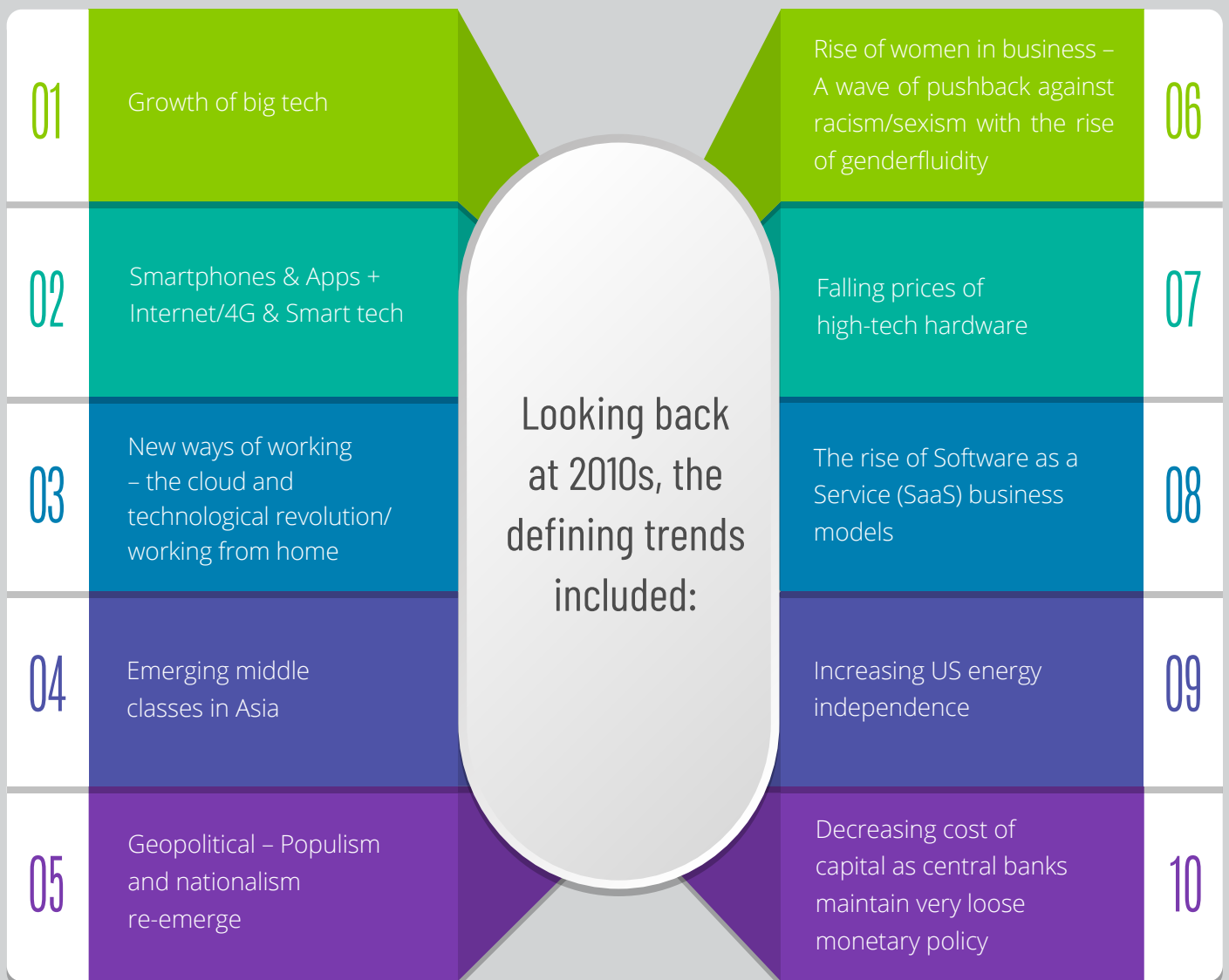


Defining the 2020s



As we look into the 2020s, we analyse some of the potential evolutionary changes ahead of us.



1

ESG is a significant factor in asset class returns, and corporate and household behaviour

The last decade saw the emergence of Environment Social Governance (ESG); the next decade should see the concept become embedded within government and corporate behaviour. We could see significant shifts in the allocation of capital away from dirty industries or companies with poor social and governance policies.

Climate shaming – flight shaming is already impacting on global airlines. Austrian rail firm ÖBB is already reintroducing more overnight trains in reaction to demand from the public. Per passenger, a one-way trip from Zurich to Milan, for example, emits three kilograms of carbon dioxide if taken by train, compared with 104kg by plane.

Investment consequences

ESG analytics will become embedded in all analysis of financial securities. There may be reduced access to capital for fossil-fuel-related businesses.



2

Stakeholders not shareholders

In a significant change from the past, a forum of the CEOs of some of the largest US companies alluded to the need to take into consideration all stakeholders in a company, not just shareholders. The second millennium has, to date, seen a further marked increase in the share of the added value of companies going to shareholders rather than the wage earner. Also, companies have continued to squeeze their suppliers as their profit margins have come under pressure.

Investment consequences

A future with corporate culture more focused on the well-being of stakeholders over shareholders seems likely to lead inevitably to slower corporate profits growth. Indeed, taken with ESG, it should redirect companies away from a 100% focus on making profits. However, over the longer term, the move away from profit maximisation towards a greater emphasis on balance and sustainability could lead to lower volatility in equity markets.



