



Wealth
Management

VALUES WORTH SHARING

Population trends for investors





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form the basis for a successful partnership with our clients: a long-term focus, skill and reliability.

Cover image: Johannes Prätorius, Hans Episcofer, detail from "Celestial Globe", 1565
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Introduction

Sir David Attenborough has highlighted the damaging impact a growing human population has on the planet. The pressure on resources will only increase in the years to come. However, the picture is far from uniform and in many parts of the world, the population is declining.

While controlling the birth rate may slow population growth, advances in medicine and better living conditions mean that life expectancy is rising. The burden of an aging population will also be felt, as in some countries the number of people of working age declines meanwhile those beyond retirement age rises. This may have profound implications for investors in the long run, but in the short term it may be harder to observe the impact. In an effort to take a longer-term view, we will look at these trends to see what can be inferred for investors.

Our source of information for demographic trends is the United Nations (UN) report on World Population Prospects revised in 2019¹. The charts used throughout show the median expectations, with a fan either side showing the 95% probability range. These take a working age group of

24-65 year olds and over 65s. Advances in medicine have extended life expectancy, and migration can change these numbers, but the next 25 years can be predicted fairly accurately for these subsets since they are not impacted by future changes in the birth rate. After that, things become more unpredictable and the fan widens. The COVID-19 pandemic will have a short-term impact. In the UK, sadly, when records are complete, deaths in 2020 may have exceeded births for the first time since 1976 when the UK economy was in a dire situation. The economic uncertainty may mean we see the birth rate fall in the next year as people put off having children. However, this has little impact on the longer-term trends.

The charts in this report clearly show that different countries and regional profiles vary considerably. Demographic changes are slow to develop and changing the trend is very difficult. The ecological and financial consequences may be substantial. Anyone making long term financial plans should consider these trends as they look at their future.

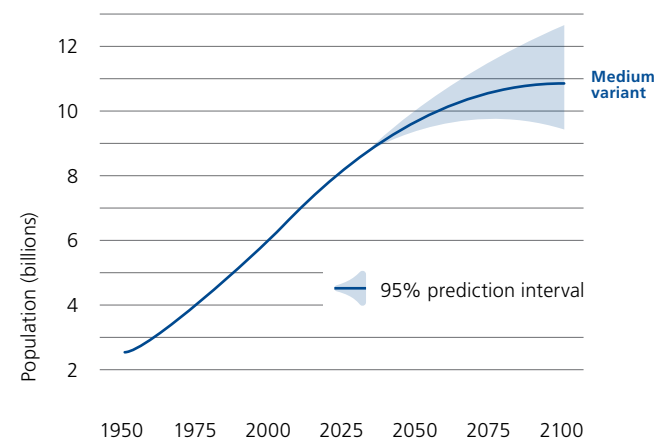
1. population.un.org/wpp/

The global outlook

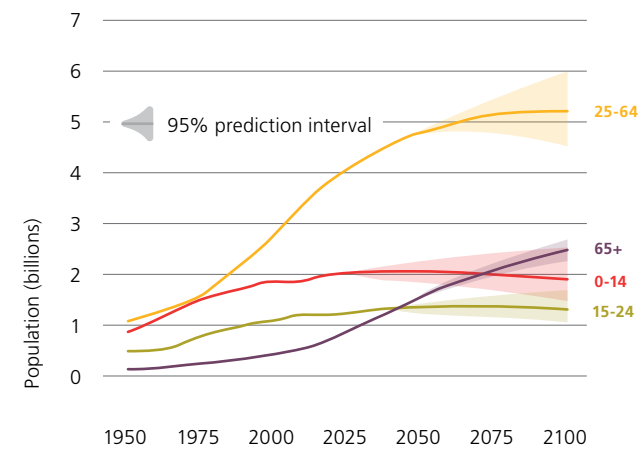
Global population is about 7.8 billion today, and is expected to rise to nearly 11 billion by the end of the century. Most of this growth in population comes from emerging markets and Sub-Saharan Africa, in particular. If developing markets aspire to the standards of living and style of life enjoyed by the developed economies of the world, this will put enormous pressure on resources. So, on this basis the quick assumption would be to control the world population. However when we look at the age split in the right hand chart below, we may have second thoughts about this view.

