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.

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Key Themes for 2025

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.

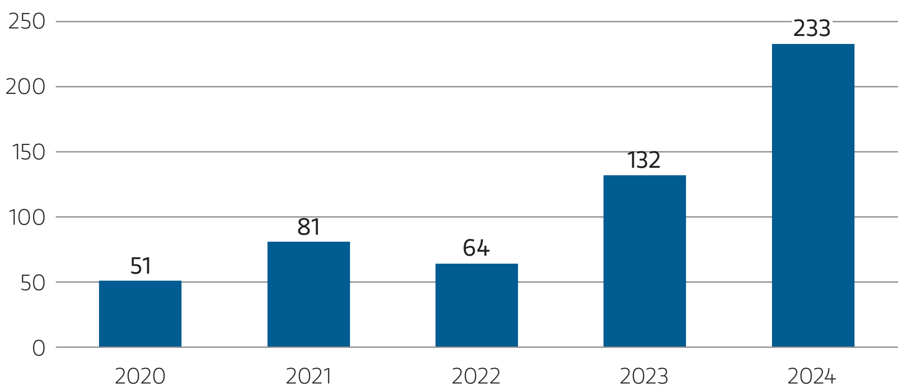
ANTI-ELITISM: The widening inequality gap has given rise to a growing distrust of the capabilities of established power structures and institutions—or "elites"—to tackle pressing social issues. This climate of skepticism is reshaping political discourse, providing fertile grounds for populist movements 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.

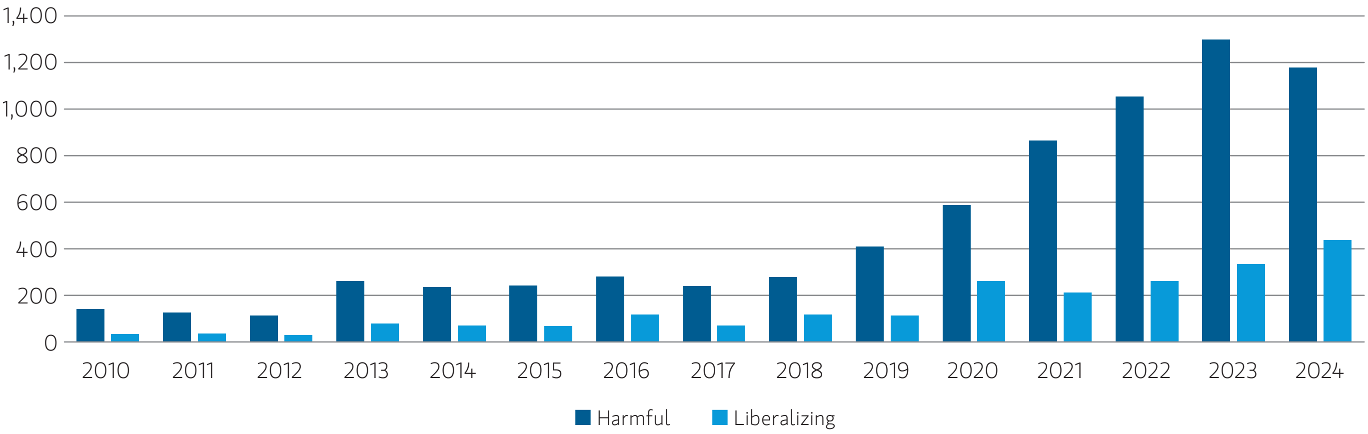
SUBSIDIES: Governments worldwide have increasingly adopted subsidies as a strategic tool to bolster domestic industries, counter trade wars and enhance competitiveness. In the U.S., these interventions are particularly impactful in the aerospace, automobile, energy and semiconductor sectors. While these 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.

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>
> —Jitania Kandhari
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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.

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.

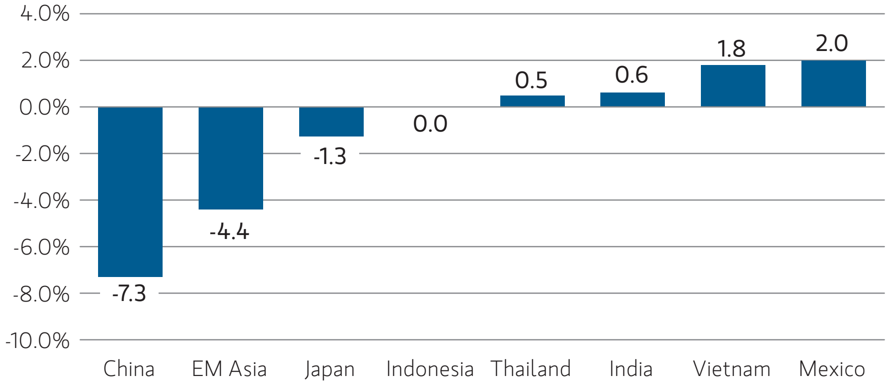
The surge in Chinese goods to the Global South illustrates a broader recalibration of Beijing's strategy. This shift transcends mere export of goods—it's about exporting influence. By embedding itself in the supply chains of EMs, China is weaving a web of interdependence to solidify its foothold in these 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)

