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Within *Focus* we comment on extraordinary market events and analyse capital market related special topics.

Benefiting from an ageing population[1]

The world's population is growing fast, especially in emerging markets. At the same time, the number of people aged over 60 is rising rapidly.

The world population will rise from 7.7bn today to 9.7bn by 2050, according to the United Nations. It expects the number to climb to 10.9bn in the second half of this century. This rapid population growth will be accompanied by major pressures on, for example, food and water supplies, and it is taking place primarily in the emerging markets and the US. The populations of developed countries, meanwhile, are increasingly ageing and are, therefore, drawing pensions for longer and longer. At the same time, birth rates in these nations are falling. This trend is particularly evident in Germany and Japan, but China is also facing the challenge of an increasingly ageing population. In 2017, the global population aged older than 60 was almost 1bn and, the United Nations believes, this number will double in the next 30 years.

Inflation and interest rates expected to remain low

It is often argued that a decline in the working-age population leads to rising wages and higher inflation.

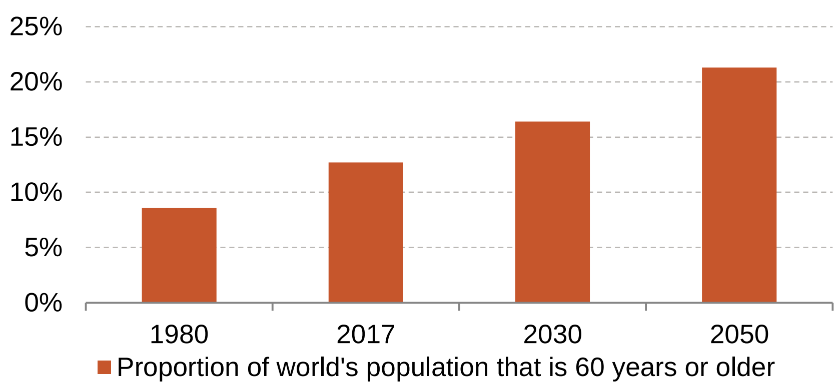
It is often argued that inflation will rise as a result of an ageing population. As the working-age population declines and the number of pensioners increases, wages should rise due to competition for labour. At the same time, workers who save during their employment are likely to deplete their savings after retirement. As a result, inflation will be driven up. Conversely, an ageing population, as found in Japan, could lead to disinflation or even deflation if employees limit consumption during their working lives and instead save because they expect to live longer. Moreover, if automation and technology replace labour-intensive work, productivity will grow, keeping long-term inflation low.

As the population ages, private pension provision is likely to rise and lead to persistently low yields through higher bond demand. The need for professional managers is increasing.

We assume that an ageing population will not drive up inflation – at least not in the short term. Consequently, we also expect bond yields to remain low due to demographic factors. Longer life expectancy will, in our view, encourage more people to save during their working lives, especially as retirement ages rise and public benefits

Proportion of "old people" on the rise worldwide

The proportion of the world's population, that is 60 years or older, has been increasing for decades. This trend is likely to continue until 2050.



Source: World Population Ageing 2017 Report
http://www.un.org/en/development/desa/population/theme/ageing/WPA2017.shtml

[1] This article is based on a guest commentary published in the Börsen-Zeitung on 3 August 2019.

fall. This will lead to rising demand for bonds and thus limit bond yields increases. The rising demand is already reflected today in the growing volume of pension funds. Willis Towers Watson estimates that global institutional pension fund assets in the 22 major markets were $41.3trn by the end of 2017. This is roughly equivalent to the annual economic performance of the EU, the US and China combined – and the trend is rising. To achieve the urgently needed return for people who are making provisions for the future, the expertise of asset managers and life insurers is required. They should benefit accordingly from the rising demand for bond products.

Opportunities arise, especially in the health and care sectors

The higher life expectancy is accompanied by rising expenditure on healthcare. This sector offers long-term investment opportunities.

In addition, pharmaceutical and medical technology companies in particular are benefiting from higher life expectancy, as health expenditure rises considerably in old age because of greater care requirements and more-intensive medical needs. The Federal Statistical Office of Germany estimates that the health expenditure of a 65-85 year old in Germany is about five times as high as that of a 15-30 year old. Drug manufacturers and medical technology companies have strong growth rates and defensive business models. Healthcare is always needed, even when political conflicts increase or the economy weakens. However, the areas of public health systems that are or can be regulated should be treated with caution. US President Donald Trump, for example, announced tough cuts for the pharmaceutical industry during his election campaign, threatening to reduce the price of medication. However, he has yet to introduce any concrete measures. The latest estimates from experts predict that national health spending in the US will grow by an average of 5.5% per year between 2018 and 2027, ie faster than economic growth.

Investors must consider products, technological innovations, the pricing power of companies and positioning in emerging markets.

The healthcare sector offers a wide range of products and services, from medicines and service-oriented products to the social infrastructure that provides care for the elderly, eg in hospitals and assisted living/nursing homes. For example, the demand for nursing homes in Germany has increased significantly. In addition to the rising number of elderly people, this is also due to a decreasing willingness to provide at-home nursing care. We also expect technological innovations in healthcare to create new opportunities, eg 3D bio-printing of organs could make organ replacement cheaper and more widely available. The financing of start-ups in the healthcare sector has benefited from a significant increase in investments. However, investors must bear in mind that the scale of this sector's success is determined by its pricing power and its access to emerging markets, which are likely to drive demand for healthcare products and services too.

Companies that benefit from changing consumer habits are among the winners.

In addition, companies that benefit from the consumption habits of an ageing population should have good business prospects. Examples include manufacturers of hearing aids or stair lifts, as well as travel providers for elder people and companies that specialise in hygiene products for senior citizens.

The ageing of the population is a structural trend in which investors can invest sensibly through companies that benefit from it.

In any case, the ageing population is a long-term structural trend that is largely independent of short-term political and economic events, such as the trade war between the US and China. This makes the megatrend even more attractive, in our eyes. However, risks inherent in individual companies should not be underestimated here either, which is why diversification should be an important part of the investment strategy. Overall, demographic developments have systemic effects on the real economy and capital markets. From our point of view, it makes sense to get involved in companies that benefit from the ageing of the population.

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IMPORTANT NOTICES

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