The right hand chart shows the population trend split by age group. This shows that, at the start of the century, the working age population was rising faster than the over 65s.

Total population



Population by broad age groups





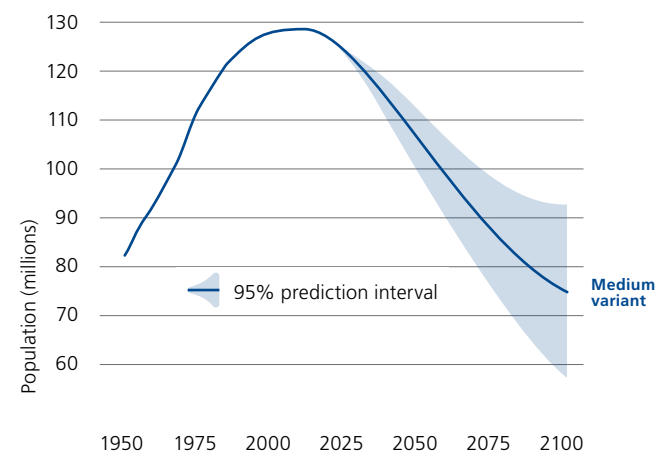
Japan

When I started working for a Japanese Bank in 1984, we were in the midst of a prolonged Japanese equity market rally, the last big down turn was twenty years earlier. There was a generation that had never seen a bear market and were confident the market would go up forever. The only note of caution was a prediction that there was a demographic blow incoming at the start of the new millennium, between 2000 and 2005. Demographic studies showed that, at that time, the working age population would fall and the number of retired people would start to grow rapidly. The chart below shows this in action.

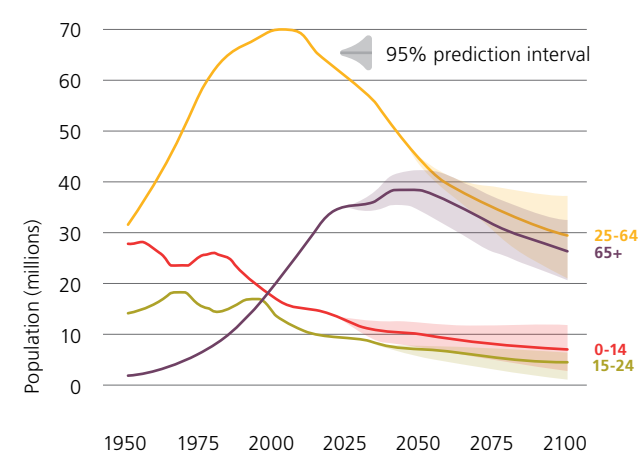
The total population of Japan soared after the Second World War. The Japanese economy flourished and, with a shortage of land that could be built on, property prices rose. However, the population has now peaked and the median expectation is for it to fall from nearly 130 million to around 75 million by the end of the century, which may mean there is excess residential

property. In the second half of the 1990s, the Japanese working age population grew sharply, exceeding the growth in the over 65 population. However, more recently, the over 65 age group has grown faster. The older generation pay less tax and use more healthcare resources. In 2000, there were roughly seven working age adults for every two adults over 65. By 2050, it may be close to one-to-one. Japan, having tried to boost the economy for many years, has a debt to GDP ratio of over 250% today¹, and the increased burden of an aging population will be hard to cope with. The bare numbers do not tell the whole story. Traditionally in Japan, as per the majority of the world, many women used to leave work once married. By encouraging women to remain in work, they may have relieved some of the pressure on the decline in working age population. Unfortunately, this may have contributed to the falling birth rate. To compensate for these trends, Japanese companies have automated manufacturing or moved it offshore to places with more abundant labour supply, such as China.

