Morgan Stanley

INVESTMENT MANAGEMENT

BIG PICTURE
Key Themes for 2025

MACRO INSIGHT | Q1 2025

As we step into 2025, a confluence of geopolitical, economic and generational shifts will impact markets. The anti-establishment sweep of 2024 brought anti-elitist and anti-immigration leaders to power, sparking a wave of protectionist policies—from tariffs to subsidies and sanctions. While many believe the new U.S. administration's tariff strategy will drive higher inflation, stronger rates and a surging U.S. dollar, history shows that market relationships are rarely so linear.

Global trade and capital flows are evolving. The U.S. champions a "China Plus One" strategy to diversify supply chains, while Beijing counters with its own "U.S. Plus One" approach. This geopolitical tug-of-war will create clear winners and losers. And, the competition extends beyond our planet, as space emerges as the next commercial frontier.

Meanwhile, back on Earth, demographic and generational shifts are reshaping economies and consumption patterns. Aging populations drive demand for specialized infrastructure and services, while Millennials and Gen Z exert their purchasing power through digital connectivity and a dopamine drive. For these younger generations, joy is just a click away.

Read more in our Key Themes for 2025.

1. Too Much Linear Thinking: Trump = Tariffs = Inflation = Higher Rates

There is a prevailing belief that the Trump administration's anticipated tariffs will trigger inflation and lead to higher rates. While the idea of introducing tariffs may seem like a straightforward solution to protect American industries, this approach remains unrealistic for two compelling reasons.

AUTHOR

JITANIA KANDHARI
Deputy CIO, Solutions & Multi Asset Group
Head of Macro & Thematic Research, Emerging Markets Equity
Portfolio Manager, Passport Equity

Key Themes for 2025

1. Too Much Linear Thinking
2. The 3 Antis
3. The 3 Ss: Subsidies, Sanctions, Security
4. Follow the Ships
5. Follow the Money
6. China's Stimulus Fatigue
7. Emerging Markets in Motion
8. Orbiting Opportunities
9. The Global Edge
10. Navigating the Age Wave
11. Bonus Theme: Dopamine Overdrive

First, 56% of tariffed goods are intermediate goods. Imposing tariffs would act as a tax on domestic manufacturers, increasing their production costs and penalizing U.S. exporters. Tariffs will have a detrimental impact on U.S. supply chains and production capacity. Second, unrestricted tariffs could trigger a wave of retaliatory measures from trading partners, leading to escalating tensions that can harm growth and lower inflation. Trade friction carries significant costs that markets may be underestimating.

Even if tariffs are imposed, their impact can be offset in several ways: corporates absorbing costs, supply chain diversions, demand displacement, product substitution and currency adjustment—all of which are coping mechanisms to minimize the impact.

Evidence from the last Trump administration challenges the assumption that tariffs lead to inflation and higher interest rates. For instance, when Trump took office in 2017, core personal consumption expenditure (PCE) inflation stood at 1.8%, yet it fell to 1.6% three years later prior to the COVID pandemic, despite the implementation of tariffs. Furthermore, Chinese export prices today remain among the lowest in the world, allowing Beijing to export deflation due to its excess manufacturing capacity. A decline in U.S. demand for Chinese-made goods has led to an increased supply of Chinese goods to other major economies, exerting modest downward pressure on ex-U.S. core prices.

Currency depreciation can also soften the blow from tariffs. For example, the Chinese renminbi depreciated by 11% following the Trump tariffs in 2018, effectively cushioning some of their adverse impact. Conversely, a stronger dollar makes imports cheaper, countering some of the inflationary pressures that tariffs might otherwise create.

There is a historical parallel with Japan when it faced similar tariffs from the U.S. in the 1980s. The significant depreciation of the yen ultimately forced central bankers to negotiate the Plaza Accord in 1985 to stabilize the currency. This interplay between currency values and tariffs also shows how these economic relationships are rarely linear.

2. The 3 Antis: Anti-Elitism, Anti-Incumbency, Anti-Immigration

The 2024 wave of the "3 Antis" reveal deep-seated frustrations with traditional power structures that will impact politics, economics and markets in 2025.

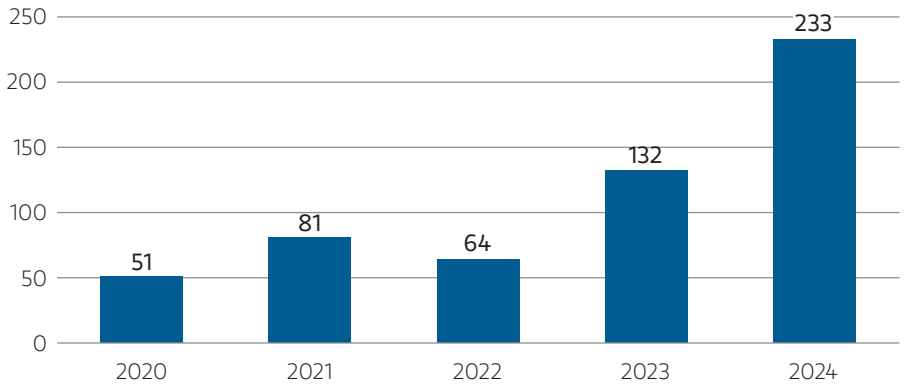
ANTI-ELITISM: The widening inequality gap has given rise to a growing distrust of the capabilities of established power structures and institutions—or "elites"—to tackle pressing social issues. This climate of skepticism is reshaping political discourse, providing fertile grounds for populist movements that advocate for inclusive policies and measures aimed at redistributing wealth and resources to combat income disparities.

