
# Game-changers: megatrends and investing

Investors seeking growth in their portfolios need to look outside the box for opportunities in today's market. The so-called blue-chips of the past are not necessarily the growth drivers of today or the future.

Those investors looking for the next big thing may be focused on disruptive innovation but focusing on megatrends may be a more effective approach. So, what is the difference?

## Disruptive innovation versus megatrends

Disruptive innovation involves an entrant to a market using an innovation to offer a product or service in a more accessible and/or affordable way to a wider base of customers. It starts by targeting those who didn't previously use that type of product or service, or couldn't afford to, and then gradually develops its appeal until it is able to displace established competitors[1]. Investors tend to assume disruptive innovators are exclusively in the start-up domain, but this isn't always the case. It could involve established companies entering new markets or doing things in different ways. For example, Apple disrupted both mobile phones and laptops with the launch of the iPhone in 2007 by effectively offering internet access on the go. In its basic form, it was an affordable and accessible laptop, so justifiable as an expensive mobile phone.

By contrast, a megatrend is a universal socioeconomic, environmental or technological force changing the way we do things[2]. For example, constrained environmental resources are starting to force wide-spread changes, such as to the energy sources we use, our government policies or our lifestyles. Or alternatively, the internet has increasingly connected the world in unexpected ways, leading to a rise in new ways of doing business (i.e. ecommerce) or changing patterns of communication (like social networks).

Disruptive innovation can come as a result of megatrends, but megatrends can also involve sustained innovation across the market.

## Why focus on megatrends?

Identifying the next big thing in terms of disruptive innovation can be challenging.

Research may not always predict exactly what consumers will respond to and may not always be available publicly. Established companies are often somewhat secretive about their pipelines of new developments to avoid competitors getting in first. Start-ups may be more open about their activities but then there is always the risk of picking the 'wrong' one given 90% of start-ups fail[3]. From that perspective, focusing purely on disruptive innovation can be a riskier approach for investors. It also requires investors to focus more on individual stock picking.

Focusing on megatrends is a broader approach but can be more suitable for investors for a few reasons. Firstly, the trends tend to be sustained over a longer period, in some cases 20 years or more, and based on known patterns and pressures[4]. Secondly, there is still the potential for disruptors to appear within the trend. And thirdly, investing based on megatrends can be more accessible. The reason for this is the abundance of managed investments, like ETFs, focusing on specific trends and incorporating a wide range of companies in that area. This can be more affordable and cost effective than seeking to identify specific companies and can assist in spreading risks over many companies rather than just one or two.

## Megatrends across the coming years

There are a range of megatrends influencing the world, changing how we do business, how we interact and consume or even where global economic centres sit.

This paper explores some of the themes of the future, including virtual connectivity, the growing Asian middle class and resource constraints. It forms part of an ongoing megatrends series from ETF Securities, where themes will be covered in more detail over the coming weeks.

### Virtual connectivity and digitisation

We are increasingly moving our interactions and consumption online as the internet becomes faster and cheaper to access. It is estimated that nearly 60% of the world's population are internet users[5], embracing social media, streaming services and online shopping. The internet is rapidly becoming an essential tool of modern life, required for business processes, data storage, even supporting lifestyle improvements, such as via automated devices. The current roll-out of the 5G network worldwide will further support this movement. It is predicted that around 500 billion devices will be connected to the internet by 2030[6].

Even just looking at current technology and use, a range of industries have been able to take advantage of the opportunities from this shift online.

Retailers and suppliers are able to access and service customers all over the world from one base location which has cost savings in terms of bricks and mortar space as well as staff. Companies that were slow to move online have suffered, with a number of traditional department stores prime examples of this. This has been a space ripe for disruption and the Amazons and Alibabas of the world have set the standard for expectations of ecommerce experiences. The race continues to offer the best experience in terms of product and delivery.

These companies in turn need ways to target customers, opening the door for digital marketing. Digital ad-spend overtook traditional media advertising in the US for the first time in 2019[7], and this trend is likely to continue given the challenges faced by traditional media channels like television or newspapers. E-marketing is becoming increasingly targeted, with algorithms making use of cookies to serve up personalised advertising. Big data has also played into this area, with companies like Facebook, Google and Baidu able to capitalise on the extraordinary volume of data they hold, identifying trends and patterns of behaviour that will accompany certain buying habits and on-selling this information to other retailers and suppliers.

The movement towards digitisation has also come with increased risk to privacy and security. Cybersecurity is becoming a big business, with cyberattacks becoming more sophisticated and with the power to disrupt businesses and even governments. Only recently, Toll Group was hit by a targeted attack forcing it to shut down much of its operations and causing delays to customer deliveries[8]. A number of official state websites in Greece were also briefly disabled by an attack in January[9].