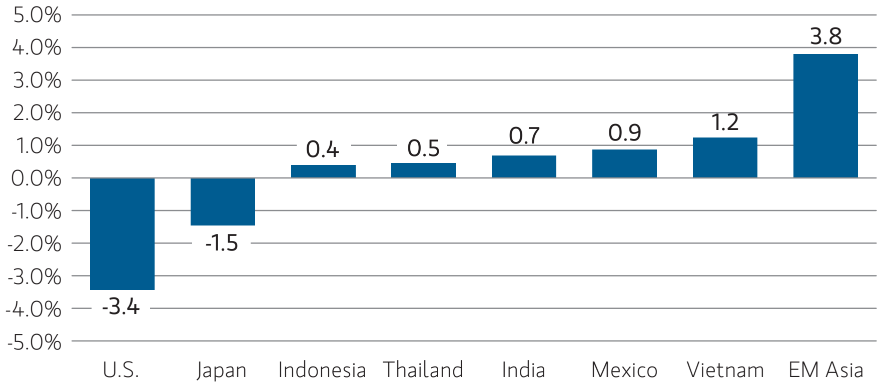


Source: Haver Analytics. Note: EM Asia includes Indonesia, Thailand, India, Vietnam and other countries per IMF Emerging and Developing Asia definition.

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

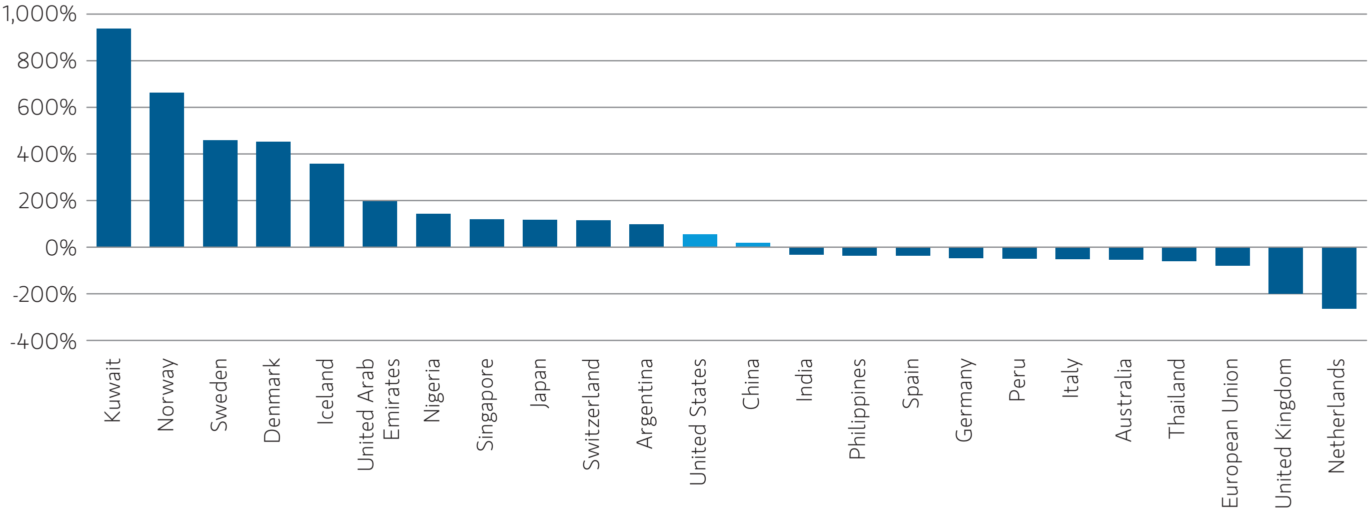
While trade shifts capture the spotlight, the movement of money paints a clearer picture of evolving alliances and vulnerabilities. Nowhere is this more evident than in foreign direct investment (FDI) and portfolio flows.

