7 Themes for the future of investing
Macrotrends Focus

What are we expecting going forward?

We are increasingly convinced that a valuable investment strategy should combine a traditional selection of assets with an approach that takes into consideration long-term “real life” structural changes.

Despite the events of the last two years, there are key trends, or key themes, which are either emerging or which have been exacerbated by the pandemic or geopolitical tensions. In particular, there are seven macrotrends that we believe are paramount in our investment choices.

The first macrotrend outlined by UniCredit Investment Strategy team focuses on the *new “reflation” era* emerging through a combination of rising inflation, an increase in commodity prices, and a hawkish stance from central banks – or rather, monetary policy normalisation.

The second macrotrend, *technological innovation*, deals with the development of technologies in past decades (digitalisation and robotics above all), introducing the new key element of artificial intelligence (AI) and the Metaverse.

The *geopolitical context* sees the ongoing rise of Asian countries to the top of the world league of developed economies, with China leading the way, and the effort by European countries to push ahead with continental integration. In the last few decades, supply chains have globalised with manufacturing offshored. The disruption from the pandemic and geopolitics could bring some capacity back onshore, particularly with the conflict in Ukraine exacerbating supply chain disruption and making companies and governments even more focused on resilience, which could potentially accelerate near-shoring tendencies.

Additionally, we see growing pressures for *equality* and an increasing attention on *climate change*, two trends closely linked to a new sensitivity to environmental, social and governance (ESG) issues. In this sense, the integration of digital, green and traditional infrastructure into the so called “*Infrastructure 2.0*” is acting as a powerful booster for public and private investment by providing for smart cities and creating new ways of living and working.

Another deep change emerging is through the growing awareness of *healthy lifestyles*, which is primarily associated with a better work-life balance, higher life expectancy, and changing consumer needs.
Rises in energy and commodity prices are hitting the global economy at a time when inflation concerns are already a major challenge. This puts central banks in a difficult position. On the one hand, they would like to scale back ultra-loose monetary policy and have already signaled the corresponding steps at the beginning of the year. On the other hand, the main inflation drivers cannot be influenced by monetary policy measures in the short term.

The dilemma facing central banks is that sharply rising yields as a result of excessively tight monetary policy would make it more difficult to find a structural way out of the energy crisis and the problem of the European security architecture. However, too loose a monetary policy would trigger concerns about a solidification of price dynamics to the point of a wage-price spiral. The prospect of large-scale disruptions to Russian oil production is threatening to create a global oil supply shock. The International Energy Agency (IEA) estimates that from April, 3 mb/d of Russian oil output could be shut in as sanctions take hold and buyers shun exports. OPEC+ is, for now, sticking to its agreement to increase supply by modest monthly amounts. Only Saudi Arabia and the United Arab Emirates hold substantial spare capacity that could immediately help to offset a Russian shortfall.

A new reflation era

According to the Global Energy Monitor, PipeChina, aka the China Oil and Gas Pipeline Network, will soon become the largest gas pipeline builder in the world.

The European Union has updated data on its energy dependence: 41.1% of natural gas and 36.5% of oil are of Russian origin.

In 2020, 34.5% of the energy consumed in Europe came from oil, 23.7% from gas. Renewables and biofuels did not go beyond 17.4%, while nuclear power stopped at 12.7%.
Technological Innovation

New technologies include a variety of aspects such as digitalisation, artificial intelligence (AI), robotics, smart cities, and blockchain. Compared to the innovations of the past decades, this trend now adds a new essential element: machine intelligence.

Web 3.0 represents the next iteration of the evolution of the internet and could potentially be as disruptive and represent as big a paradigm shift as Web 2.0 did. Web 3.0 is built upon the core concepts of decentralisation (storage in multiple locations simultaneously), trustless (i.e. the network will allow participants to interact directly without going through a trusted intermediary) and permissionless (meaning that anyone can participate without authorisation from a governing body).

