

BlackRock: 5 global megatrends shaping European investor interest

Blackrock has noted that European investors have surged their thematic investing in Ucits funds by over sixfold since 2016, driven by the regulated framework for cross-border investments.



Source: Investopedia.

The specific themes that are expected to have a significant impact on the economy, society, and markets in the next decade include:

- **Demographic divergence** - which would either cover rapid population growth in one region due to high birth rates and immigration, while another region faces population decline due to ageing populations and low birth rates.

To this end, the world's aging population is accelerating, and we have more elderly people than we do young children. The above-65 age cohort is the fastest-growing age group.

"As the world's ageing population accelerates, the globe will need to treat new neurological disorders and hip-joint replacements and complete more ophthalmology work," says Omar Moufti, Blackrock's head of index thematic strategy for Europe, the Middle East, and Africa.

- **Digital disruption and AI** - "Already ChatGPT can answer or pass some of the hardest tests of humanity in terms of

knowledge and understanding." says Moufti.

But then there is also robotics. "AI increases the risk to our digital economy, which means we have an increased demand for security. But we also think digital security companies will benefit by creating better products.

"One of the big hindrances to digital security firms has been the lack of talent for coding. AI can significantly accelerate the process and increase margin potential from a stock returns perspective," he adds.

- **Geopolitical fragmentation and economic competition** - which can occur due to ethnic or cultural differences, political conflicts, or movements that seek to separate a particular region from an existing sovereign state in order to form a new independent political entity.

Geopolitical fragmentation can lead to the emergence of new nations, autonomous regions, or geopolitical boundaries, potentially altering the geopolitical landscape and relationships between countries.

- **The future of finance** - blockchain and fintech will play an increased role.
- **The transition to a low-carbon economy** - the world must allocate a lot of capital to transition to a low-carbon economy. The world will see a tenfold increase in wind and solar technology use.

Thematic investing allows investors to align their portfolios with their convictions about future trends and opportunities.

Moufti highlights the significant growth of thematic investing.

He notes that thematic investments, which amounted to only around \$40bn in 2016, have since increased nearly six-fold to approximately \$270bn. This growth underscores the rising interest and adoption of thematic investing strategies among investors.



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"What's interesting about these five mega forces is that they are as much a challenge risk as an opportunity," Moufti said.

Being on the right or wrong side of these mega forces can determine an investor's success or failure, whether at the industry, country, or company level.

As a result, investors can enhance their portfolios by integrating various themes alongside their core investments. While benchmarks - created to help investors understand how risky their investments are - were originally designed as risk management tools, many investors - particularly European investors - have been using them as the primary method for asset allocation.

Moreover, they are now choosing to prioritise thematic investments at the core of their portfolios, rather than solely relying on traditional benchmarks anchored to global equities.

It is worth noting, however, that using thematic investments at the core of a portfolio results in higher volatility.

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