Total population



Population by broad age groups



1. www.imf.org/external/datamapper/G_XWDG_G01_GDP_PT@FM/ADVEC/FM_EMG/FM_LIDC



China

China recognised the difficulty in providing for its rapidly growing population many years ago. From 1979 to 2016, they had a one-child policy. Prior to that, a two-child policy.

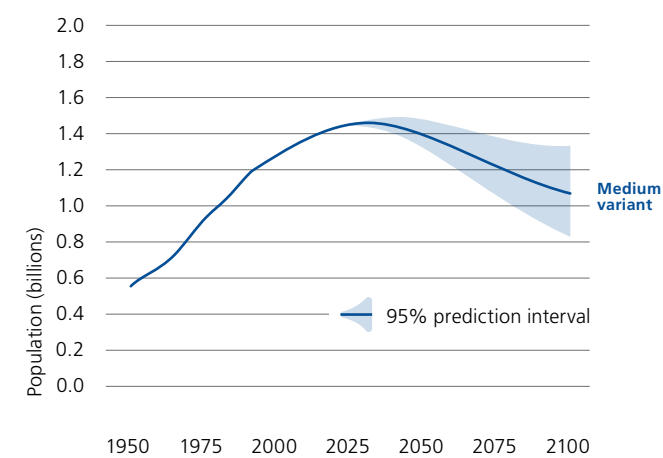
In practice, there were exceptions to this policy and variations existed from region to region. For example, in some cases it was possible to pay to have more children, where another policy permitted more than one child if the first was a daughter. This has led to a higher number of male children than females, which may create its own social problems in the future. Overall, the policy reduced the birth rate and, over time, the population growth in China has slowed and is expected to fall from about 2030 onwards. China's one-child policy effectively slowed the birth rate; unfortunately, this has had potentially dire effects on the country's demographics that will come home to roost in the next 50 years.

The right hand chart below shows that the working age population has more than doubled since 1975, providing the

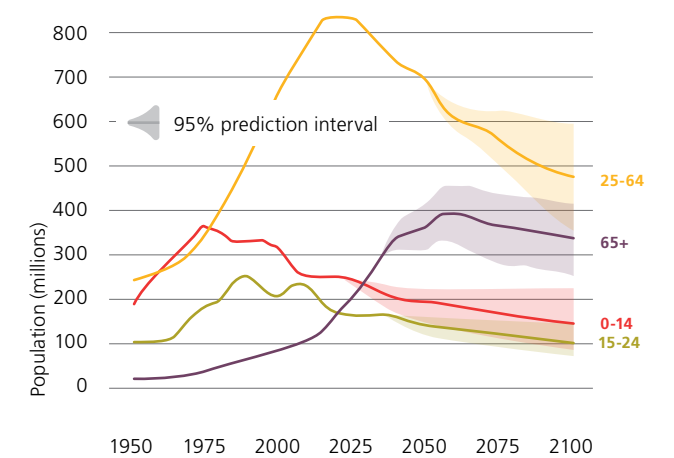
world with a low-cost source of labour. Manufacturing has been outsourced to China, and the Chinese population has shifted from the countryside into enormous cities. This has driven a booming economy, stimulating a growth in internal demand for goods. However, the working age population growth is starting to peak, and the number of over 65s is beginning to rise steeply. The elderly will be an increasing economic burden on a much smaller workforce. In the short term, a sufficient number of the population remains of working age; but in the long-run, manufacturers who have looked to China for cost-effective labour, may have to find alternative solutions as human resource is stretched. These alternative solutions may come from elsewhere in Asia, where without the one-child policy the demographics look much better.

Demographic trends have helped China's enormous economic growth over the last forty years but the trend is coming to an end. Looking at the longer term outlook, demographics may be a drag on economic growth.

