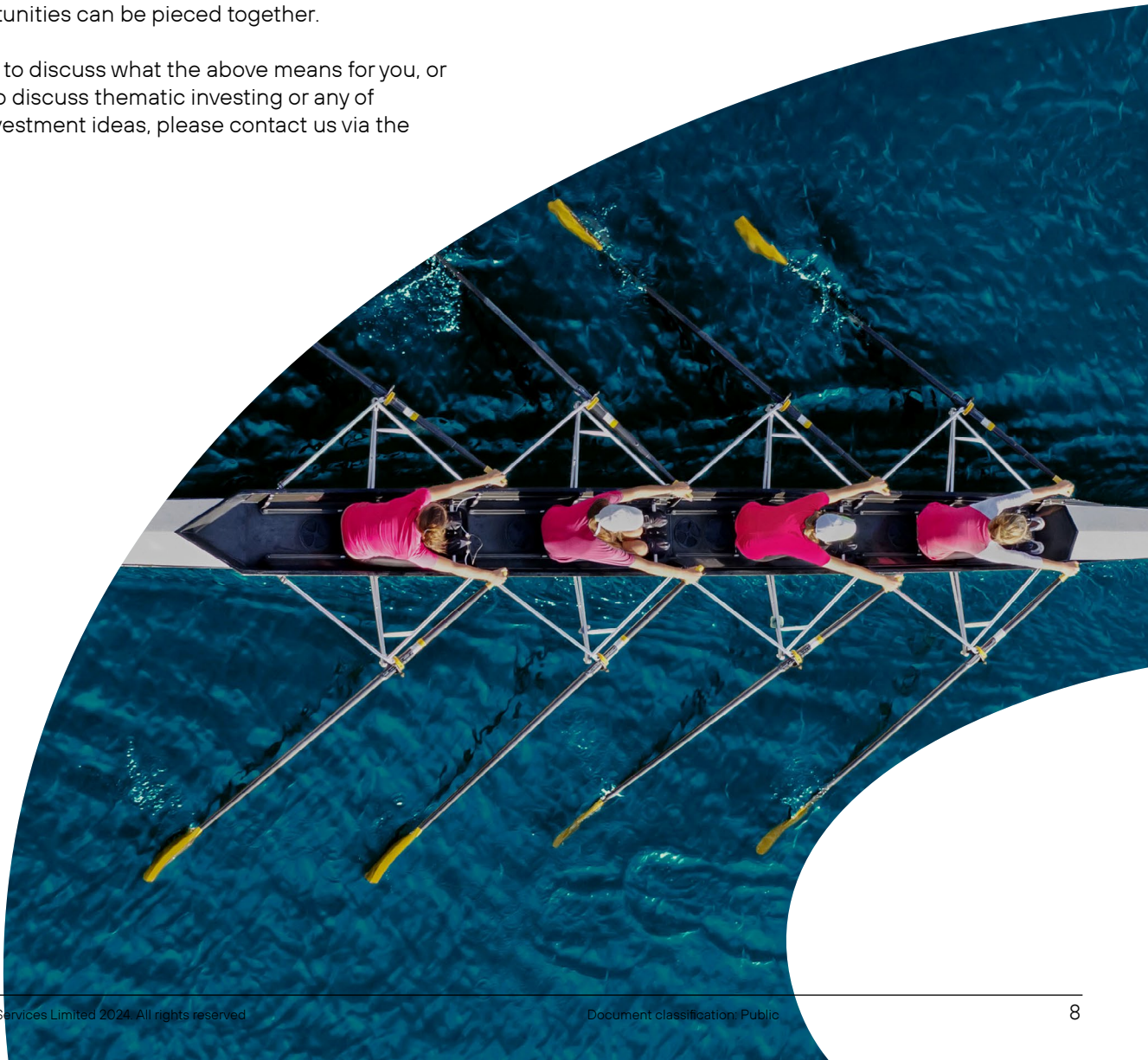
# Concluding thoughts

Thematic investing is not a new concept, with some of the long-term themes already being well-understood for an extended period. From our discussions with investment managers, we believe the pivotal themes that are going to shape the economy for decades to come are our 5 D's – Decarbonisation, Digitisation, Demographics, Downturn of the West (Rise of the East) and Deglobalisation.

The intention of this paper was to initiate the conversation on these megatrends, with reference to example investment ideas that investors could consider. Whilst thematic investing will not replace traditional portfolio construction, we view it as a tool that has the potential to enhance the long-term returns of investor portfolios. We encourage investors to consider if you are currently incorporating any of these long-term themes into your portfolio, and how this is implemented (e.g. either a mainstream or satellite approach).

We will be following up with a further paper which examines each of these mega-trends in further detail, including how we think a typical investment portfolio taking advantage of thematic opportunities can be pieced together.

If you would like to discuss what the above means for you, or you would like to discuss thematic investing or any of our thematic investment ideas, please contact us via the details below.





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