



How to benefit from the 21st century's big investment themes **by Tom Stevenson, Investment Commentator at Fidelity**

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The world has changed immeasurably in the past 30 years. The next three decades seem likely to yield even more drama as significant themes exert their influence on a more-connected world.

Change is upon us. Investors must either embrace change or risk missing out on some of the biggest investment themes in a generation. The themes we have identified over the 21st century investment series seem sure to have a significant impact over the next few decades. But what are the investment implications? Here, we discuss how investors can position themselves.

Remember, though, that making predictions is fraught. It is virtual guesswork to say what level the Dow Jones Industrial Average will be in five years time. However, when it comes to the big, secular themes that are influencing economies and financial markets, there is morescope to be forthright and more reason for investors to take action.

Most of the themes that appear set to be prominent in the 21st century – the rise of the east, growing consumption and urbanisation in emerging markets, the changing demographics and ageing of the world population, the challenge of feeding and powering the world, technological and climate change, the rise of Africa – are visible and investible, or will be soon enough.

Attaching relative weights to a group of highly interconnected themes is tricky, however. Intuitively, the epochal power-shift from west to east and the emergence of China and India must surely be given most weight. It is the underlying dominant theme which recurs, or acts as a catalyst, in many of the others.

Beyond this, it becomes more difficult to attach weightings. Is finding a solution to our energy needs more important than alleviating pressure over food and water? In truth, they are related, not least because bio-fuels are reducing the amount of arable land for food.

This is where technological progress is crucial. Encouragement can be taken from the fact that every time the world has pushed up against resource limits in the past, mankind has overcome the situation. This time is different. This time we have even more brains from around the world, tackling the problems in energy, food and water, providing incremental advances and occasional step-changes that sum over time to extraordinary technological progress. It is technological progress that powers economic growth over the very long run.

Seven things to consider

Here then are seven key things long-term investors might want to consider if they want to tap into the rewards on offer from the 21st century investment themes:

1. **Invest more in emerging markets, beware of home bias.** Investors need to ensure they have enough exposure to emerging markets but many remain under-invested for two reasons. First, although allocations have picked up from negligible levels, they still do not

reflect the significant and growing share of global GDP attributable to these economies. That other is that investors tend to be over-exposed to their home markets.

2. **Take a long-term view.** Investors must step back from the occasional hyperbole that crops up about emerging-market bubbles and remember that the long-term outlook is compelling. There will be blips, on an upward-sloping curve, but they should not stop investors. Remember that industrialising economies such as China can sustain much faster annual growth rates as they are emerging from a low-base.

3. **Include frontier markets** such as those in Africa. Incredible as the growth of China is, don't just bet on one emerging country. An allocation to emerging markets should include a range of economies at various stages of development. If you have China covered, then consider frontier markets in sub-Saharan Africa, for example, which have vast mineral wealth and huge consumption potential. Or Indonesia, Nigeria, Mexico, and Turkey. These countries have large populations and fast-growing economies and are mooted as next big things.

4. **Invest in real assets.** Some economists argue that we are entering an inflationary age. Moderate inflation is not bad for equity markets. But, some doom-mongers are predicting a worse outcome due to the alleged inflationary effects of central bank asset-buying programs combined with higher commodity prices (particularly food and energy). It seems sensible for investors to include inflation-protection, such as inflation-linked bonds, in their portfolios. However, other economists are more sanguine, given spare capacity in western economies. Meanwhile, emerging economies are in the midst of an urbanising age; one that requires infrastructure build and raw materials. An optimal strategy, therefore, may be to remain in equities but tilt the bias of investments towards real assets whose prices rise with inflation. By investing in companies that have pricing power such as miners of industrial and precious metals, investors can participate in corporate growth and generally beat inflation. Given constraints on supply, these companies tend to benefit disproportionately from higher global growth.

5. **Remember to add food and water.** Fertiliser and agricultural companies stand to benefit from growing demand for food and changing diets in developing countries. Similarly, companies that build desalination and water-management infrastructure and that can provide access to clean water should have full order books as demand for water intensifies across the world.

6. **Consider consumption.** As emerging economies grow and become wealthier, the global middle class will expand rapidly and consumption will soar, particularly in the discretionary segment where branding is key. Beneficiaries will be based in western and emerging markets.

7. **Do not ignore pharmaceuticals.** Pharmaceuticals have been overlooked even though their industry outlook looks bright. A massive expansion in middle-class consumer populations in emerging markets, combined with people living longer, particularly in developed economies, paints a rosy picture for global healthcare spending. There is scope for the best generic and branded names to benefit.

Important information

Investments in small and emerging markets can be more volatile than in more-developed markets.

Investments in overseas markets can be affected by currency exchange and this may affect the value of your investment.

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