Total population



Population by broad age groups

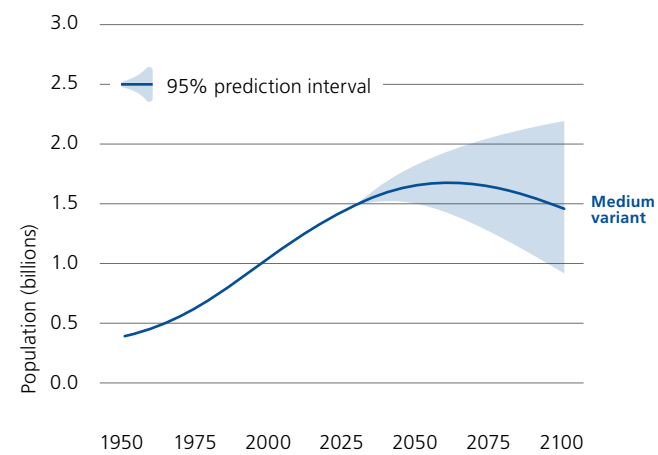




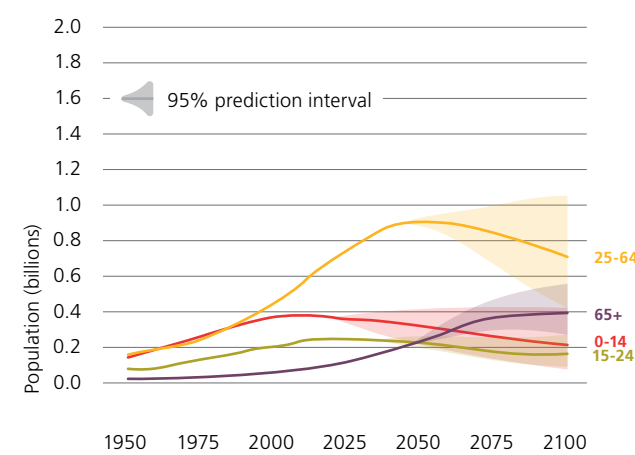
India

India is the second most populous country in the world. Whilst the charts indicate that ultimately India will see an aging population, the working age demographic is expected to grow until 2050. Regionally within the country the picture can vary considerably but overall the demographic profile looks more favourable here than in China. However, India suffers from over-stretched infrastructure and bureaucracy challenges. As a single party state, China has greater freedom to make decisions and take action, making it easier to carry out vast infrastructure development projects. It is harder to do this in India, the world's biggest democracy. The potential is vast, and many Indian entrepreneurs will be only too willing to respond if allowed to. Indonesia, the fourth largest country in the world by population, has similar demographics.