3

5G followed by the dawn of 6G

Data and communications will be shared across billions of interconnected devices. 6G will bring about wireless brain-to-computer interactions. 5G is currently estimated to have transfer speeds of over 1 gigabit per second while 6G will boast speeds of greater than one terabyte per second. This could be the end of the smartphone.

Investment consequences

This disruptive innovation clearly provides a challenge for many industries to invest in the new era of communication and control systems. The one fly in the ointment is the attitude of the US that is using trade wars to undermine China's efforts to seize the initiative on 5G. We could end up with a bifurcated world with those countries happy to do business with China being much earlier adopters of the new 5G and 6G technology while the second group is beholden to out-of-date US technology.



4

Learning to learn, unlearn and re-learn

It is already conventional wisdom that by the time you finish a degree/course, much of the material studied is out of date. The idea of a life-long career in one company or indeed in one industry was already on the wane. The future will be about an individual having to continually update their education and skill set to remain relevant in the workforce. The labour market will need careful handling by employers and governments to ensure that the workforce remains relevant to a rapidly changing world.

Investment consequences

Education, in its many forms, should prove to be an attractive sector. However, most investment opportunities tend to be found in the private equity and venture capital field.



5

No more leather wallets, cash disappears

Payments companies will become the future of money. Next generations will be much more tech-savvy, leading a move to the withdrawal of physical cash. Gen Z will make up 40% of all US consumers by 2020, relying heavily on payments companies.

Investment consequences

Payments companies in their many forms take business from banks. Already at risk from new digital banks, the franchises of traditional banks are also at risk from any company that has a large consumer client base and decides to launch their own closed-loop currency. Starbucks Rewards, for example, already has 17.6 million active users. Similarly, Bitcoin and other crypto currencies have millions of active users. As Starbucks Rewards and Bitcoin are not attached to any country in particular, we will see the slow demise of currencies that are linked to countries.



6

Zero to negative interest rates become normal

At various stages of recent years, analysts have tried to wish away negative interest rates as a passing phase. However, as we have seen in Japan, the fact that working populations in many developed countries are likely to start to decline in the next decade, if they have not already, suggests negative interest rates are almost a logical outcome.

Investment consequences

This change is supportive of bonds and all yielding assets that don't rely on the general well-being of the global economy for their credit quality. The clear winners are the digital financial services companies. They are set to overwhelm bricks and mortar encumbered businesses, such as traditional banks and insurance companies. Unless banks and insurance companies structurally change and substantially reduce their cost base, they will be overwhelmed by the digital financial industry.



7

Government policies move sharply to the left

There are already many signs that the decline of the baby boomers as a share of the electorate may lead to growing support for more leftwing policies being adopted by governments. We should expect a high risk of wealth taxes and more spending on social services.

Investment consequences

We remain concerned about higher wealth taxes, particularly on residential real estate. Mass consumer products or retailers that appeal to lower-income groups should benefit. Healthcare will see more spending but with potential pushback on drug pricing.



8

Large scale involuntary migration

Whether through military conflict or natural disasters, large swathes of people could be on the move through the next decade. The mass migration of refugees from Syria that created an immigration challenge in Europe may, in some senses, have de-stabilised Europe and contributed to factors that led to Brexit.

Investment consequences

The outcomes will tend to be random but clearly de-stabilising, and costly for the receiving countries with a higher risk of armed conflict between nations. Europe remains at risk from Turkey opening the door to allow refugees from Middle East conflict to pass through their borders. This has enormous implications for Central and Eastern European countries and hence the stability of the European Union.

In Asia, the climatic challenges of flooding and freshwater scarcity in the Ganges Delta puts hundreds of millions of people at risk who may have to uproot and try to migrate through India, Bangladesh and potentially into Myanmar.



9

Increased discounting of the inadequate funding of developed market pension funds

There are already increasing signs of the wheels coming off the pensions industry. Inadequate saving by individuals, crazily high assumptions being made by pension trustees and head-in-the-sand attitudes of governments are a big problem for the future. It is instructive that as 2019 ended, a report from the Group of 30 estimated that the world's top economies would face a shortfall of \$5.8 trillion in 2050 up from \$1.1 trillion in 2017. The Dutch government has been forced to warn pensioners that their pensions may need to be cut.

Investment consequences

Those individuals in the workforce will have to be encouraged to save more, thus reducing consumer spending. The government may be called to prop up more and more pension funds through direct guarantees but at the cost of ever-higher-government debt. People may simply have to work longer – maybe a decade longer. Does retirement become an obsolete concept?



10

Return to the concept of community

The mindset of future generations is already one of a sharing economy. Hence, we expect the idea of community and sharing to be more prevalent across all aspects of life. We have already seen that property developers are responding to the needs of future generations by developing sharing spaces whether for offices or homes. In the office space, sharing spaces are evolving into a wellness and office revolution – the work/life balance — the Google office impact.

Investment consequences

Offices now have to be extensions of homes, eateries, nurseries and playgrounds to attract and retain talent. The concept of everyone having a desk will disappear, which has implications on office space demand.

Homes will get smaller but will be couched in terms of communities rather than impersonal estates with limited facilities. Shopping malls and high streets will be redeveloped into spaces where people live, work and play, not just shop.

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