In the U.S., populist movements, like Trump's 2024 campaign, capitalized on anti-elitist sentiment by criticizing Washington insiders and large corporations. In France, widespread protests over pension reforms reflected public anger toward policies perceived as elitist, leading to massive backlash against President Macron's government. In Argentina, Javier Milei, a libertarian outsider, won the presidency by railing against traditional political elites and promising radical reforms.

DISPLAY 1

Immigrant Sentiment Sours

Anti-immigrant bills and proposals in the U.S. (2020-2024)



Source: League of United Latin American Citizens.

ANTI-INCUMBENCY: Rising inflation frequently correlates with the defeat of incumbents, resulting in a change of government in three out of four instances historically ["Key Themes for 2024"] and proved to be relevant in 2024 when 55% of the world population went to the polls. Voter frustration, especially in developed markets (DMs) paved the way for outsiders, while polarized media coverage amplified government shortcomings, deepening divides across class, geography and ideology.

Republicans in the U.S. benefited from this trend, while in Japan, the Liberal Democratic Party (LDP) lost its majority. Voter dissatisfaction in Poland resulted in the opposition coalition ousting the ruling Law and Justice party. Although India's Prime Minister Narendra Modi was reelected, his majority was severely reduced. In Mexico, the incumbent Morena party and Claudia Sheinbaum, a close supporter of the outgoing president, achieved a resounding victory by pivoting to help the underprivileged.

ANTI-IMMIGRATION: The rise of nationalism has led to a growing resistance to immigration, a rallying point for anti-incumbents, threatening labor mobility which could hinder innovation and economic growth.

In the UK, the government is implementing measures to reduce immigration, especially asylum seekers. Italy's Prime Minister Giorgia Meloni has tightened controls and targeted migrant boats. In Sweden, stricter immigration controls reflect growing concern about migrant integration, while Denmark has controversial plans to send asylum seekers to other countries. Even Canada, traditionally known for its openness, is experiencing pushback for its immigration policies.

Concern over job losses, cultural homogenization and dependency on global supply chains have stoked these trends. Expect to see protectionist policies, reshoring efforts and localized economic strategies to be preferred policy prescriptions in this wave against elites, incumbents and immigrants.

3. The 3 Ss: Subsidies, Sanctions, Security

Subsidies, sanctions and security are reshaping the political, economic and corporate landscape, but it's important to examine historical precedents to assess the effectiveness of these measures.

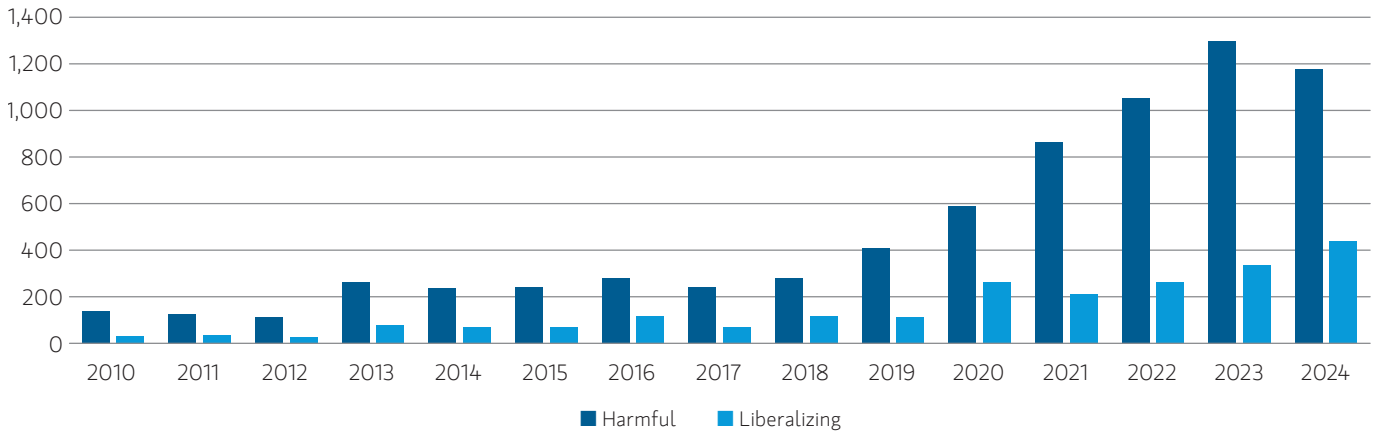
SUBSIDIES: Governments worldwide have increasingly adopted subsidies as a strategic tool to bolster domestic industries, counter trade wars and enhance competitiveness. In the U.S., these interventions are particularly impactful in the aerospace, automobile, energy and semiconductor sectors. While these incentives are often seen as catalysts for industry clustering and innovation, their long-term impact is debatable.

For instance, in 2017, a large Taiwanese electronics manufacturer promised to invest $10 billion and create 13,000 jobs in Wisconsin after being given $3.6 billion in incentives. Ultimately, the project fell significantly short of its lofty goals. Research shows that subsidies influence location decisions only

DISPLAY 2

An Increasing Number of Restrictive Global Trade Policies

More harmful than beneficial



Source: Global Trade Alert. As of January 15, 2025. Note: Harmful is defined as policy interventions that negatively impact free trade globally, including trade-protective measures, subsidies, tariff measures, non-automatic licensing, quotas etc. and export-related measures (including export subsidies). Liberalizing is defined as policy interventions that facilitate free trade globally, including removing tariff measures, automatic licensing, quotas and migration measures.

about 25% of time, suggesting that many investments would occur regardless of the financial incentives.

Subsidies also distort markets and reduce competition by encouraging overproduction, which often benefits larger firms while sidelining smaller and more innovative businesses. A Bureau of Economic Analysis report reveals that while productivity may rise in targeted sectors, it is offset by losses in others.

The world's largest chipmaker has said that higher production costs and a shortage of skilled labor in the U.S. hinder competitiveness when compared to countries like Japan, where the company already has established factories, despite higher U.S. subsidies.

