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INVESTMENT MANAGERS

The next decade: investor insights into pivotal megatrends

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This research explores investors' attitudes towards four megatrends that we believe will shape the economic and market landscapes over the next decade.

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Four megatrends will contribute to a new era of structurally higher inflation, elevated nominal and real rates, and an increased cost of capital.

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Foreword

For the past 40 years, our world has been shaped by four megatrends: globalisation, rapidly expanding workforces, economic growth over environmental sustainability, and growing wealth inequalities.

They shaped economies, combining to generally suppress input and labour costs while creating efficient cross-border supply chains. This helped to create an investment environment characterised by low inflation, low nominal and real interest rates, and a low cost of capital.

Times have changed. Inflation is back, higher rates are challenging portfolios and capital is certainly no longer cheap. We envisage four simultaneous shifts bringing about a complete reversal of the previous paradigm. These new megatrends are:

- Regionalised world
- Working-age deficit
- Environmental transition
- Balancing capitalism

Each megatrend will be disruptive, generating specific risks and opportunities across markets and select sectors. Together, they will contribute to a new era of structurally higher inflation, elevated nominal and real rates, and an increased cost of capital.

However, this world of higher inflation, rates and cost of capital will not necessarily imperil portfolios.

In fact, we believe the megatrends likely to unfold over the next decade will not only generate risks to mitigate, but also myriad opportunities to create sustainable wealth through innovative investment solutions across asset classes.

These megatrends will contribute to a new era of structurally higher inflation, elevated nominal and real rates, and an increased cost of capital.

To better understand investors' perspectives on the nature and effects of these megatrends, we have carried out original research in nine key markets around the world, involving more than 1,800 senior institutional or wealth-management professionals.

We hope the resulting insights will provide a basis for discussions about how investors can adapt to these megatrends to ensure they can successfully navigate the next decade.

Yannik Zufferey
CIO, Core Business
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The research

This report explores findings from a survey of 1,833 wealth managers, pension-fund managers, asset consultants and sovereign-wealth-fund managers in the following markets:

- UK, Switzerland, Germany, Italy, France, Benelux, USA, Singapore and Hong Kong

Conducted in December 2023, the research explores investors' attitudes towards four megatrends that we believe will shape the economic landscape and influence investment markets over the next decade.

We report findings from a multi-region survey of **1,833** professional investors.

1. Regionalised world

Globalisation prevailed in the last four decades. This has been characterised by strong alignment of fiscal policies between the main economic powers and, since the fall of the Soviet Union, relatively little geopolitical tension until early 2022.

These factors led to greater economic integration, efficient global supply chains, lower costs and inflation, and reduced currency volatility.

However, the Covid-19 pandemic, escalating US-China rivalry, and wars in Ukraine and Gaza and the have exposed weaknesses in countries' supply chains in key areas including advanced technologies, energy, food and medicine.

Protectionism, nearshoring and friendshoring are now challenging globalisation. In our view, the next decade will see governments and corporates implementing strategies to compete in a more regionalised world.

Investing in domestic production and reorganising supply chains are likely to drive inflation higher – particularly as this coincides with other megatrends, such as the shrinking of the global workforce and the environmental transition.

In this section, we explore professional investors' attitudes towards this new era of a fragmentation, or reversal, of globalisation.

Defining a new era

For this megatrend, our study finds differences among the issues that are top of mind for professional investors in each of the markets we surveyed.

This is evident in responses to the first question, which yielded different views about the state of globalisation (see figure 1). Overall, the professional investors surveyed are most likely to believe we are currently witnessing a setback in a continuing megatrend of globalisation (40%). But this isn't the case in every market.

The professional investors surveyed are most likely to believe we are currently witnessing a setback in a continuing megatrend of globalisation.

FIG 1.
QUESTION: WHAT ARE WE CURRENTLY WITNESSING?

We are currently witnessing…	Top response among professional investors in…
A setback in globalisation	**UK** (42%) **Germany** (54%) **France** (35%) **Benelux** (50%) **USA** (51%)
Regionalisation	**Switzerland** (39%) **Italy** (45%) **France** (35%) **Singapore** (38%) **Hong Kong** (37%)

Source: LOIM, Censuswide at January 2023. For illustrative purposes only.

Key risks in a more regionalised world

The findings also highlight differences in what professional investors believe to be the key economic risks and opportunities posed by disrupted globalisation.

According to our survey, the top five economic risks posed by stressed cross-border trade, capital and idea flows are:

1. Higher inflation (34%)
2. Geopolitical conflict (31%)
3. Lower growth (29%)
4. Disorderly green investment (28%)
5. Stymied innovation (27%)

Overall, higher inflation is most likely to be viewed as the most significant economic risk. But this view is far from universal: as shown by figure 2, professional investors in five of the countries we surveyed are more likely to be concerned about other issues, ranging from conflict to stymied innovation.

Higher inflation is most likely viewed as the most significant economic risk, but this view is far from universal.