Total population



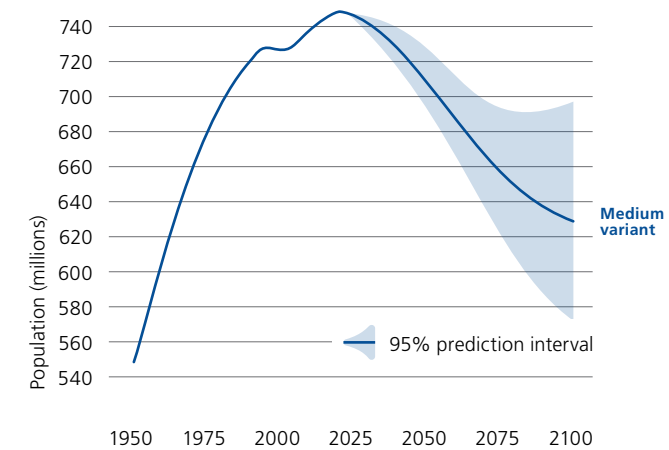
Population by broad age groups



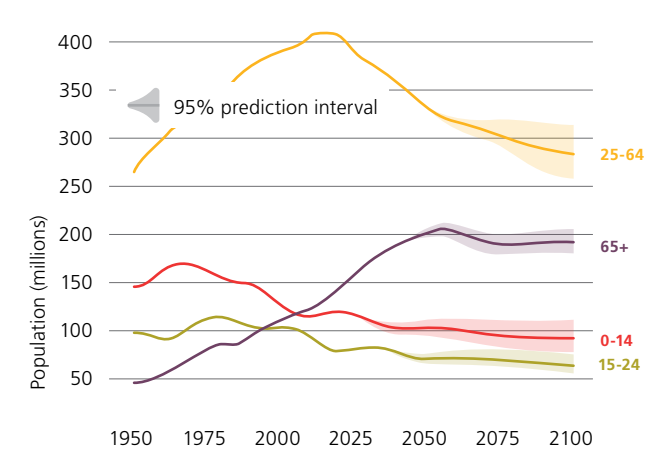
Europe

Europe also is expected to have an aging population. The charts show both the total population and that in the working age group peaking about now, while the older age group continues to rise. Within Europe some of the northern European countries have been a net receiver of migrants that have boosted the working age population. Here the difference is starkly illustrated by the difference between the UK and Italy on the next sections. Italy has seen both a low birth rate and net migration particularly from the south of the country to more prosperous countries in Northern Europe and elsewhere.

Total population



Population by broad age groups

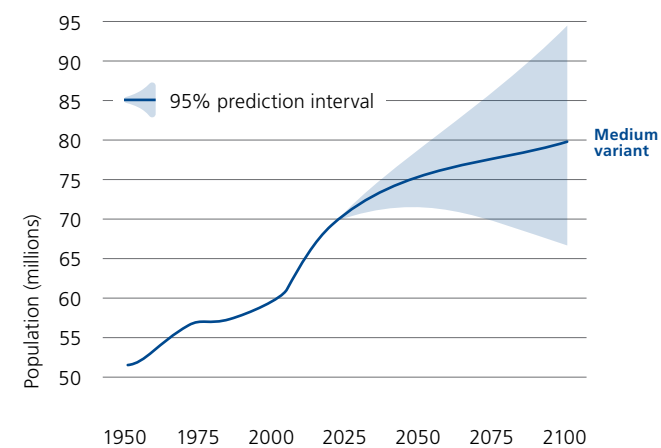




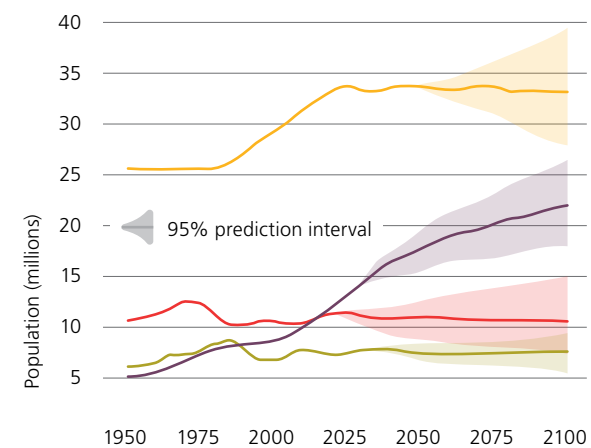
United Kingdom

The UK chart shows the population continuing to grow for the rest of the century. However, the fan of possibilities is particularly wide, reflecting the uncertainty around immigration post-Brexit. On the right, the chart shows a working age population growing until around 2025 and the flat lining for the rest of the period under consideration. However the over 65 population is growing rapidly which will add to the burden on government finances.