Web 3.0 will also use machine learning, which is a branch of AI that uses data and algorithms to imitate how humans learn, gradually improving its accuracy. These capabilities will enable computers to produce faster and more relevant results in a host of areas like drug development and new materials, as opposed to merely targeted advertising, which forms the bulk of current efforts.

The concept of the “Metaverse” has received renewed attention. By essentially making the internet a virtual twin of the physical world, this digital do-over could enable novel ways of working, buying things, learning, and socialising.

The Metaverse has a potential $8.3 trillion total consumer expenditure in the U.S. depending on the level of disruption.

As a result, we see companies of all shapes and sizes entering the metaverse in different ways, including household names like Walmart, Nike, Gap, Verizon, Hulu, PWC, Adidas, Atari and others.

Every year, $54 billion is spent on virtual goods, almost double the amount spent buying music. And approximately 60 billion messages are sent daily on Roblox.

GDP for Second Life was about $650M in 2021 with nearly $80M USD paid to creators.

Non-fungible tokens (NFTs) currently have a market cap of $41 billion.

The row size is proportional to the turnover over the years in bln/$

Source: Pelham Smithers
China, currently the second largest economy in the world, has consolidated its position in international financial markets with the inclusion of its government bonds in the JP Morgan Government Bond Index Emerging Markets (GBI-EM) and the FTSE Russell Index. It is therefore not surprising that the RMB Globalisation Index, which tracks foreign use of the renminbi, has risen by more than 40% in total since 2018 and reached new highs.

China has been driving its global economic integration since 2013 with projects to expand its trade networks under the “New Silk Road” initiative. In addition, in 2020 China was able to conclude the world’s largest free trade area, the Regional Comprehensive Economic Partnership (RCEP), with 14 other Asia-Pacific countries, covering almost a third of the world’s population and accounting for around 30% of global GDP.

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The Chinese economy is the second largest with a GDP of nearly $17 trillion. It remains the largest producer in the world. 80% of sectors experienced supply chain disruption during the pandemic, prompting three-quarters to widen their re-shoring plans. According to McKinsey, starting from 2025, 25% of world exports could be affected by the phenomenon of reshoring, i.e., the re-location of productive activities previously transferred abroad. This worths a $4.5 trillion value.

China accounts for 35% of global manufacturing output, and its factories generate more real manufacturing value added - $3.9 trillion in 2019 - than the U.S., Germany, South Korea, and the U.K. combined.

Forward-thinking supply chain managers are exploring using predictive analytics as a part of supply chain digitization. As a result, the Global Human Augmentation Market is expected to reach $341 billion by 2026.
When it comes to the trend towards greater equality, income inequality has increased over the past few decades, especially in developed countries. However, the individual industrial nations differ considerably in some cases. For example, income inequality in the US has risen more sharply than in Europe.

Another generation of women will have to wait for gender parity, according to the World Economic Forum's Global Gender Gap Report 2021. As the impact of the COVID-19 pandemic continues to be felt, closing the global gender gap has been delayed by a generation from 99.5 years to 135.6 years.

Progress towards gender parity is stalling in several large economies and industries. This is partly due to women being more frequently employed in sectors hardest hit by lockdowns, combined with the additional pressures of providing care at home.

The economic gender gap has seen only a marginal improvement since the 2020 edition and is expected to take another 267.6 years to close. The slow progress is due to opposing trends – while the proportion of women among skilled professionals continues to increase, income disparities persist and few women are represented in managerial positions.

Equality also means education: the value of the online education market will reach approximately $ 350 billion by 2025 and the engine of this growth is private sector innovation.

Learning losses due to school closures due to COVID-19 could result in an income loss of $ 10 trillion, negatively impacting the growth and prosperity of the poorest countries.

### Key Numbers

- The gender pay gap remains substantial, with women's wages in America standing at 83.1% of men's earnings.
- In the heart of Europe, within Germany, a man's wealth is on average 45% higher to that of a woman, in France, 15% more, and in Italy, 18%.