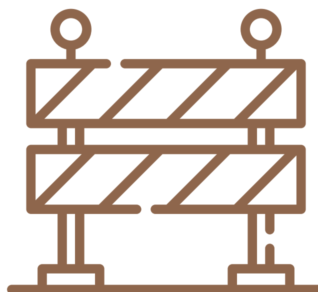
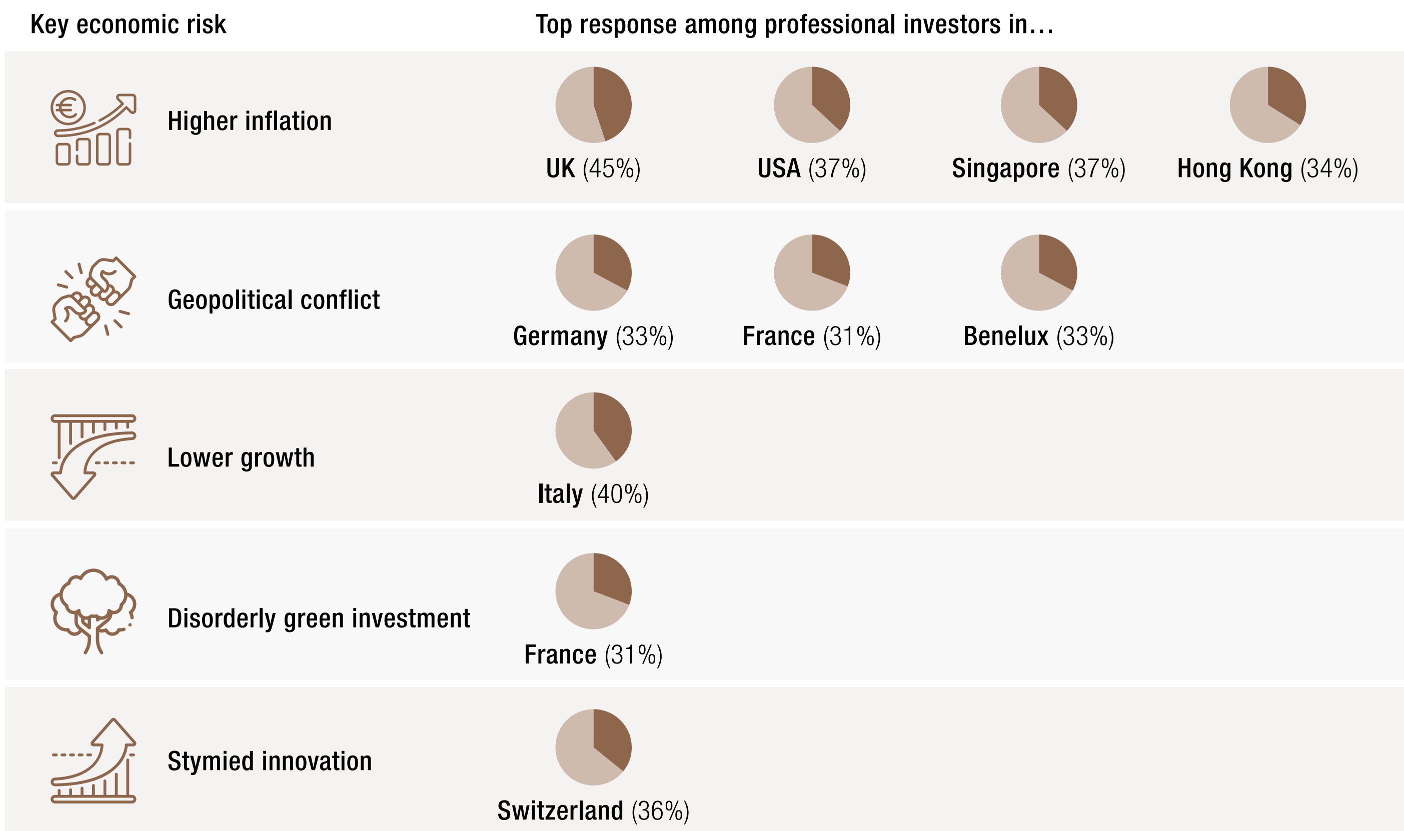


FIG 2.
THE TOP FIVE RISKS CREATED BY ECONOMIC REGIONALISATION



Source: LOIM, Censuswide at January 2023. For illustrative purposes only.

Investment opportunities arising from regionalisation

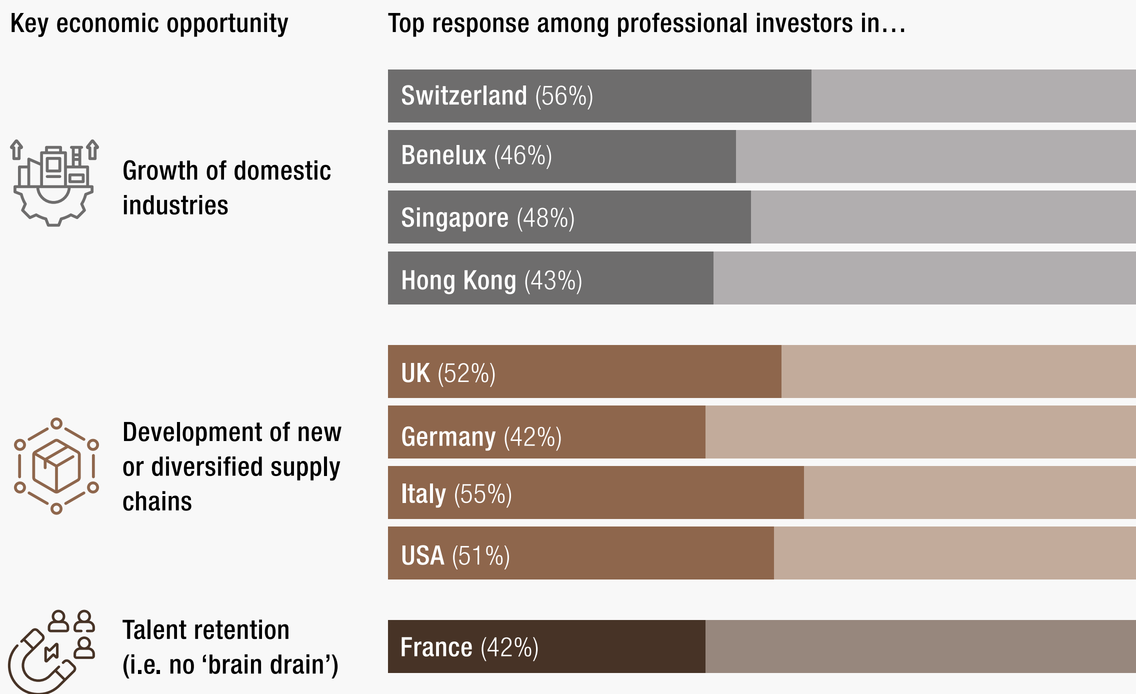
But as supply chains shift and some economic activities are repatriated, professional investors are also identifying opportunities that are likely to arise. Overall, the top three key economic opportunities they identified are:

1. Growth of domestic industries (46%)
2. Development of new or diversified supply chains (46%)
3. Talent retention (i.e. no 'brain drain') (41%)

Once again, top responses vary from market to market, with onshoring seen as providing the most attractive opportunities.

Our data suggest that investors believe the impacts of a more regionalised world are wide-ranging.

FIG 3.
OPPORTUNITIES CREATED BY ECONOMIC REGIONALISATION



Source: LOIM, Censuswide at January 2023. For illustrative purposes only.

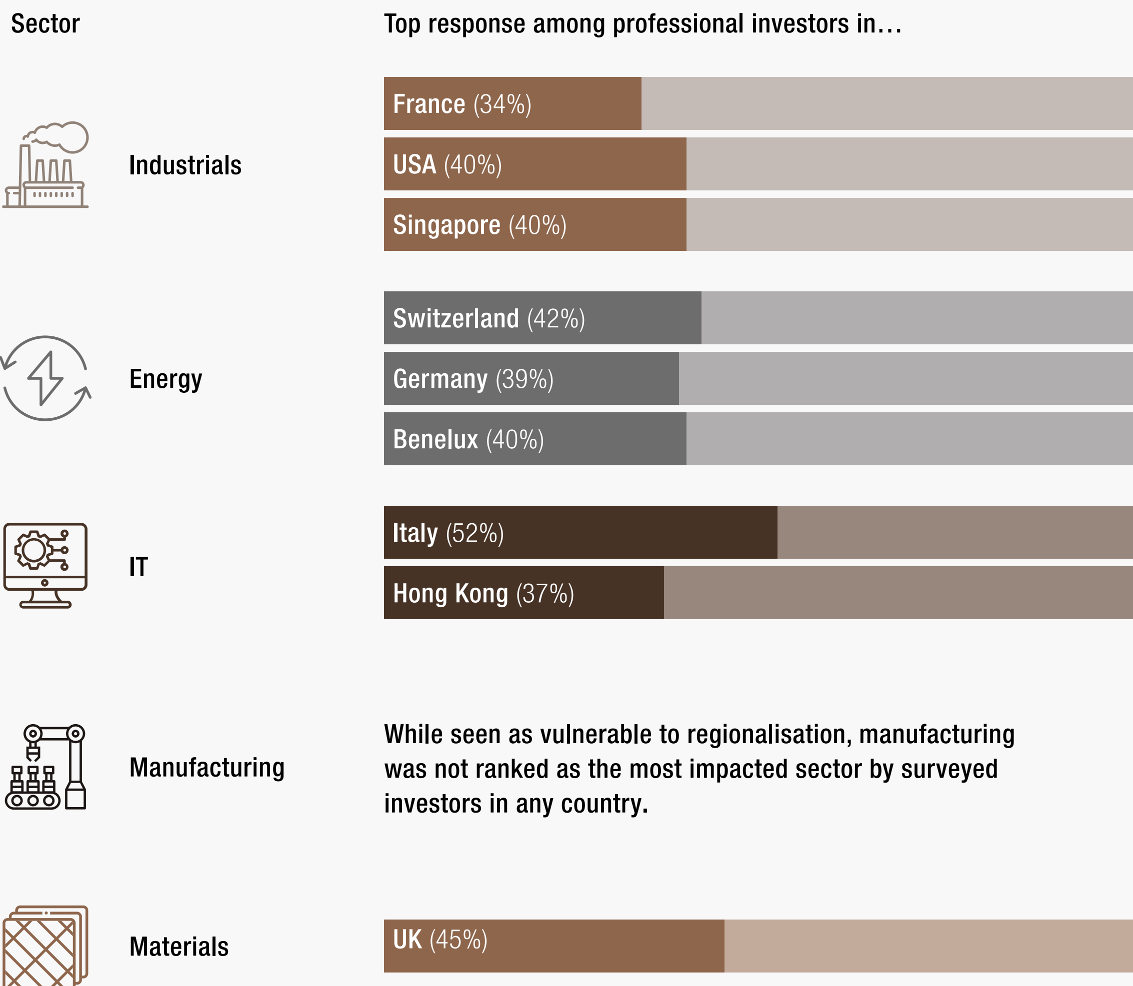
Impact of reduced cross-border trade

According to our findings, professional investors' views are evenly split about which industries are most sensitive to reduced cross-border economic activity. This suggests they believe the impacts of a more regionalised world will be wide-ranging and that no industry is immune.