Total population



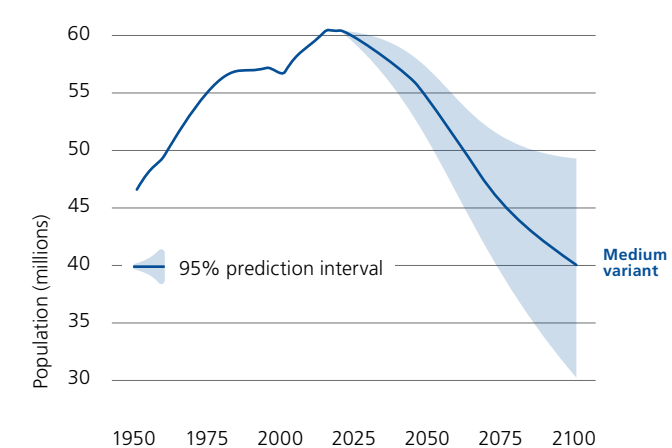
Population by broad age groups



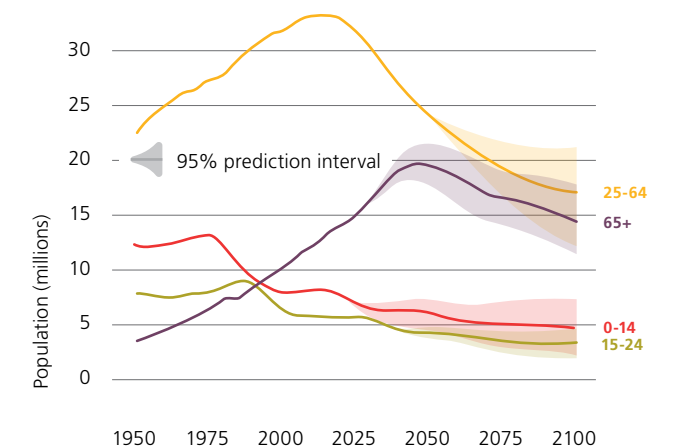
Italy

The charts for Italy, a country with a similar population to the UK, shows a very dramatic and potentially disastrous shift. The overall population falls from over 60 million to about 40 million by the end of the century. The working age population declines sharply and the number of over 65s will have risen dramatically by 2050. Italy, already heavily indebted, will be ever more dependent on its northern allies within the European Union for support. Raising the pension age and cutting state pensions, in an effort to reduce the deficit, will be difficult in a country where the political situation is far from stable. The demographic situation in Spain and Greece is not dissimilar, so this is far from an isolated problem for the Eurozone.

Total population



Population by broad age groups

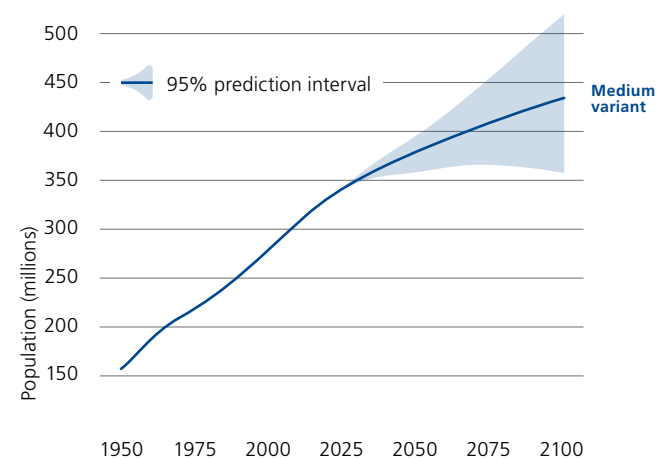




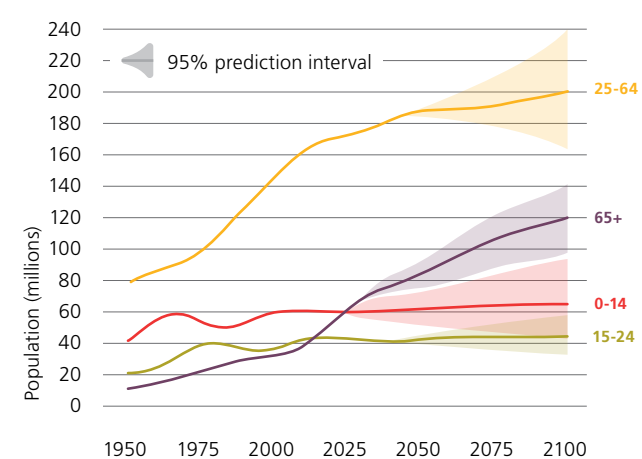
United States

The United States has a demographic profile closer to the UK than Southern Europe. Migration here may also be a factor adding to the younger age group. In general, the charts show the working age population continues to grow and the rise in the over 65s is less dramatic than in other countries. Despite this, the proportion over 65 is still expected to rise. State provision of support for the elderly and pension provisions are less than in many European countries and as a result the aging population may be less of a burden on the state. The Biden administration moves to legitimise some illegal immigrants and a less restrictive attitude to migration than seen in the Trump administration may be a move in the right direction. However, increasing healthcare and provision for the elderly may prove more of a burden in the long-run.