### Income Gap

**The Global Gender Gap Report, 2021**

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**Source:** World Economic Forum 2021

### Many Emerging Jobs Are Already Deeply Unequal

- **13.1K Dollars**
- **23.3K Dollars**

**Source:** World Economic Forum 2021
Climate Change

The increase in global warming poses enormous challenges for major economies. To limit the 1.5°C rise in the global temperature from pre-industrial levels, we must reduce current annual greenhouse gas emissions of around 50 billion tons to zero by 2050.

Massive public and private sector investment is therefore needed to meet the recent COP26 agreements and the Paris Climate Agreement.

Europe plays a key role in the implementation of global climate targets. This is not only because Europe contributes significantly to global CO2 emissions, and therefore a reduction of CO2 emissions in this region is imperative, but also because Europe should take a pioneering role in the production and implementation of green technologies due to its industrial competence and innovative capacity. Therefore, as part of the European Green Deal, all 27 EU member states have committed to making Europe the first climate-neutral continent by 2050.

It was also agreed to reduce emissions by at least 55% by 2030 compared to 1990 levels. Since 1990, the EU-27 have reduced their CO2 emissions by over 26%. The US and China have also recently committed to improving climate protection in their countries and to achieving the goal of climate neutrality in the long term.

Global Waste to Energy Market 2020-2024 | Evolving Opportunities with Babcock & Wilcox Enterprises Inc. and China Everbright International Ltd. | Technavio

CO2 emissions from natural gas combustion are expected to increase by more than 215 Mt CO2 in 2021 to reach an all-time high of 7.35 Gt CO2, 22% of global CO2 emissions.

Gas use in buildings and industry accounts for much of the trend, with demand in public and commercial buildings seeing the greatest drop in demand in 2020 but the biggest anticipated recovery in 2021.

Emerging markets and developing economies now account for more than two-thirds of global CO2 emissions, while emissions in advanced economies are in a structural decline, despite an anticipated 4% rebound in 2021.

The Brussels-based think tank Bruegel estimates that Europe alone must increase its investment by around 2% of GDP per year to achieve this goal.

Global Waste to Energy Market 2020-2024

- Market growth will accelerate at a CAGR of over 5%.

- Incremental growth: $12.26 bn.

- One of the key drivers for this market will be increasing urbanization.

- The market is fragmented with several players occupying the market share.

- Of the growth will originate from Europe.

- Market growth will accelerate at a CAGR of over 36%.

Net Zero Transition Tactic

- No new unabated coal plants approved for development.
- No new sales of fossil fuel boiler.
- All new buildings are zero-carbon-ready.
- Most applicances and cooling systems sold are best in class.
- 50% of existing buildings retrofitted to zero-carbon-ready levels.
- 50% of heating demand met by heat pumps.
- More than 85% of building are zero-carbon-ready.
- More than 90% of heavy industrial production is low-emissions.
- Almost 70% of electricity generation globally from solar PV and wind.
- 50% of existing buildings retrofitted to zero-carbon-ready levels.
- 50% of fuels used in aviation are low-emission.
- Net-zero emissions electricity globally.
- 50% of heavy truck sales are electric.
- No new ICE car sales.
- Overall net-zero emissions electricity in advanced economies.
- 60% of global car sales are electric.
- Most new clean technologies in heavy industry demonstrated at scale.
- 1020 GW annual solar and wind additions.
- 36%
"Infrastructure 2.0" is the integration of smart technology into the traditional public infrastructure, mostly comprising physical assets such as roads, electricity grids or ports. For example, new roads and highways can be built that contain sensors, and track vehicles that are also equipped with sensors. The interaction of vehicle and road can then not only enable better traffic control, but also increase the operating efficiency of vehicles to reduce CO2 emissions. However, this requires the expansion of power and broadband networks and combines various aspects of the above identified trends.

A new integrated approach to investment in traditional and new infrastructure is the $1.2 trillion bill passed by the US Congress on 5 November 2021. The Act provides for $550 billion of investment in US infrastructure over a 5-year period. It includes funding for roads and bridges, as well as investments to improve broadband infrastructure and power grids. Investments are also planned for the development of a national network of charging stations for electric vehicles.