1. Industrials (37%)
2. Energy (36%)
3. IT (35%)
4. Manufacturing (34%)
5. Materials (33%)

But when the top responses by country are compared, we see that Industrials and Energy are the sectors perceived as being most sensitive to ructions in cross-border trade. European nations, as net energy importers, appear particularly concerned about the impact of regionalisation on this sector.

FIG 4.
INDUSTRIALS AND ENERGY ARE SEEN AS THE SECTORS MOST IMPACTED BY REGIONALISATION



Source: LOIM, Censuswide at January 2023. For illustrative purposes only.

Paradox: investor inaction

Despite these perspectives on the economic impacts of regionalisation and potential investment risks and opportunities, our findings suggest that investors' adaptation of portfolios to the current state of globalisation is lagging.

Almost one in four respondents (23%) say they are not consciously adapting their portfolios to reflect increased regionalisation. Perhaps investors are keeping watch on policymakers' moves, and how sectors and industries are responding to this megatrend. This may present an opportunity for fund managers to engage investors on potential solutions.

However, investors that are factoring the regionalised world into portfolios tend to favour active strategies. The top five approaches respondents say they are implementing for this purpose are:

1. Multi-asset (22%)
2. Liquid alternatives (16%)
3. Active fixed income (15%)
4. Illiquid alternatives/real assets (14%)
5. Active equities (14%)

Yet with almost one quarter of investors surveyed saying they are not purposely addressing the current state of globalisation – despite strong views on the risks and opportunities being created – this could be a potential blind spot warranting attention as this megatrend continues.

23% of professional investors are not adapting portfolios to the current state of globalisation.

2. Working-age deficit

Over the last 30-40 years, the global labour force expanded on an unprecedented scale. This was driven by a series of phenomena: the post-WWII baby boom, women's increased participation in the workforce, and Eastern European and Asian countries – especially China – being integrated into global supply chains.

This labour boom has supported rising levels of GDP while generally helping to suppress wage growth.

However, we predict that over the next five decades, the global workforce will shrink by approximately 4%-5% every five years[1]. This, coupled with a looming demographic winter with pronounced population ageing in major economies, looks set to lead to higher inflation.

In this section, we explore professional investors' attitudes towards changing demographics and the impact this will have on portfolio decisions in the coming years.

Which economies are most vulnerable?

At present, Japan, Europe, the US and China are all forecast to have rapidly shrinking working-age cohorts and large ageing populations.

However, professional investors across various markets have different views on which economies will be most impacted. The US is perceived as being the most vulnerable to a working-age deficit, despite its overall openness to immigration and China facing an arguably more precipitous demographic cliff.

QUESTION:
WHICH ECONOMIES, IF ANY AT ALL, WILL BE IMPACTED MOST BY THEIR FORECASTS OF RAPIDLY SHRINKING WORKING-AGE COHORTS AND LARGE AGEING POPULATIONS?

Country	Top response among professional investors in…
Japan	**Germany** (49%)
	Benelux (43%)
European Union	**Switzerland** (48%)
	Italy (58%
	France (60%)
USA	**UK** (46%)
	Switzerland (48%)
	USA (54%)
	Singapore (52%)
China	**Hong Kong** (38%)

Source: LOIM, Censuswide at January 2023. For illustrative purposes only.

[1] Source: "A whole new paradigm: the next decade [Embed link: https://am.lombardodier.com/gb/en/contents/news/global-perspectives/2022/march/a-whole-new-paradigm-the-next-de.html#from-the-end-of-anomalies-to-meg]". Published by LOIM on 15 March 2022.

Professional investors' outlook

Professional investors have mixed views on the impact of population ageing.

When exploring attitudes towards the challenges posed by the looming working-age deficit, we discovered that most of the investors we surveyed agree that inflation and weaker state-sponsored pension systems would be likely outcomes. According to investors:

- 79% agree[1] that as ageing populations retire and draw-down savings, inflation and bond yields will rise
- 77% agree[1] that ageing populations will, in time, result in weaker (or abandoned) state pension systems

However, the findings also indicate that professional investors believe the economic adaptation to population ageing will bring some benefits.

Our survey showed that investors believe smaller working-age populations and larger ageing cohorts will:

- positively impact economic growth – 76% agree[1]
- help drive technological innovation – 76% agree[1]

Given the volume of personal wealth accumulated in pension savings, it is likely that retirees drawing down and spending these sums in the coming years will support a range of sectors, from travel and hospitality to pharmaceuticals and financial services.

With population ageing acutely relevant to pension funds, it is interesting to note that this group of investors is consistently less likely to agree that ageing will impact economies – in terms of growth, inflation and technological innovation, among other dimensions.

77% of investors agree that ageing populations will, in time, result in weaker (or abandoned) state pension systems.

[1] Strongly agree' and 'Somewhat agree' responses combined.

Market insight

In our research, we find that Swiss and Italian professional investors share very similar views on a variety of economic and investment issues – especially on the environmental transition and balancing capitalism. On the topic of the working-age deficit, they are joined by peers in Singapore.

Respondents in Switzerland (83%), Italy (82%) and Singapore (85%) are most likely to agree1 that the current demographic trend of smaller working-age populations and larger ageing cohorts will positively impact economic growth, while those in the USA (62%) are least likely.

Demographics and investment

Overall, almost four in five (79%) professional investors surveyed believe[1] that fund managers are adequately addressing the investment opportunities and risks being created by the trend of ageing societies in their investment strategies.