Instead of targeted subsidies, broad-based tax reductions and policies that promote economic freedom and cut red tape could yield more sustainable growth.

SANCTIONS: A cornerstone of U.S. foreign policy, sanctions are a continuation of political means through economic pressure. According to academic studies, sanctions often fall short of achieving their intended goals, imposing significant costs on both the target and the sanctioning nation. Over the past two decades, their use has surged by more than 900%, dealing with issues ranging from terrorism to human rights violations. High-profile cases include Iran, Venezuela and Russia, which became the most sanctioned nation in 2022. Studies spanning five decades show unilateral U.S. sanctions have succeeded in just 13% of cases. Rather than destabilizing regimes, sanctions can instead strengthen state control, as seen in Iran, where the regime strengthened its military while pushing over 20% of the middle class below the poverty line. Sanctions also impose unintended costs on the American economy, by causing potential adversaries to develop their internal capacity and reduce their dependence on the U.S. China, for example, could take more aggressive actions to decouple from the U.S.

To be effective, sanctions need to have modest goals, targeting smaller and politically unstable nations. Beijing's economic strength and stability render sanctions largely ineffective in exerting immediate pressures on China's GDP (Gross Domestic Product). Instead, the costs of these measures can disproportionately impact U.S. businesses reliant on trade with China.

While sanctions remain a key foreign policy tool, their limitations underscore the need for careful calibration and multilateral coordination to enhance their efficacy.

SECURITY: In our increasingly interconnected world, governments, corporations and individuals are focused on protecting national borders, intellectual property and vital infrastructure against traditional and emerging threats. The rapid integration of artificial intelligence (AI) could fundamentally reshape the security outlook.

While AI systems offer unprecedented capabilities, they also amplify vulnerabilities as they are reliant on vast troves of data. Cybercriminals are increasingly targeting sensitive information, highlighting the need for robust cybersecurity measures, which has led to exponential growth in the cybersecurity industry.

Geopolitical tensions are driving a surge in global defense spending, with governments investing in advanced technologies to address both traditional and cyber threats. Alarmingly, the median age of U.S. military facilities stands at 48 years, illustrating a pressing need for modernization. Europe has consistently fallen short of meeting its defense spending target of 2% of GDP for more than a decade.

Government, country, corporate and personal security is no longer just a protective measure, but also a growth opportunity.

"By broadening the lens beyond the U.S., investors can tap into high-growth opportunities driven by industrial shifts, geopolitical dynamics, demographic changes and rapid technological innovation, unlocking the potential in global markets."

—Jitania Kandhari
Deputy CIO, Solutions & Multi Asset Group, Head of Macro & Thematic Research, Emerging Markets Equity, Portfolio Manager, Passport Equity

4. Follow the Ships

Since the escalation of U.S.-China trade tensions in 2016-18, global trade dynamics have evolved, reflecting a blend of deglobalization trends and adaptive strategies among key players. Trade multipliers have fallen below 1x, partly driven by the adoption of tariffs and non-tariff measures, especially between the U.S. and China. While tariffs and export restrictions often dominate the headlines, global supply chains are adapting and evolving rather than collapsing.

There has been a decoupling of the two top economic powers, with Chinese shipments to the U.S. dropping from 21% of its total exports in 2000 to 16% in 2023. Beijing has largely retained its global market share by redirecting exports to Europe and emerging markets (EMs). As U.S. companies adopt "China Plus One" strategies, China is implementing "U.S. Plus One" programs. Beijing's shipments to EMs have surged from 16% of total exports in 2000 to 44% in 2023.

Supply chains aren't merely shifting; they're evolving strategically. In response to tariffs and rising protectionism, China has adopted a dual approach: relocating parts of its manufacturing to friendly territories, while simultaneously building robust domestic supply chains in high-stakes industries like semiconductors, electric vehicle batteries and solar panels. It's a playbook designed to hedge geopolitical risk while reinforcing dominance in sectors that will determine the future of global power.

In the redrawn trade routes, Southeast Asia has emerged as the biggest winner, with booming shipments to the U.S. and rising intra-regional trade enhanced by investments from global players pivoting away from China. Mexico is another beneficiary, serving as a bridge to U.S. markets for Chinese-linked supply chains. Other fast-growing trade connections include China-to-Russia, China-to-Southeast Asia, and China-to-the Global South, encompassing Africa and South America. In contrast, trade flows from Europe to both Asia and the rest of the world are stagnating as advanced economies struggle with slower growth and declining demand.

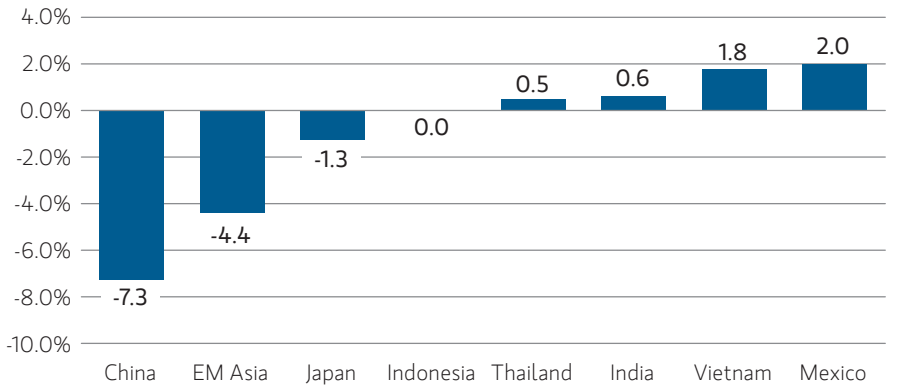
The surge in Chinese goods to the Global South illustrates a broader recalibration of Beijing's strategy. This shift transcends mere export of goods—it's about exporting influence. By embedding itself in the supply chains of EMs, China is weaving a web of interdependence to solidify its foothold in these rapidly growing regions. These trends illustrate a critical truth: trade is no longer merely an exchange of goods; it's a vehicle for advancing technological supremacy and reshaping geopolitical landscapes.