Total population



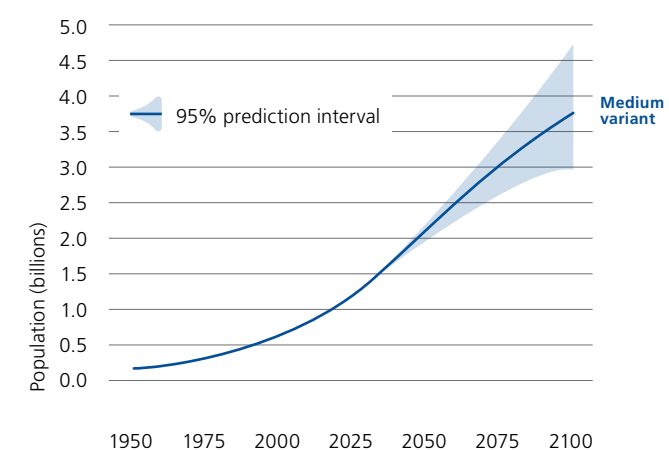
Population by broad age groups



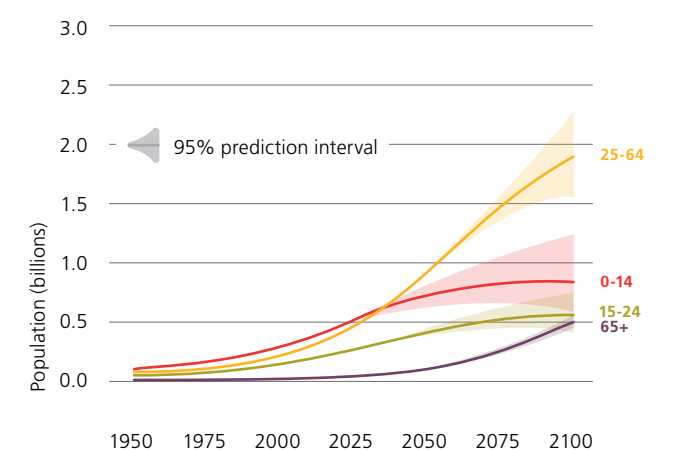
Sub-Saharan Africa

One area of the world that is seeing a rapidly growing population without the damage of an aging population is Sub-Saharan Africa. In theory, the numbers here could make up for the shift in demographics elsewhere. However, corruption, infighting and, in many places, a lack of infrastructure, muddy the picture. The mineral wealth and potential for food production is enormous in some parts of Sub-Saharan Africa; however, in others, poverty and drought make living conditions appalling. This region needs investment, but the risks are high.

Total population



Population by broad age groups



The bigger picture

Aging populations

Tackling demographic issues is by no means an easy feat, and may be hardest in countries such as Italy where the most dramatic action is required. The concept of a retirement age and the state provision of pensions was only introduced in the 20th century. It is clear that people will have to work longer now than was expected or required before. In the UK, we have already extended the pension age from 60 for women and 65 for men, to 67 for both. Many will need to be encouraged to work even longer. In this respect, Sir David Attenborough, still working at 94, is setting a fine example. As a result, pension provisions may be less generous and, in the UK, the triple lock that guarantees pension increases may have to be abandoned. Higher taxes on the working population may also be inevitable. All of which may be unpopular with the electorate.

Where there are declining working age populations, we may have to shift production to areas of the world where the demographics are more favourable. Technology may ease the decline in working age populations. The use of robotics and artificial intelligence reduces the number of people required to produce goods. Overall, we will need to increase the productivity of those in the working population. It should be noted that while manufacturing can shift overseas, care of the elderly cannot, and robots are unlikely to replace healthcare workers. With a smaller pool of workers, wages in this sector may rise, making old age even more expensive than it already is.