In fact, our findings highlight that countries' demographic profiles are an important[2] consideration for almost nine in 10 (86%) professional investors when making long-term investment decisions.

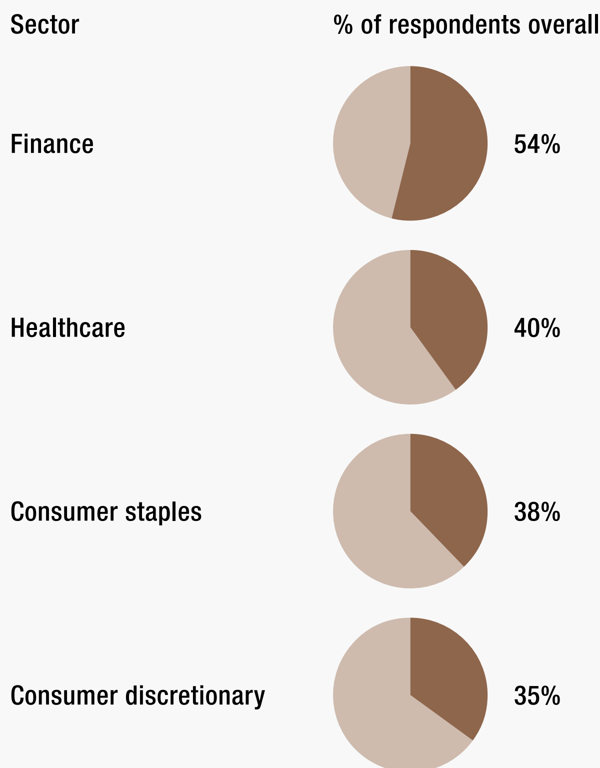
This is especially the case for Italian (97%) and Swiss (94%) professional investors, but less so for those in Hong Kong (78%)[2].

Interestingly, pension-fund investors surveyed (78%) were least likely to say that demographic profiles are an important[2] consideration in making long-term investment decisions. In contrast, this was a significant concern for respondents in wealth-management firms (93%) and those leading the investment portfolios for sovereign wealth funds (92%).

Transforming sectors

Looking at the impact of ageing on industries, the professional investors we surveyed believe that the finance (54%) and healthcare (40%) sectors will most likely experience that greatest transformations as societies grey and workforces shrink.

QUESTION:
WHICH SECTORS, IF ANY, OF THE ECONOMY WILL TRANSFORM MOST AS SOCIETIES AGE AND WORKING-AGE POPULATIONS SHRINK?



Source: LOIM, Censuswide at January 2023. For illustrative purposes only.

In response, the top three ways these professional investors are reducing or gaining exposure to sectors at risk or benefiting from these demographic shifts are as follows:

1. Investing, or planning to invest, in companies geared towards ageing populations – e.g. healthcare firms, private pension providers, tourism and leisure companies (56%)
2. Investing, or planning to invest, in artificial intelligence (AI), robotics and automated solutions to compensate for shrinking white- and blue-collar workforces (50%)
3. Avoiding, or planning to avoid, countries with the most severe population ageing (e.g. Japan, China) (35%)

[1] Strongly agree' and 'Somewhat agree' responses combined.

[2] Very important' and 'Somewhat important' responses combined.

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3. Environmental transition

Despite its immense worth to the global economy, natural capital has not been valued. Nor have the damaging impacts – such as emissions, biodiversity loss or plastic waste – of environmental exploitation been accounted as costs.

This has enabled global GDP growth while keeping input costs low and externalising the costs of environmental damage, helping to suppress inflation.

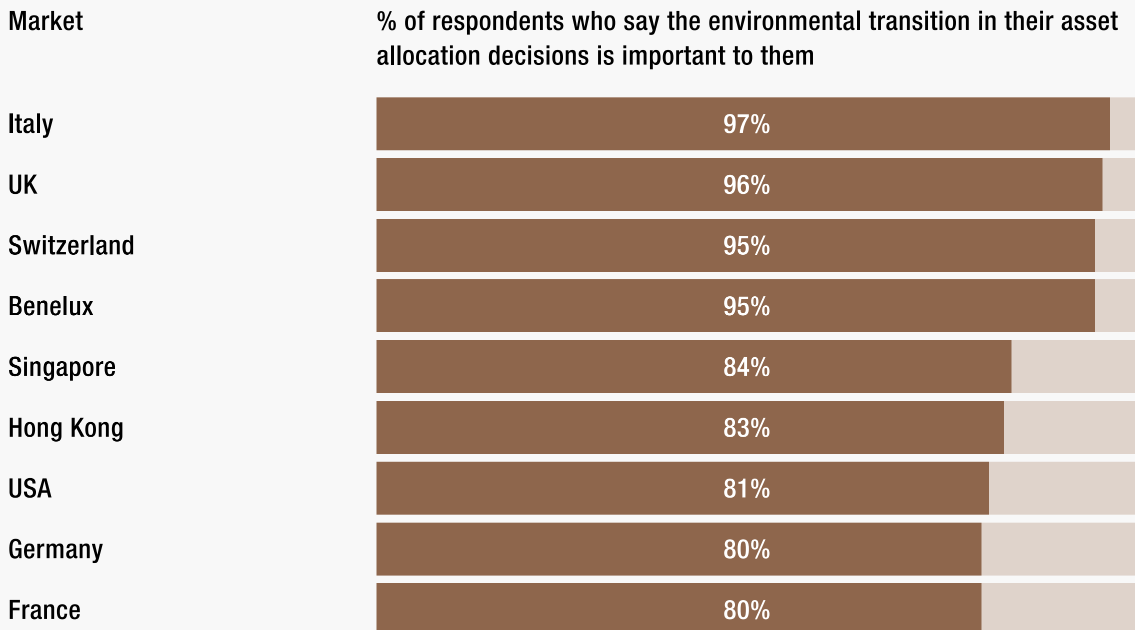
Asset allocation

At LOIM, we believe the scale of change needed to rewire the economy makes the environmental transition a serious question of asset allocation for investors, rather than a niche exposure in select asset classes.