The rules of trade are being rewritten, but one constant remains: Asia—led by China—is still the center of gravity.

DISPLAY 3

As U.S. Pushes "China Plus One" Strategies…

Changes in share of U.S. imports from each country (2016-2023)

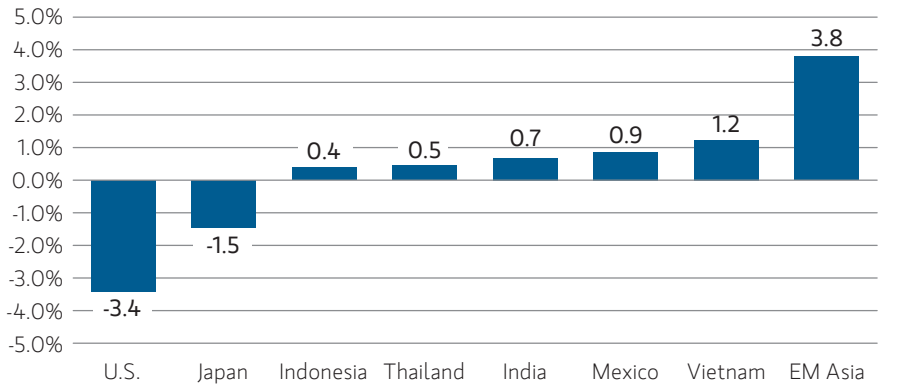


Source: Haver Analytics. Note: EM Asia includes Indonesia, Thailand, India, Vietnam and other countries per IMF Emerging and Developing Asia definition.

DISPLAY 4

…China Pursues "U.S. Plus One" Strategies

Changes in share of Chinese exports to each country (2016-2023)



Source: Haver Analytics. Note: EM Asia includes Indonesia, Thailand, India, Vietnam and other countries per IMF Emerging and Developing Asia definition.

5. Follow the Money

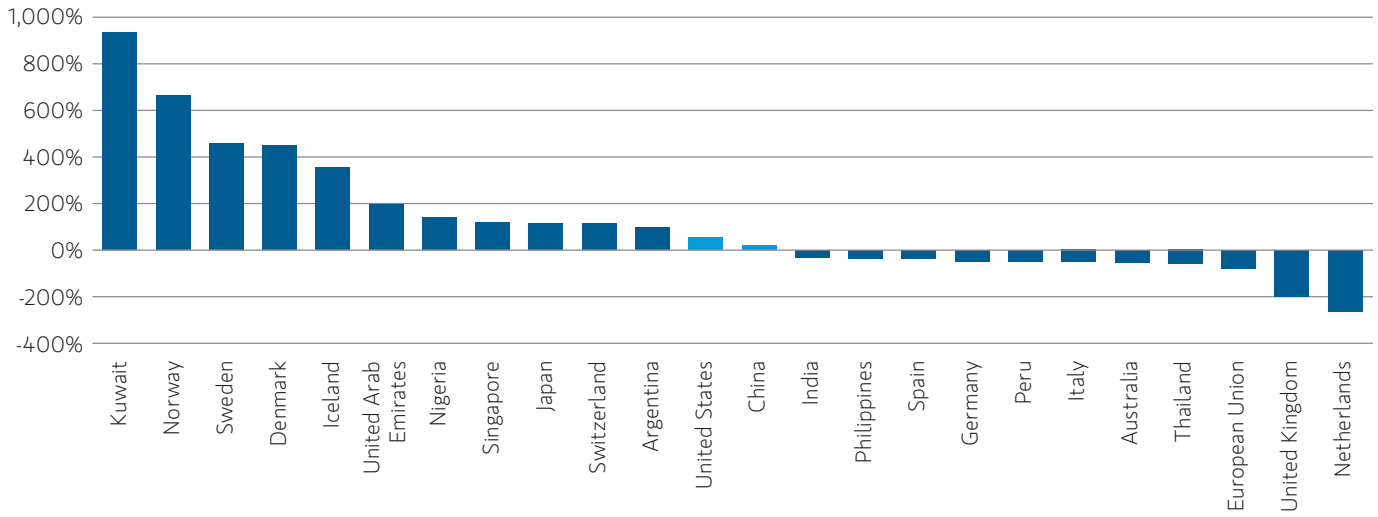
While trade shifts capture the spotlight, the movement of money paints a clearer picture of evolving alliances and vulnerabilities. Nowhere is this more evident than in foreign direct investment (FDI) and portfolio flows.

Once a magnet for strategic industries like semiconductors, telecommunications and pharmaceuticals, China is now experiencing an investment exodus driven by rising international tensions and policy uncertainties. Since 2022, China has experienced a 70% decline in FDI flows—a massive $300 billion drop. While the U.S. and its Asian allies are pulling back sharply, other nations like Germany and Singapore have stepped into the breach, targeting high-tech, automotive and green sectors, underscoring China's enduring strategic value.