Aspiration or acceptance

Even without population growth, it is likely that the aspiration to have more material goods will increase, particularly from less developed countries. This should maintain demand even as aging populations in the West reduce demand for durable goods. However, this will stretch demand for raw materials. That said, it may be a mistake to assume that everyone wants material objects that many westerners enjoy. Cultural and lifestyle differences will no doubt persist and some people will want to retain their traditional lifestyle, which reminds me of an old story.

An elderly olive grower is sitting on his porch drinking wine, eating olives and watching the sun go down. A tourist shows up and asks to try the olives. He declares them wonderful and the best he has ever tasted! He then suggests to the old man that he could sell them globally for a lot of money. If he spent more time pruning the trees, and planting more to increase production, he could sell more of the wonderful olives. This way he could become a very rich man. The tourist tells the old man to just think what he could do then. To which the old man thinks and then replies, I could spend my time sitting on my porch drinking wine, eating olives and watching the sun go down. Wealth is not everything and not all aspirations are the same...



Stretched resources

While demand for resources will decline in many developed markets as populations age, demand will pick up as populations grow in developing markets and aspirations rise. The switch away from fossil fuels will increase demand for copper and many of the rare earth elements used in electronics. As demand rises, we will need to conserve resources, recycling wherever possible. As technology develops, we have to use what we have more prudently. The recent rise in the silver price reminded me that supply and demand can make surprising changes as technology evolves.

In about 1980, the Bunker Hunt brothers cornered the market and took the price of silver to nearly \$50 an ounce (last week it briefly hit \$30). At that time, photographic film was the biggest consumer of silver, and more was being used than could be

dug out of the ground. Digitisation has resulted in virtually no silver being used in photography. There is rapid growth in solar panels, but advances in technology mean that each panel uses less silver. As a result, the overall demand for silver has not risen from this source. The lesson from this is that technology and recycling may mean that demand in some areas does not rise as much as you may think. Shortages are more likely in rare earth elements needed for battery technology, where China is already the biggest producer.

Investment implications

Reading investment implications from trends that are as slow to develop as demographic changes can be dangerous. In general, an aging population is usually expected to be deflationary as the spending power is removed. However, a decline in the working population may see upward wage pressure, which with higher taxes may push up inflation. Deeply indebted nations with increased issuance may have to pay more on their debt. However, debt mutualisation within the EU, if it is expanded, may help spreads on peripheral bonds to remain tight.

Key to getting through this will be technological advancements, including the use of artificial intelligence and robotics. This may require significant capital investment, and the already large tech companies may be best placed to make such investments. Investment in education may be a key factor in achieving the advances needed. The shortage of supply relative to demand may mean the ever upward move in residential property prices comes to an end. While the demographics in the UK are not as daunting as elsewhere, property price adjustment may become evident in the UK as the baby boom generation hits retirement and looks to downsize. Retirees may sell investments to fund retirement

but this may be countered by those in work saving more as they realise the state may not provide the level of support they will need in retirement.

“However, as an investment manager, I may work past my state retirement age but don’t think I want to emulate Warren Buffett, who is still investing aged 90.”

Jonathan Marriott,
LGT Wealth Management Chief Investment Officer

Conclusion

Unless technology can fill the gaps, adjusting to these changes may be a painful process. Delayed retirement, lower state pension, and higher taxes are all potential solutions, but not likely to be popular vote winners. A set retirement age seems to be a 20th century invention. Up until that time, you worked for as long as you physically could. However, as an Investment Manager, I may work past my state retirement age but don’t think I want to emulate Warren Buffett, who is still investing aged 90.

Demographic shifts are slow and, like a super tanker, difficult to change direction. The worst changes may take some years to be felt. Trends in different parts of the world are radically different and the implications hard to deal with. This year inflation is likely to rise as we recover from the pandemic and then we expect it to slow again after that. In the really long term, inflationary pressure may grow again. Moves in markets in the near term are unlikely to be determined by these shifts but we need to be aware of the potential disruption when making longer-term investment plans.

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