The challenges of climate change, a continuing growth in the global population, and efforts by governments around the world to strengthen their commitment to a carbon-free future will further reinforce this trend. This is most recently reflected in the share of global primary energy generated only from low-carbon sources, which has increased significantly over recent years.

According to the City Motion Index (CIMI), which is an international index that measures the level of smartness of cities around the world, London ranked first among European and global smart cities in 2020, ahead of New York, Paris and Tokyo. London is considered one of the most digital cities, so much so that in order to encourage the digitization of the city, the "London Office for Data Analytics" and the figure of the Chief Digital Officer were established a few years ago.

Reykjavik is characterized by three aspects of excellence: energy efficiency, based on a production of renewable energy equal to 70% of the total; cutting-edge public transport, thanks also to the use of an app that allows greater usability and efficiency of the bus service and a system that provides for the active participation of citizens in the choices and life of the city.

In Europe, from 2035, internal combustion engines will no longer be produced. In the field of freight transport, the sale of new internal combustion commercial vans (ICE) will also end in 2035 and the sale of new heavy goods vehicles from 2040.

The transport sector emits 30% of total CO2 in Europe, of which 72% is attributable to road transport alone. Heavy commercial vehicles account for 26%, while light ones account for 12%.

Megacities of the World in 2018 and 2030

Source: World Economic Forum (weforum.org)
Another societal trend with huge implications is the growing awareness of healthy lifestyles. According to a study by Silvan et al. excluding the three risk factors of not smoking, normal weight, and low blood pressure extended the life expectancy of study participants by an average of six years compared to those participants who had all three risk factors.

Life expectancy has increased in all OECD countries over the past 50 years, but progress has slowed over the last decade. Furthermore, the COVID-19 pandemic led to life expectancy falling in most OECD countries in 2020. Even though the pandemic has slowed down the increase in life expectancy, the upward trend – supported by vaccination campaigns and better treatments for COVID-19 – is expected to remain intact, mainly due to the high interest in living a healthy lifestyle.

Higher national income is generally associated with greater longevity, particularly at lower income levels. Life expectancy is also, on average, longer in countries that invest more in health systems – although this relationship tends to be less pronounced in countries with the highest health spending per capita.

An increasingly older population in the industrialised nations, which also have healthier lifestyles, will not only relieve the burden on health policy, but will also permanently change the way older people consume and work. Sectors that specialise in this area will likely have a higher growth potential in the long term.

According to the International Food Information Council, 54% of all consumers and 63% of those over 50 worry more about the healthiness of their food and drink choices in 2020 than in 2010; healthiness is the most important driver, even more than taste and price.

For young women in the US, it is estimated that a sustained change from a typical Western diet to an optimal diet starting in their 20s would increase the life expectancy of more than a decade.

Singapore and Japan, where about 25% of the population is over 65, are already responding to this demographic change with dedicated private and public policies;

with healthier lifestyles, 80% of cardiovascular diseases and 30% of cancers can be avoided.

According to the World Health Organization, males have a life expectancy of 70.8 years, females have a life expectancy of 75.6 years, and both sexes combined have a life expectancy of 73.2 years.

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Overview of the single themes

**MACRO THEMES**

- **GROWING DIVIDENDS**: Companies with consistent and growing dividends offer great opportunities in an environment where people strive for down payment and are looking to put aside some savings for the future.
- **SMART MANUFACTURING**: Companies that are able to combine efficiency, flexibility, and sustainability in their manufacturing process can benefit from a strong demand for energy-efficient and sustainable products.
- **SOFT INNOVATIONS/SECURITY**: Companies that are able to combine efficiency, flexibility, and sustainability in their manufacturing process can benefit from a strong demand for energy-efficient and sustainable products.
- **E-COMMERCE**: The e-commerce boom has accelerated the transition from physical to digital shopping, leading to increased consumer demand for online purchases.
- **DE-GLOBALISATION**: Companies that are able to combine efficiency, flexibility, and sustainability in their manufacturing process can benefit from a strong demand for energy-efficient and sustainable products.