DISPLAY 5

Winners and Losers of FDI Flows

5-year change in FDI inflows by country

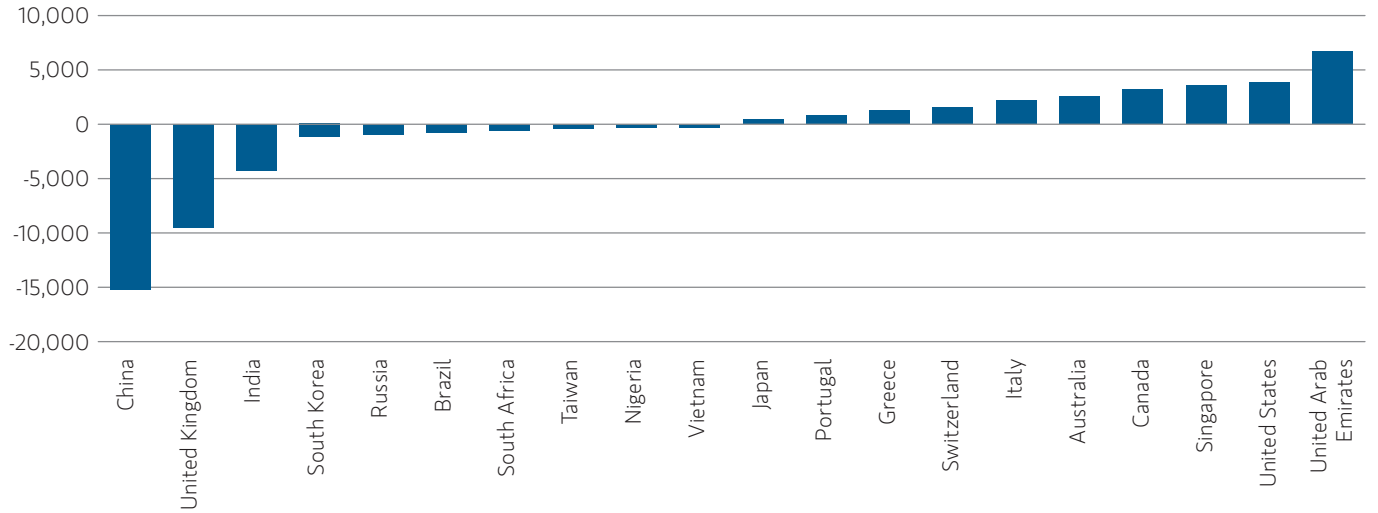


Source: World Investment Report (2019-2023).

DISPLAY 6

Voting with Their Feet

Millionaire migration by country (in 2024 est.)



Source: Henley & Partners. These are provisional figures based on millionaire movements January to June 2024. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

Meanwhile, China's outward FDI strategy reveals a blueprint to bypass geopolitical constraints. Beijing is aggressively targeting Mexico and Vietnam, doubling its capital commitments to these strategic gateways that offer Chinese companies proximity to key DMs. Chinese capital fuels a quiet, but significant, race to sustain its global foothold, mitigate tariffs and diversify risk.

China's portfolio investments in the U.S. have remained relatively stable between 2016 and 2023. While there has been much handwringing over the decrease in U.S. Treasury purchases by China, this has been largely offset by higher flows into agency bonds and corporate stocks. In all, China remains the third largest investor in U.S. capital markets, following Japan and Canada.

As part of its toolkit, Beijing has deployed a new form of economic statecraft. China has issued U.S. dollar bonds in Saudi Arabia while tightening controls on the export of rare earth metals, devising a multidimensional strategy to manage geopolitical risks in an increasingly fractured global economy.

The U.S., as the biggest beneficiary of global FDI flows, commands a dominant 27% share compared to China's 7%. As the world's most reliable investment destination, the U.S. continues to attract foreign money even amidst rising protectionism, illustrating the draw of its economic framework. While Canadian firms are focusing on the financial sector, countries like Japan, Germany and the Netherlands continue to funnel investments into U.S. manufacturing, aligning with government-supported initiatives.

Kuwait, Norway, Sweden, Denmark, Iceland and UAE have experienced the biggest increase in FDI in the last five years while the Netherlands, UK, Thailand, Australia and Italy have seen the largest decrease.

Tracking millionaire migration trends also reveal interesting money flows. Countries with the largest inflow of millionaire migration are the UAE, U.S., Singapore, Canada and Australia. Countries with the largest outflows are China, UK, India, South Korea and Russia. Millionaire movements often provide an early signal into future economic trends.

The future belongs to those who can read and ride these trade and capital currents.

6. China's Stimulus Fatigue

Over the last three months, China has delivered its latest stimulus package to inject new life into their struggling economy and boost share prices. However, high debt levels, overinvestment, an unresolved property bubble, underwhelming domestic consumption and international trade pressures are contributing to structural weaknesses in China's economy that cannot be addressed through temporary fixes.

Debt and overinvestment have caused productivity decline and deflation. With debt levels soaring to 350% of GDP, each Chinese yuan injected into the economy yields diminishing returns. Adding to the challenge, nearly 45% of China's GDP is funneled into projects facing declining domestic demand. This flood of excess capacity has led to deflationary pressures in both producer and consumer prices.

China's property market, once an anchor of the country's wealth, has become a liability, with more than 60 million empty units. Property represents about 60% of a Chinese family's net worth, compared to 27% in the U.S. Any effective economic solution must address challenges within the property sector and its cascading effect on wealth, consumption and financial stability. Efforts to boost domestic consumption have largely fallen short. Unlike in the U.S., where lower interest rates typically encourage consumption, the Chinese are reluctant to spend, concerned about falling property values and the absence of a social security net.

China is increasingly following in the footsteps of manufacturing giants like Germany, relying on exports to sustain growth without a commensurate domestic market to absorb production. In China, stimulus increases supply rather than demand, leading to excess capacity that it exports. This export-dependent strategy has led to an accelerating trade surplus, creating significant tensions.

Since the Global Financial Crisis (2008-09), China has rolled out five major stimulus packages. Each has provided a short-term market lift coinciding with a cyclical boost to growth. Following its economic peak in the 1980s, Japan also experienced long-term stagnation interspersed with brief market rallies that averaged 45% within a downward market trend. China's market, under the influence of stimulus packages, has similarly rallied five times in recent cycles by about 35%, making lower highs and lower lows.

