



NORTH CAPITAL

Spotlight:

Global Megatrends

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Global structural themes tend to be long-term in nature and are often driven by megatrends. By this we mean powerful forces which we have identified as including: climate change and resource scarcity, emerging global wealth, technological innovation and demographic and social change. These forces are already having a huge impact in our daily lives. We believe these forces will last well into the 2030s and beyond, meaning future investment opportunities are abundant. Arguably, the most focused upon megatrend in recent years has been technological innovation and the impact this is having on a wide range of industries. While this is an area in which we expect to see ongoing growth and opportunity, we expect all these megatrends to increasingly attract investor attention. We believe these megatrends have the potential to outperform the wider market over a long-term horizon as demand continues to grow. At North Capital, our 'Global Megatrends' satellite portfolio seeks to harness the growth in these structural themes by allocating to equity funds which directly target these areas.

Climate Change and Resource Scarcity

Climate change and resource scarcity has been an area of focus for many years. This has been driven by the need to cut carbon emissions and stabilise our ecosystem as the world becomes acutely aware of the impacts of climate change with the number of climate-related events causing significant damage continuing to rise.

The European Environment Agency (1) has estimated that between 1980 and 2022, weather and climate-related extremes caused economic losses of EUR 650 billion of assets in the EU Member States alone, of which EUR 59.4 billion came in 2021 and EUR 52.3 billion came in 2022. The events recorded vary greatly from floods and storms to heat waves and droughts (including resulting forest fires). A relatively small proportion of events (5%) were responsible for 59% of losses, meaning high volatility from one year to the next.

The Intergovernmental Panel on Climate Change (2) predicts that, going forward, climate-related extreme events will be more frequent and more severe globally. As a result, it seems likely that demand for climate resilience – for example, seeking to prevent the likelihood of events by investing in renewable energy, protecting forests and oceans which absorb huge amounts of carbon, and adapting farming methods towards a greater yield of plant-based products – will grow further. In addition, demand for solutions from the voting public is high, thus governments are under pressure to allocate funds towards these areas and collaborate internationally with businesses and overseas governments. Targeted investment should, ultimately, yield financial gains as well as green ones.

Emerging Global Wealth

Many emerging market countries, excluding China, have favourable demographic profiles relative to developed markets. For example, the United Nations forecasts (3) strong population growth in India, Indonesia, Brazil, Mexico, along with several African nations over the next two decades, in addition to ongoing GDP growth. For example, India remains a destination for companies looking to outsource software development and customer services, and Mexico has overtaken China as America's top trading partner, demonstrating the desire to shift towards manufacturing in countries with geographical and geopolitical advantages. Ongoing demand for semiconductors (which supports technological innovation) creates valuable opportunities in skilled jobs in regions such as Korea and Taiwan.

The proportion of workers in many emerging markets is expected to increase, with a resultant increase in disposable incomes, which likely means an increase in consumer demand and a shift in consumption patterns within these economies. More spending seems likely to be directed towards discretionary areas such as leisure, education, and wealth management. Given the broad range of regions and sectors within emerging markets, this is an area with attractive opportunities for experienced, active investment managers.

Climate Change and Resource Scarcity



- > Finite natural resources
- > Renewable energy
- > Forest protection
- > Sustainable farming

Emerging Global Wealth



- > Growing economies
- > Favourable demographics
- > Rising disposable incomes
- > Changing consumer consumption

Technological Innovation



- > Artificial intelligence
- > Virtual reality
- > Cryptocurrency
- > Cybersecurity
- > Drug development

Demographic and Social Change



- > Growing healthcare demand
- > Ageing populations and later-living services
- > Education and wellbeing
- > Consumer lifecycle

Technological Innovation

Technological innovation has been a key focus in recent years. The term typically refers to technology that can disrupt the way in which industries, companies and/or consumers operate. For example, in the past, personal computers transformed the way in which people worked, studied and spent leisure time.

At present there are many exciting developments that show no sign of abating in the near future. For instance, artificial intelligence and machine learning has the potential to revolutionise the way we work and enhance the productivity of many existing jobs and industries.

Applications could include data analysis, virtual assistants, or the creation of tailored and targeted marketing strategies with very broad applications. Another example, 3D printing, has clear uses in many areas, such as engineering and architecture, whilst computational chemistry greatly reduces the volume of laboratory experiments required, thus saving time and money in drug development. Use of cryptocurrency as a payment method is growing due to the benefits of fast and secure transactions. The list goes on.

Demographic and Social Change

Global demographics have the power to drive future asset returns as well as government policies, central bank decisions and geopolitical developments.

Growth in the workforce in developed markets, instigated by the baby boom which followed the second world war, was needed to support the rebuilding of infrastructure. This investment, and the rising tax intake, contributed to economic prosperity while demand preferences shifted towards the production of lifestyle-enhancing items such as cars and home appliances.

In most developed economies, this demographic wave is now changing as this cohort retires, causing a large potential economic burden for the now relatively small labour force. Demographic changes are also being driven by socioeconomic factors such as women delaying marriage, or not marrying at all, and the stifling cost of childcare. Greater immigration can provide an offset to these lower birth rates, although there are political sensitivities, as can increased productivity. Ageing populations lead to changes in consumer preferences meaning targeted sectors - such as healthcare, care services, financial planning, and some areas of leisure – should be well positioned to benefit.

1. European Environment Agency (2023) Economic losses from weather and climate-related extremes in Europe. Available at: www.eea.europa.eu/en/analysis/indicators/economic-losses-from-climate-related
 2. Intergovernmental Panel on Climate Change (2021) Climate change widespread, rapid, and intensifying. Available at: www.ipcc.ch/2021/08/09/ar6-wg1-20210809-pr/
 3. United Nations (2022) Department of Economic and Social Affairs Population Division. Available at: population.un.org/wpp/



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