People looking to invest in this megatrend could consider ETFs that focus on sectors like technology, subthemes like robotics and artificial intelligence or even those that identify top innovative companies broadly.

Products in focus:
**ETFS Morningstar Global Technology ETF (TECH)**
**ETFS ROBO Global Robotics and Automation ETF (ROBO)**
**ETFS FANG+ ETF (FANG)**

## The growing Asian middle class

The growth of the middle class across Asia has been well documented for years. The OECD predicts that households with daily expenditures of $10-$100 per person would swell to 4.9 billion by 2030, with two-thirds residing across Asia[10]. The region is anticipated to be responsible for 52% of global gross domestic product (GDP) by 2050[11].

Traditionally, China has been the primary focus but its economic slowdown as it moves to a consumption-driven economy, as well as the challenges it faces managing the COVID-19 (coronavirus) outbreak, have led many to look to alternatives. India, for example, is expected to see the percentage of households in poverty drop from 15% to 5% by 2030[12] and its population is set to overtake China by 2024[13].

The movement of people to higher financial status represents a huge opportunity. It is an audience with the ability to afford more than just the basics and demand better quality. At a base level, manufacturers of higher quality consumer staples can benefit from this demand. For example, a middle-class audience is more likely to purchase well-known brands or consider organic foods over mass-grown options.

The opportunity extends across industries. A middle-class audience has excess cash to consider travel, education, healthcare, medical needs, luxury goods and technology. Universities and schools worldwide are recognising the current interest in accessing their campuses, with international education worth $38bn to the Australian economy[14]. Luxury consumer discretionary brands from houses like LVMH are already reaping the benefits[15], while healthcare and vitamin companies like Blackmores are discovering consumers who are focused on their health needs and have the finances to pay for it[16].

The shift has also been responsible for the emergence of a number of global power players domiciled within the Asian region. Armed with local expertise to manage regulations and cultural differences and anticipate demand and needs, these companies have massive and growing client bases and the ability to pivot to other regions. Chinese based company Alibaba and Indian multinational Infosys Ltd are good examples.

Investors interested in exposure to the growing Asian middle-class could look at ETFs focused broadly on Asia, or that track stocks in individual countries like China or India. Alternatively, selecting sectors that may benefit from growth in this region, like healthcare could be another approach.

Products in focus:
**ETFS FANG+ ETF (FANG)**
**ETFS Reliance India Nifty 50 ETF (NDIA)**

## Limited resources

Ongoing population growth and climate change are placing pressure on available resources including minerals, energy, water and food sources. Global power consumption is anticipated to more than double in the next 30 years[17], while water shortages could affect more than 5bn people by 2050[18]. This is forcing an evolution in how we use energy and water, both at an individual level and an industrial level.

Fossil fuels are key on the agenda. The primary source of most power in the world but a massive contributor to climate change. Renewables were once too niche and costly but are becoming increasingly mainstream. Wind and solar energy is expected to represent 40% of energy supply by 2040[19]. In Australia, more than 20% of households already have solar power systems to support their energy needs[20]. Existing energy providers have formed strategies to move towards renewables, while new companies have emerged to support the shift, both as providers of energy as well as suppliers of components.

The shift to renewable energy has also raised questions around efficient storage. Battery technology has continued to improve rapidly, creating high demand for lithium. Manufacturers of power banks, such as Tesla, have benefitted from increasing interest in storage and in turn, increased demand has brought down costs, making storage accessible to retail consumers.

As part of the shift to renewable energy, big corporations are incorporating an environmental approach to their businesses. This has the added advantage to corporations of appealing to their customer base. Apple, for example, uses 100% renewable energy in its global facilities[21], while Amazon CEO Jeff Bezos pledged $10 billion to fight climate change through the Bezos Earth Fund[22]. Even BlackRock recently announced it would no longer include fossil fuel companies in its actively managed funds[23].

The scarcity of resources is only likely to grow in its need to be addressed by private citizens, corporations and governments alike and is likely to spur new industries to manage it over time.

From an investment perspective, there are a range of ways to access the trend towards resource efficiency. There are ETFs which specifically focus on subthemes within this area, such as on battery technology or lithium mining. Looking at sectors which will support changes, like technology, can also be an option. Some investors may also choose to invest directly into industries like agriculture, in anticipation of higher demand.

Products in focus:
**ETFS FANG+ ETF (FANG)**
**ETFS Battery Tech & Lithium ETF (ACDC)**

Megatrends offer both opportunity and risk. Those companies and industries who aren't prepared to adapt will fall away, and there is space for disruptive innovation to move the trends in ways beyond expectation. As the guiding concerns and forces for everyday life, investing in megatrends is a way to be an active participant in change, rather than just following it.

For more information on accessing these trends through ETFs, please speak to ETF Securities.

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