We believe there are no quick fixes for China's economy. Only a complete debt restructuring, followed by bank recapitalization and government-led redistribution, will drive meaningful, positive change. It will no doubt be painful. But until China addresses the root issues—excessive debt and inefficient investment—stimulus measures may provide fleeting relief, but will remain mere Band-Aids.

7. Emerging Markets in Motion

Emerging markets represent a diverse asset class with distinct dynamics, requiring an active approach to investing. While China faces challenges due to overinvestment and oversupply, many pockets of EM remain underleveraged, underinvested and undersupplied.

Several themes have developed across the asset class:

SHIFTING TRADE AND GROWTH: The U.S.-China trade tensions are reshaping global supply chains. Countries like Mexico, Thailand and Korea, with strong trade ties to the U.S., are directly affected while Brazil, India, Indonesia and South Africa are more insulated from trade headwinds thanks to their domestically-driven economies. China's investments in Mexico, Vietnam and Thailand, which offer competitive labor costs and better diplomatic relations with the U.S., are attracting manufacturing investment.

A REVITALIZED FINANCIAL SECTOR: Improved domestic liquidity is creating a new domestic growth cycle in the private financial sector, driven by both household and corporate credit expansion.

DIGITAL PLATFORMS: Productivity gains in EM have often outpaced that of DM, leapfrogging traditional development stages and harnessing innovation to create digital champions and consumer engagement.

INDUSTRIAL RESET: (See The Industrial Reset in Emerging Markets) Key players in AI, particularly in Korea and Taiwan, are capitalizing on semiconductor advancements. Malaysia is becoming Asia's data center hub with cheap land, electricity and water. Electrification to meet the new energy demands, defense spending and green energy investments are providing a tailwind to an industrial recovery.

RISING NATIONALISM: Governments, corporations and consumers are increasingly gravitating to local brands and bolstering domestic industries.

FRONTIER MARKETS: We expect to see faster growth and falling inflation in frontier economies (see Hidden Gems: Unearthing the Potential of Overlooked Markets), which are undergoing bold reforms in the wake of recent currency devaluations and aren't expected to be impacted by looming tariffs. Notably, their performance has remained largely uncorrelated with other global assets.

8. Orbiting Opportunities

For decades, space exploration was the exclusive realm of governments, defined by Cold War-era rivalries and astronomical costs. The "Space Race" of the 20th century that began in 1957 when the Soviet Union launched Sputnik, culminated in the 1969 moon landing, and consumed billions of dollars in state resources. At that time, space was seen as an unattainable frontier for private enterprise due to its prohibitive economics.

However, the 21st century marks the emergence of space as the next frontier to be commercialized. The domain is no longer the exclusive playground of superpowers. Breakthroughs in technology and scale have slashed launch costs by 95% in the last two decades. Today, launching a satellite is no longer a $200 million gamble, but a relatively affordable $60 million—or less. These breakthroughs have democratized access, spurring exponential growth. In the U.S. alone, the number of objects launched into space soared from just 80 in 2013 to over 2,100 in 2023.

The commercialization of space has introduced several powerful themes, with the satellite boom emerging as the backbone of the global connectivity race. Propelled by demand for broadband and enabled by the proliferation of small, low-cost satellites, 75% of today's satellite orders fall within the sub-500 kg category. These developments promise to bridge vast connectivity gaps while opening enormous market opportunities in telecommunications and data services.

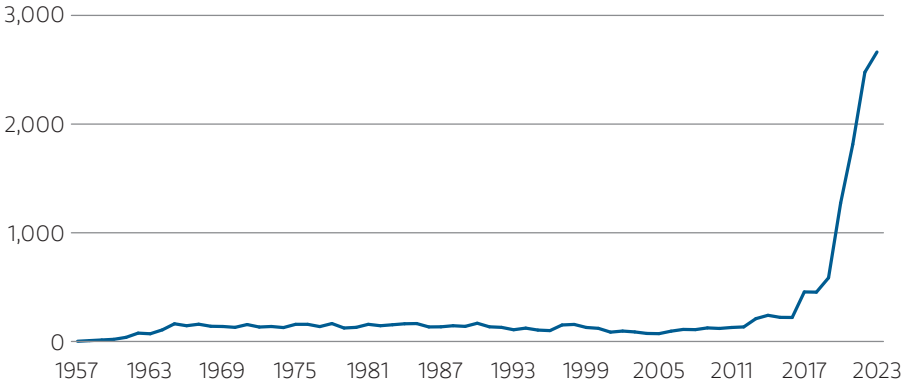
Simultaneously, space has morphed into the next stage for global competition. Historically, international treaties sought to preserve space as a neutral zone, free from conflict. But that vision is eroding as nations pivot toward militarization. The U.S. established its Space Force in 2019, doubling its budget to $30 billion in just five years, reflecting heightened focus on defense and strategic advantage. China has also entered this race with a $14 billion investment in 2023, cementing Asia's rising share of global spending. The militarization of space now mirrors earthbound rivalries, making control over orbits as consequential as control over oceans.

The opportunities in space go far beyond satellites and defense. Space tourism, lunar and asteroid mining, and

DISPLAY 7

Reaching for the Stars

Objects launched into space worldwide per year



Source: ourworldindata.org. As of December 31, 2023.

debris management are turning once-futuristic ideas into imminent realities.

9. The Global Edge

U.S. equities have cumulatively outperformed international markets by +504% since 2010, an astounding +8.7% excess return CAGR vs. non-U.S. for almost 15 years. This extraordinary outperformance has left investors longing for a time machine to rewind time and seize the opportunity to invest in today's U.S. champions at yesterday's valuations.