According to our research, this view is shared by many professional investors. In fact, almost nine in 10 (88%) investors surveyed say that the environmental transition is important[1] in their asset-allocation decisions.

Looking beyond this headline figure, we can spot slight regional differences. Professional investors surveyed in the Italian (97%), UK (96%), Swiss (95%) and Benelux (95%) markets were more likely to say they think the environmental transition is important[1] than their German (80%) and French (80%) counterparts.

88% of investors say the environmental transition is important in their asset-allocation decisions.



1 'Very important' and 'Somewhat important' responses combined.

2 Reverse of 'I see no prime investment opportunities in the environmental transition' (0%).

3 Reverse of 'I see no major risks in the environmental transition' (0%).

4 'Strongly agree' and 'Somewhat agree' responses combined.

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Sustainable-investment opportunities

For professional investors, there is a perceived abundance of opportunities aligned with the shift to sustainability. All (100%) of those we surveyed see prime investment opportunities in the environmental transition[2].

Overall, the top four areas in which the investors we surveyed see such opportunities are:

1. Listed equities of companies offering sustainable solutions that are economic and scalable (47%)
2. Physical commodities needed for green infrastructure and technologies (44%)
3. Financial markets for externalities (e.g. carbon) (44%)
4. Investment in land/forestry projects as carbon sinks (42%)

This list is not exhaustive, but it nonetheless shows that investors perceive opportunities across different asset classes: equities, commodities, carbon markets and nature-based real assets.

Even with such opportunities in clear view, as ever, there are real risks to manage.

100% of respondents see prime investment opportunities – but also major risks – in the environmental transition. [3]

Identifying and mitigating risk in the environmental transition

All (100%) professional investors surveyed see clear macroeconomic risks in the environmental transition[3].

Overall, the top four areas identified are as follows:

1. Trade friction or disputes over essential resources (45%)
2. Weakening of environmental policies or commitments by governments (44%)
3. Countries' non-compliance with climate/nature targets (41%)
4. Economic recession, and a related fall in capital expenditure (40%)

There is also the issue of the rising cost of externalities – which are not accounted for on balance sheets but still exact an environmental, economic and social toll. Key examples include greenhouse gas emissions, nature loss and plastic pollution.

Through disclosure frameworks like the TCFD and TNFD, which respectively set out best-practice corporate reporting on climate and nature risk, and anti-deforestation and plastic pollution laws coming into force, companies are becoming more accountable for these adverse impacts.

At present, most (77%) professional investors surveyed believe[4] externalities are being adequately priced into goods and services. The same percentage (77%) also agree[4] that these costs will rise.

How can investors avoid exposure to these increasing costs? According to respondents, the top three ways of achieving this are:

1. Investing in sustainable alternatives to products and services offered today (53%)
2. Investing in growth solutions aiming to fix problem (e.g. decarbonisation or recycling technologies) (53%)
3. Avoiding the most exposed companies (potential stranded assets) (44%)

[1] 'Very important' and 'Somewhat important' responses combined.

[2] Reverse of 'I see no prime investment opportunities in the environmental transition' (0%).

[3] Reverse of 'I see no major risks in the environmental transition' (0%).

[4] 'Strongly agree' and 'Somewhat agree' responses combined.

Aligning to the environmental transition

Amid increasing regulatory impetus for sustainability, the professional investors we surveyed also recognise that there are various ways the investment industry can align to the environmental transition. The top three mechanisms they identified are:

1. Mandated corporate disclosures on nature use and environmental footprints, allowing the market to reward or penalise companies (47%)
2. Supportive policies (e.g. subsidies, tax breaks) to promote innovation for sustainable solutions (37%)
3. Trading credits with a financial value (e.g. carbon credits) (35%)

The popularity, across all markets we researched, of mandating corporate disclosures on nature use and environmental footprints indicates that investors see transparency as fundamental to aligning with the environmental transition.

Investor outlook

Rewiring the economy to become more sustainable involves considerable capital expenditure. This, combined with strong demand for the required materials, technologies and skills, is likely to be a long-term driver of inflation – a view expressed by more than three-quarters (76%) of the professional investors we surveyed.

Yet despite this, and 2023's cyclical headwinds for sustainability strategies, we identified optimism towards investing in the transition. Almost four in five (79%) agree[4] that despite recent underperformance, environmentally focused strategies will outperform in the long-term.

76% of investors agree that the capital expenditure needed for the environmental transition, combined with materials and skills demand, is likely to be a long-term driver of inflation.

[1] 'Very important' and 'Somewhat important' responses combined.

[2] Reverse of 'I see no prime investment opportunities in the environmental transition' (0%).

[3] Reverse of 'I see no major risks in the environmental transition' (0%).

[4] 'Strongly agree' and 'Somewhat agree' responses combined.