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

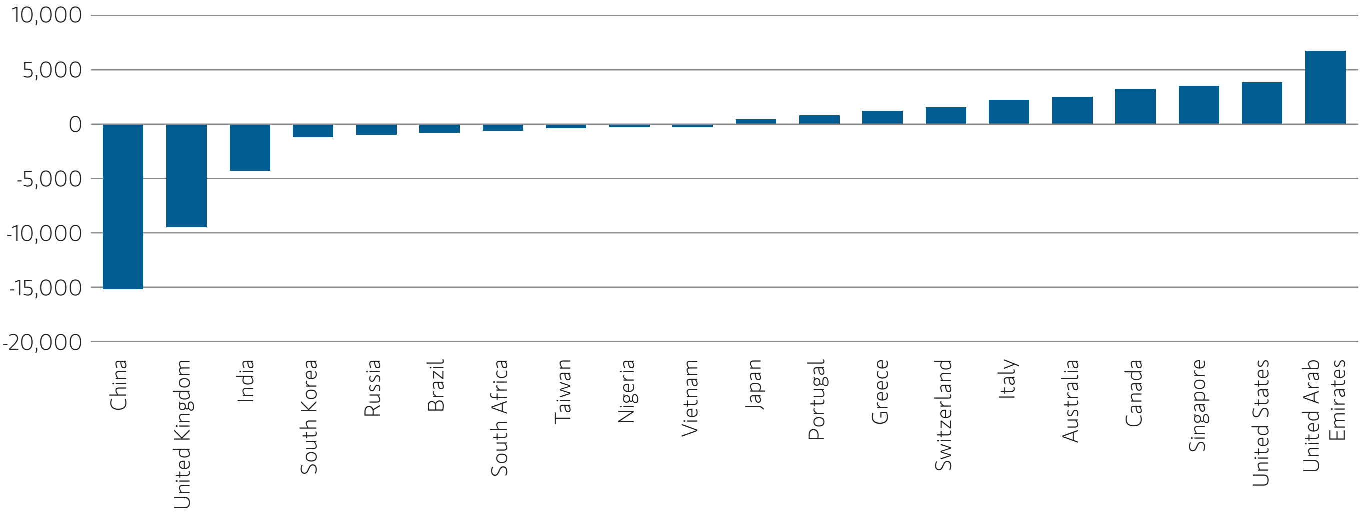


Source: World Investment Report (2019-2023).

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.

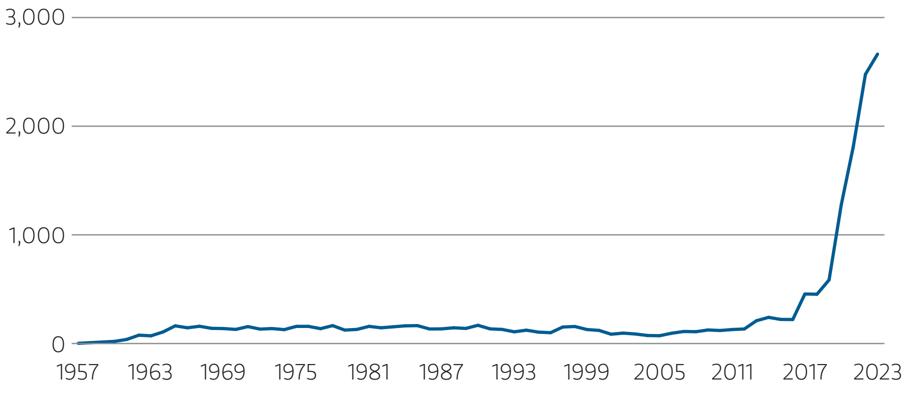
Simultaneously, space has morphed into the next stage for global competition. Historically, international treaties sought to preserve space as a neutral zone, free from conflict. But that vision is eroding as nations pivot toward militarization. The U.S. established its Space Force in 2019, doubling 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.

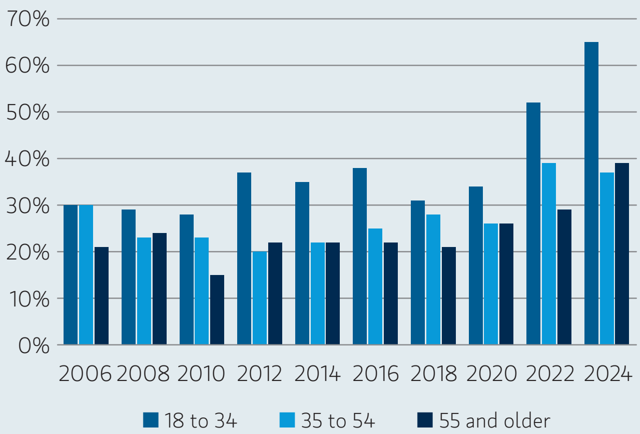
Yet amid the dopamine deluge, we are not getting happier. A 2024 survey revealed that nearly 50% of adults consider mental health the biggest problem facing their country. Perhaps that's the real plot twist—we seem to be self-medicating, looking for something that can spark "joy," while our digital addiction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

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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.

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