But the future does not just belong to the U.S. Beyond its borders lies a wealth of opportunities in international markets brimming with companies poised to capture the same tailwinds driving U.S. growth, and often at more attractive price points. These are not "policy trades" but global opportunities that are tethered to the same transformative megatrends shaping U.S. markets.

Take AI's accelerating influence: the chips powering AI's revolution are largely manufactured outside U.S. borders. Semiconductor leaders, with their economies of scale and advanced technology, are indispensable players, offering investors access to the tools that underpin the future of AI-driven innovation. The rise of AI presents another promising avenue. Global software firms—many from Europe and Asia—are harnessing AI-driven solutions in cybersecurity, enterprise resource planning and cloud computing, blending operational resilience and vertical expertise with innovation.

FAANG-equivalent (Facebook, Amazon, Apple, Netflix, Google) platforms from Asia and Latin America are capturing new digital markets by combining scalable business models with proprietary content and diverse geographies.

Many international firms operate with global footprints, targeting the same lucrative markets as their American peers. For example, multinational consumer staples and healthcare companies straddle continents, offering diversified product lines while leveraging economies of scale. Credit cycles vary across the world, from deleveraged stories to flush domestic liquidity in some countries, restoring a cycle of credit-fueled growth.

Industrial transformation is yet another arena where global companies are extending across multiple verticals. Decades of underinvestment in defense, particularly in Europe, have created pressing modernization demands. As tensions mount, the world is seeing a renewed focus on upgrading outdated systems, presenting lucrative opportunities for defense and cybersecurity firms.

Similarly, the global energy transition is reshaping the electrification narrative. Europe is leading the way in renewable energy investments and EMs, such as India and China, are rapidly scaling clean energy infrastructure. Data centers need energy and electrification is becoming a compelling investment opportunity.

Automation is also rewriting the rules of production across the world. As labor force participation declines and costs rise, companies from DM and EM alike are leaning into robotics and AI-driven automation to bridge productivity gaps. EMs are not merely adopters of these technologies; they are increasingly pivotal producers, innovating solutions to meet local and global demand.

By broadening the lens beyond the U.S., investors can tap into high-growth opportunities driven by industrial shifts, geopolitical dynamics, demographic changes and rapid technological innovation, unlocking the potential in global markets often overshadowed by U.S. dominance. This is a chance to invest not in yesterday's champions, but in tomorrow's leaders.

10. Navigating the Age Wave

Slowing population growth and aging societies mean that many countries may struggle to maintain GDP and productivity growth. Countries like Japan, Germany and Italy, as well as China and South Korea, are experiencing declining working-age populations. In contrast, countries with more favorable demographic trends are Indonesia, Mexico, India, South Africa and Egypt.

Life expectancy in G-7 countries has risen from 77.6 years in 1995 to 83.0 in 2024. By 2050 it is estimated 1-in-6 adults (roughly 1.6 billion people) will be elderly, with about 450 million aged 80+. Dependency ratios are rising as fewer workers (20–64 years in age) support an expanding elderly population. Data consistently suggests a strong inverse relationship between dependency ratio and GDP growth.

Countries like the UAE, Canada, Australia, Israel and Singapore are reaping economic benefits from policies that encourage immigration. Conversely, the highest outflows are seen in China, India and South Korea. Studies indicate an increase in net immigration raises the working-age population share, boosts employment growth, slows population aging and reduces dependency ratios. Immigration not only fills labor gaps but also spurs innovation and productivity.

Regions facing acute demographic challenges, particularly North Asia, are increasingly turning to technology, robotics and automation to shore-up productivity.

Demographic trends create investment opportunities. Aging populations shift economic activity, reducing investment while increasing consumption. This "silver economy" will lead to an increase in healthcare demand, creating opportunities in asset management companies, senior housing REITs, skilled nursing facilities, insurance, healthcare equipment, longevity-related innovation and eldercare services.

At the other end of the generation gap, Millennials and Gen Zs—about 40% of the global population—favor value-driven consumption, digital-first lifestyles and a daily specialty coffee. Millennials are now the wealthiest generation, benefiting from appreciating home values and robust retirement accounts, while Gen Zs are more willing to invest in alternative investments including cryptocurrencies.

Both generations are notorious for buying the vibe. While Millennials gravitate to discount stores, Gen Zs rent luxury items for social media posts and to save space in their minimalist apartments. Millennials buy houseplants, their "green babies," and then spend on cute pots and watering cans. On the tech front, Gen Zs are keen to acquire the latest smart phones for their social videos while Millennials buy the latest smartwatch for its health tracking capabilities, all from the comfort of their couch.

Bonus Theme: Dopamine Overdrive

Plot twist—Gen Zs are trading their parents' beer kegs for social "likes" faster than you can say "delulu" because nothing screams "I'm living my best life" quite like a digital high five or someone commenting "slay" on your latest content. We are living in a digital world, a dopamine economy powered by constant digital stimulation brought on by social media, gaming and online gambling.

While Boomers had Woodstock, Gen Z is glued to an endless stream of videos. Dubbed the "sober curious generation," they are consuming 20% less alcohol than even their Millennial counterparts, opting for other thrills—like chasing the next social media trend. Today's hangover isn't from alcohol; it's from FOMO, the fear of missing out.

Though the structure of the brain hasn't changed, access to addictive distractions has skyrocketed. Instant gratification from likes, follows and views releases the dopamine that we all crave. People aged 16-24 spend an average of 2.5 hours on social media per day, and that's only one element of their digital dependency. The gaming industry raked in a staggering $430 billion in 2023, surpassing the combined revenues of the box office and digital music industries.

Technology has spurred online gambling, providing a quicker hit than slot machines and lottery tickets. And the ceiling appears limitless—millions of dollars were wagered on the outcome of the 2024 U.S. elections and $23 billion was bet on the Super Bowl. What happens in Vegas no longer just happens in Vegas. Today, there's a casino in every pocket.