4. Balancing capitalism

Overview

Over the past decade, we've seen a substantial increase in corporate return on capital employed while wages have remained stagnant. In Western economies, the difference between the highest and lowest levels of wealth and pay is the greatest since WWI.

This skewing of profits to capital at over labour, plus government intervention in Western economies reaching an all-time high, is unsustainable, in our view. The next decade will therefore feature heavier taxation on high levels of individual wealth and corporations, combined with better wages for the low and middle classes.

The effects of long-term imbalance

However, in contrast to our view, professional investors do not expect the balance between capital gains and wages to achieve a more equal balance anytime soon. Almost nine in 10 (86%) of those surveyed say it is likely[1] that the status quo will persist for the next five-to-10 years.

That said, the professional investors we surveyed believe the continued disparity between capital gains and income will have a major impact on the political landscape over the course of the next decade.

According to our research:

- 82% agree[2] income inequality will continue to be an increasingly powerful driver of populism in politics in the coming years
- 81% agree[2] income inequality will result in trade unions gaining more power in the coming years

As a result, policies to address the balance of economic reward claimed by capital and labour are likely, according to the investors we surveyed. Among respondents:

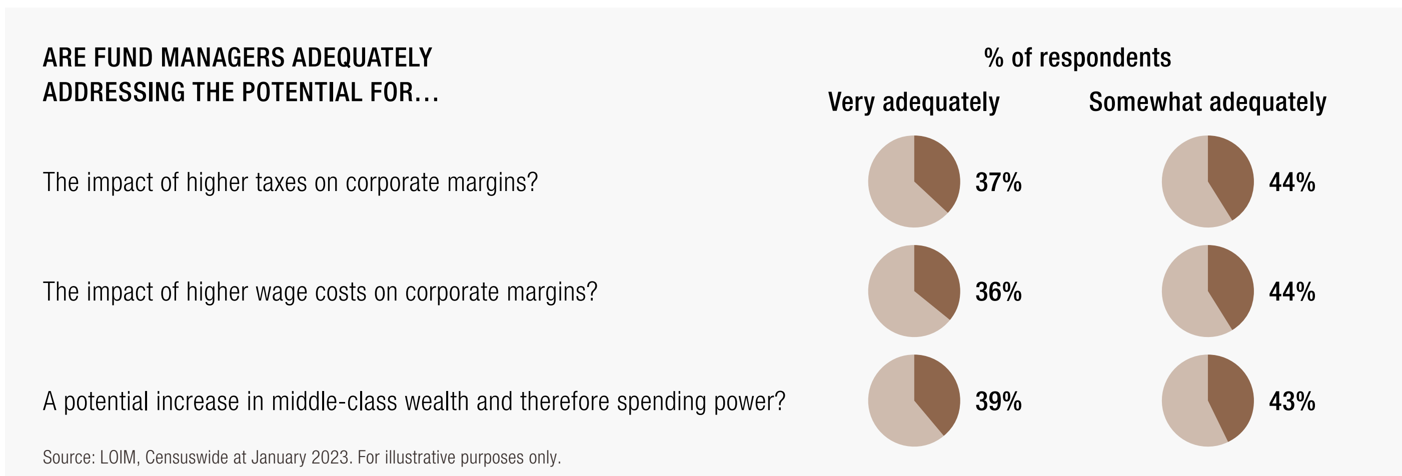
- 85% say it is likely[3] that taxes on corporate profits will increase
- 81% say it is likely[3] that taxes on individual wealth (beyond income) will increase
- 77% say it is likely[3] that policies will combat capitalism's excesses, resulting in better wage growth for lower and middle classes.

Despite the potential for such redistributive policies to be enacted, it is interesting that investors still believe today's status quo of capital's dominance over labour will persist.

Perhaps respondents believe these actions might not be strong enough to balance capitalism's current asymmetry. Even so, such policies are likely to impact corporate tax rates and the consumption power of the wealthy, while providing a boost for middle-class consumers.

Tackling taxation

According to our data, professional investors believe their fund managers are accounting for potentially higher corporate and wealth taxes in their analyses of companies. But not in enough depth, perhaps. Respondents were more likely to say fund managers are 'somewhat adequately' addressing the potential for a number of scenarios, rather than 'very adequately'.



Source: LOIM, Censuswide at January 2023. For illustrative purposes only.

1 'Very likely' and 'Somewhat likely' responses combined.

2 'Strongly agree' and 'Somewhat agree' responses combined.

Market analysis

Assessing the data for each market once again reveals that professional investors in Italy and Switzerland have aligned views – this time regarding the imbalance between capital gains and income.

For example, Italian (96%) and Swiss (94%) professional investors were most likely to say they think it is likely[1] that capital gains will continue to rise while wages remain stagnant for the next five-to-10 years.

These respondents are also most likely to agree[2] that income inequality will not only continue to be an increasingly powerful driver of populism in politics in the coming years but will also result in trade unions gaining more power.

On top of that, professional investors in these markets are also among the most likely to say it is likely[3] that taxes on corporate profits and individual wealth will increase.

But they are also more convinced that policies will emerge to combat capitalism's excesses, resulting in better wage growth for people in lower and middle classes. Presumably, though, not to the extent that today's status quo changes.

Swiss and Italian investors are also more the most confident that fund managers can adapt to these changes, believing they can adequately address the impacts of higher corporate taxes (85% and 88%), higher wage costs (87% and 89%) and greater middle-class spending power (88% and 84%).

US professional investors, on the other hand, do not share these sentiments to the same extent.