**MICRO THEMES**

- **A new reflation era**: A new reflation era is emerging, driven by rising commodity prices, strong demand for infrastructure projects, and the end of the monetary policy stimulus.
- **SMART CITIES**: The rise of smart cities is transforming urban living, with increased use of technology to improve efficiency, sustainability, and security.
- **E-COMMERCE**: The e-commerce boom has accelerated the transition from physical to digital shopping, leading to increased consumer demand for online purchases.
- **SMART MANUFACTURING**: Companies that are able to combine efficiency, flexibility, and sustainability in their manufacturing process can benefit from a strong demand for energy-efficient and sustainable products.
- **E-COMMERCE**: The e-commerce boom has accelerated the transition from physical to digital shopping, leading to increased consumer demand for online purchases.

**NEW CONSUMER TRENDS**: In the new consumption landscape, the focus has shifted from material goods to experiences and services, driving a shift towards sustainable and ethical consumption habits.

**GEOPOLITICS**: The geopolitical landscape is changing, with the rise of new power centers and the decline of traditional superpowers. This is leading to new alliances and conflicts, influencing international trade and investment patterns.

**AGRICULTURAL INNOVATION**: The agricultural sector is facing challenges such as climate change, population growth, and food security. New innovations in farming techniques and technologies are driving increased productivity and sustainability.

**CIRCULAR ECONOMY**: The circular economy aims to reduce waste and pollution by recycling and reusing materials, rather than disposing of them.

**ENERGETIC TRANSITION**: The world is transitioning to a more sustainable energy mix, driven by concerns about climate change and the need for energy security.

**CULTURE MOBILITY**: The pandemic has led to a shift in consumer behavior, with a greater focus on leisure and cultural experiences.

**SMART CITIES**: The integration of technology in cities is leading to improved public services, increased efficiency, and enhanced quality of life.

**HEALTH CARE INNOVATION**: New medical technologies and treatments are improving healthcare outcomes and reducing costs.

**NUTRITION**: With more people adopting healthy diets, there is a growing demand for nutritious and sustainable food products.

**SUSTAINABILITY**: The world is becoming more aware of environmental issues, leading to increased demand for sustainable and ethically produced goods.

**GLOBAL ENERGY**: The energy landscape is changing, with a shift towards renewable energy sources and the need for energy conservation.

**RENEWABLE ENERGY**: The rise of renewable energy sources is leading to a paradigm shift in energy production and consumption, driving down costs and increasing accessibility.

**SMART MOBILITY**: The transportation sector is evolving, with new technologies and services driving increased efficiency and sustainability.

**SMART MANUFACTURING**: Companies that are able to combine efficiency, flexibility, and sustainability in their manufacturing process can benefit from a strong demand for energy-efficient and sustainable products.

**SMART LOGISTICS**: The logistics sector is becoming more efficient, with advances in technology and data analytics driving down costs and improving service levels.

**EDUCATION**: The education sector is facing challenges such as the need for innovative teaching methods and the integration of technology in the classroom.

**INCLUSION/GENDER EQUALITY**: The drive for inclusion and gender equality is driving changes in how we think about work, education, and social services.

**COMMODITIES ROAR**: Commodities tend to outperform in the final stages of the economic cycle as they are used as protection against inflation risk.

**AGING SOCIETY**: The aging population is driving changes in how we think about retirement, healthcare, and social services.

**REGENERATION**: The need for regeneration is driving new approaches to urban planning and development, focusing on sustainability and community empowerment.

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**MICRO THEMES DESCRIPTION**

- **A new reflation era**: A new reflation era is emerging, driven by rising commodity prices, strong demand for infrastructure projects, and the end of the monetary policy stimulus.
- **SMALL MANUFACTURING**: Small manufacturers are adapting to the new realities of production, focusing on efficiency, sustainability, and flexibility.
- **SOFT INNOVATIONS/SECURITY**: Soft innovations, such as improving the efficiency of existing technologies, are becoming increasingly important.
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