Perhaps this is why our investment risk appetite has reached maximum capacity. While Boomers were busy diversifying their portfolios, the younger generations are diving into alternative investments. Digital assets have entered the chat with a market cap of over $3 trillion, surpassing the combined market cap of the world's three largest banks. Volatility has gone mainstream.

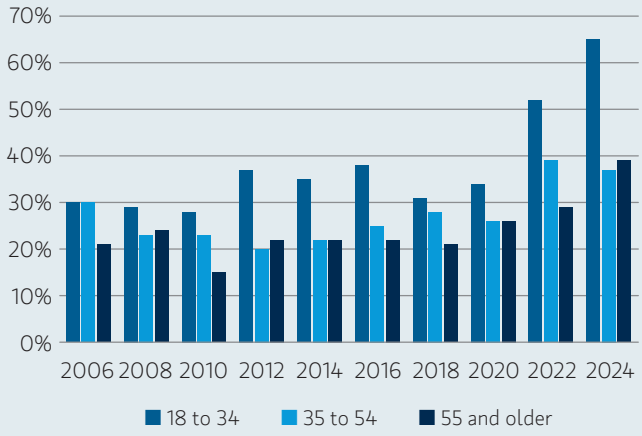
Yet amid the dopamine deluge, we are not getting happier. A 2024 survey revealed that nearly 50% of adults consider mental health the biggest problem facing their country. Perhaps that's the real plot twist—we seem to be self-medicating, looking for something that can spark "joy," while our digital addiction is preventing us from finding it.

In the meantime, the architects of the dopamine economy are already developing the next distraction, just a click away.

DISPLAY 8

No Cheers! Young Adults Increasingly View Alcohol as Bad for Health

Percentage of each generation viewing alcohol as harmful to health



Source: Gallup. Based on a survey as of August 2024. Survey question: Do you, personally, think drinking in moderation is bad for your health? Note: Moderation is defined as one/two alcoholic drinks per day.

Risk Considerations

Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **emerging market countries** are greater than the risks generally associated with investments in foreign developed countries.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results. The returns referred to herein are those of representative indices and are not meant to depict the performance of a specific investment.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular Strategy may include securities that may not necessarily track the performance of a particular index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.

For important information about the investment managers, please refer to Form ADV Part 2.

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors or the investment team. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific strategy or product the Firm offers. Future results may differ significantly depending on factors such as changes in securities or financial markets or general economic conditions.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index. Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

This material is not a product of Morgan Stanley's Research Department and should not be regarded as a research material or a recommendation.

The Firm has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this material is appropriate for any person to whom they provide this material in view of that person's circumstances and purpose. The Firm shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

Eaton Vance is part of Morgan Stanley Investment Management. Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

DISTRIBUTION

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Eaton Vance Management (International) Limited, Eaton Vance Advisers International Ltd, Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC and Atlanta Capital Management LLC.

This material has been issued by any one or more of the following entities:

EMEA:

This material is for Professional Clients/Accredited Investors only.

In the EU, MSIM and Eaton Vance materials are issued by MSIM Fund Management (Ireland) Limited ("FMIL"). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at 24-26 City Quay, Dublin 2, DO2 NY19, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

In Switzerland, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Outside the US and EU, Eaton Vance materials are issued by Eaton Vance Management (International) Limited ("EVMI") 125 Old Broad Street, London, EC2N 1AR, UK, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.

Italy: MSIM FMIL (Milan Branch), (Sede Secondaria di Milano) Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. The **Netherlands**: MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. **France**: MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain**: MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain. **Germany**: MSIM FMIL, Frankfurt Branch, Grosse Gallusstrasse 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Denmark**: MSIM FMIL (Copenhagen Branch), Gorrissen Federspiel, Axel Towers, Axeltorv2, 1609 Copenhagen V, Denmark.

MIDDLE EAST:

Dubai: MSIM Ltd (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158).

This document is distributed in the Dubai International Financial Centre by Morgan Stanley Investment Management Limited (Representative

Office), an entity regulated by the Dubai Financial Services Authority (DFSA). It is intended for use by professional clients and market counterparties only. This document is not intended for distribution to retail clients, and retail clients should not act upon the information contained in this document.

This document relates to a financial product which is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/or subject to restrictions on its resale or transfer. Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document, you should consult an authorised financial adviser.

U.S.:

NOT FDIC INSURED. OFFER NO BANK GUARANTEE. MAY LOSE VALUE. NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. NOT A DEPOSIT

LATIN AMERICA (BRAZIL, CHILE COLOMBIA, MEXICO, PERU, AND URUGUAY)

This material is for use with an institutional investor or a qualified investor only. All information contained herein is confidential and is for the exclusive use and review of the intended addressee, and may not be passed on to any third party. This material is provided for informational purposes only and does not constitute a public offering, solicitation or recommendation to buy or sell for any product, service, security and/or strategy. A decision to invest should only be made after reading the strategy documentation and conducting in-depth and independent due diligence.

ASIA PACIFIC

Hong Kong: This material is disseminated by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore**: This material is disseminated by Morgan Stanley Investment Management Company and should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore. **Australia**: This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. Interests will only be offered in circumstances under which no disclosure is required under the Corporations Act 2001 (Cth) (the "Corporations Act"). Any offer of interests will not purport to be an offer of interests in circumstances under which disclosure is required under the Corporations Act and will only be made to persons who qualify as a "wholesale client" (as defined in the Corporations Act). This material will not be lodged with the Australian Securities and Investments Commission.

Japan: For professional investors, this material is circulated or distributed for informational purposes only. For those who are not professional investors, this material is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This material is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.

© 2025 Morgan Stanley. All rights reserved.

RO 4161815 Exp. 1/31/2027 25Q10079_KC_0125 A4