For example, US respondents are least likely to say it's likely[3] that the imbalance between capital gains and wages will continue in the next decade (68%).

They are also the least likely to agree[2] that income inequality will result in trade unions gaining more power in the coming years (73%) and – despite the rise of populist politics in the US – that income inequality will result strengthen populism over the next decade (78%).

On the whole, US professional investors appear to believe that fund managers are less prepared for a rebalancing of rewards between capital gains and income. They are least likely to say managers are 'very adequately' addressing the impact of higher taxes (23%) and wage costs (30%) on corporate margins.

[1] 'Very likely' and 'Somewhat likely' responses combined.

[2] 'Strongly agree' and 'Somewhat agree' responses combined.

Investing in the next decade

What investment takeaways has this research provided? Here we identify the most salient investor perspectives on adapting to these megatrends as they influence economies and markets in the next decade.

Megatrend one: regionalised world

Whether we are witnessing a setback in a continuing megatrend of globalisation, regionalisation or deglobalisation, economies worldwide are likely to face clear risks as a result. For the investors we surveyed, the top five are:

- Higher inflation
- Geopolitical conflict
- Lower growth
- Disorderly green investment
- Stymied innovation

However, as cross-border trade, capital and idea flows become stressed, the investors surveyed saw opportunities arising within domestic industries as new supply chains are developed or existing ones diversified. Investors saw such opportunities being driven by:

- Growth of domestic industries
- Development of new or diversified supply chains
- Talent retention (i.e. no 'brain drain')
- Domestic job creation

Investors' views about which industries are most sensitive to reduced cross-border economic activity were evenly split across Energy, Industrials, IT, Manufacturing and Materials. This suggests that the effects of regionalisation are likely to be widespread and that no industry is immune. However, country-specific data show that European investors perceive Energy as the most vulnerable sector.

Yet despite such clear views of the risks and opportunities being generated by economic regionalisation, almost one-quarter of the professional investors we surveyed are not yet consciously adapting their portfolio exposures. Those who are favour active approaches, chiefly multi-asset solutions.

Megatrend two: working-age deficit

The imminent working-age deficit is likely to create wage pressures as retiring baby boomers draw-down on pensions, fuelling inflation. But exciting investment opportunities will arise as sectors transform to meet the demands of ageing populations with accumulated savings and time to fill.

A range of sectors – private pensions, healthcare, tourism and leisure – are most likely to be transformed, offering potential opportunities for investors. So do AI, robotics and automated solutions, which will be necessary to compensate for shrinking white- and blue-collar workforces.

> The effects or regionalisation are likely to be widespread, with no industry immune.

AI, robotics and automated solutions will be necessary to compensate for shrinking white- and blue-collar workforces.

Megatrend three: environmental transition

Sustainability is a structural investment opportunity. The necessity of mitigating and adapting to climate change while preserving nature will, in our view, rewire the global economy. This change will become increasingly evident in the next decade.

As industries transform, generating risks and opportunities, our survey finds that professional investors are focusing on:

- Listed equities of companies offering sustainable solutions that are economic and scalable
- Physical commodities needed for green infrastructure and technologies
- Financial markets for externalities, e.g. carbon
- Land or forestry projects

Factoring in the costs of externalities must also become common practice, and professional investors believe these costs are set to rise over the next decade. However, investors believe these risks can be hedged by investing in sustainable alternatives and growth solutions, such as technologies for decarbonisation and recycling.

Factoring in the costs of externalities must become common practice.

Megatrend four: balancing capitalism

Ongoing wealth inequality between capital and labour will continue, according to our respondents. In the next decade, this will drive populism in politics and cause trade unions to gain momentum amid policymakers' efforts to address the current asymmetry in capitalism.

As a result, individual wealth and corporate profits are likely to be taxed more heavily. In response, professional investors should address the potential for:

- The impact of higher taxes on corporate margins
- The impact of higher wage costs on corporate margins
- An increase in middle-class wealth and spending power

Moves to create a better balance in capitalistic economies might adversely impact corporate profits and the spending power of the wealthy, but they could spur greater consumption by the middle classes, whose income growth has lagged significantly since the 1980s.

Moves to create a better balance could spur greater consumption by the middle classes.

Moves to create a better balance could spur greater consumption by the middle classes.

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Conclusion

As four megatrends – regionalised world, the working-age deficit, environmental transition and balancing capitalism – shape economies and markets over the next decade, we believe professional investors need to prepare for a starkly different world.

In a reversal of the previous paradigm, inflation, real and nominal rates, and the cost of capital are likely to rise to structural levels above those seen in the past 40 years.

Portfolios will need to adapt to mitigate risks and capture the opportunities as this economic transition impacts sectors and influences asset-class returns.

In our survey of more than 1,800 senior institutional and wholesale investors in nine markets across Europe, North America and Asia, we sought to gain insights into professionals' perspectives on the likely outcomes of these megatrends.

Investors identified a number of risks – such as potentially high inflation or disorderly green investment resulting from economic regionalisation – and they pinpointed a wealth of opportunities, like the growth of sustainable solutions provide by listed companies or financial firms poised to cater to retiring baby boomers.

But their answers also convey challenges being faced by investors, such as the adapting portfolios to the current state of globalisation.

As global supply chains are restructured, sustainable solutions gain scale, sectors are transformed by ageing populations and tensions between capital and labour persist, we hope the data in this report helps investors think ahead about changes already in play.

Investors pinpointed a wealth of opportunities, like the growth of sustainable solutions.

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