The Decade of Inflection: reaching boiling point

We enter the next decade with interest rates at 5,000-year lows, the largest asset bubble in history, a planet that is heating up, and a deflationary profile of debt, disruption and demographics. We will end it with nearly 1bn people added to the world, a rapidly ageing population, up to 800mn people facing the threat of job automation and the environment on the brink of catastrophic change. At the same time, 3bn more people will be connected online and global data knowledge will be 32x greater than today. The social, political and economic responses to these challenges, all heading to a boiling point this decade, will overhaul traditional paradigms. We outline BofAML Transforming World’s top 10 themes to help investors navigate this decade ahead.

10 Themes for the Next 10 Years

1) Peak Globalization: the end of unrestricted free movement of labor, goods, and capital around the world. Winners: local markets, real assets; Losers: global markets.

2) Recession: record numbers of FMS investors think the global economy is late-cycle, the bond market bubble is set to unwind and populism is likely to be inflationary. Winners: inflation, real assets, infrastructure; Losers: growth, credit, deflation.

3) Quantitative Failure: monetary policy measures are proving less and less effective at boosting corporate and household “animal spirits”. Winners: Keynesianism, gold; Losers: financial assets, Monetarism.

4) Demographics: the number of grandparents will outnumber the world’s children; every second 5 people enter the EM middle class and Gen Z overtakes Millennials. Winners: eCommerce, new consumer; Losers: bricks & mortar, legacy consumer.

5) Climate Change: investors are more focused than ever on global warming’s impact on the economy, society, unemployment and migration. Winners: clean energy, electric vehicles; Losers: fossil fuels, diesel cars, single-use plastics.

6) Robots & Automation: up to 50% of jobs at risk of automation by 2035. Winners: automation, local production, big data & AI; Losers: humans, global supply chains.

7) Splinternet: China to overtake the US and become the world leader in AI by 2030. ‘Sovereign internets’ expand. Winners: emerging markets/the East; Losers: developed markets/the West.


10) Space: tourism and nanosatellites are the next frontier for an industry that could be worth cUS$1tn by 2030. Winners: aerospace & defence; Losers: legacy satellites.
New paradigms of the 2020s

Exhibit 1: BofAML Transforming World: 2010s vs. 2020s

2010s
- Deflation
- Inequality
- Quantitative Easing
- Monetarism
- Low Taxes
- Bonuses
- Globalization
- Occupy Wall Street
- Bank Deleveraging
- Wall St
- US
- Credit
- Growth
- Earth
- Fossil Fuel
- Rural Ag

2020s
- Rich
- Humans
- Robots
- Women
- Poor
- Inflation
- Redistribution
- Quantitative Failure / MMT
- Keynesianism
- High Taxes
- UBI
- Universal Basic Income
- Protectionism
- Occupy Silicon Valley
- Corporate deleveraging
- Main St
- Rest of World
- Commodities
- Value
- Space
- Clean Energy
- Smart Cities
- Moral Capitalism
- Profit Maximization
- Shareholders

Source: BofAML Global Research
Did you know in the next decade...

- By 2020, for the first time in human history, the number of persons aged 65+ will outnumber children under 5.  
- By 2020, humans will generate 40x more bytes of data than there are stars in the observable universe.  
- By 2021, the number of virtual/voice digital assistants will exceed the world population.  
- By 2021, the economic cost of cybercrime is set to reach $6tn or approximately 7% of global GDP – bigger than the cost of climate change.  
- By 2021, central bank balance sheets globally could reach $18tn, or approximately 1/5 of global GDP.  
- By 2022, only 59% of tasks will be completed by humans and 42% by machines across 12 industries.  
- The 2024 Paris Olympics could see eSports as an official sports for the first time.  
- By 2025, the ICT industry will use 1/5 of the world’s electricity, generating more emissions than the entire airline industry.  
- By 2025, people will interact with connected devices once every 18 seconds – that is 4,800 times a day.  
- By 2025, 1 in 3 people on the planet are likely to be overweight or obese.  
- By 2027, oil demand and production could reach its peak.  
- By 2029, 5G mobile networks could reach their full capacity; 6G may be needed.  
- By 2029, AI could be as intelligent as humans.  
- By 2030, global temperatures rise could breach the 1.5°C target, as humans potentially exhaust the remaining carbon budget.  
- By 2030, the number of ICE/diesel cars on the road could plateau.  
- By 2030, climate change could push more than 100 million people in developing countries below the poverty line.  
- By 2030, 80% of the middle class will be living outside the EU and US.

The next decade: unlike any before it

The world’s social, environmental, political and economic systems are facing escalating challenges, fuelled by megatrends, which are all likely to reach their boiling point in the next decade. We expect the 2020s will overhaul old paradigms, disrupt business models, and produce new trends that will shape our future. In the next 10 years, we should see increased automation, a global recession, unprecedented innovation, serious environmental challenges, the death of quantitative easing, tectonic shifts in demographics and the end of globalization. These are just some of the economic and thematic megatrends likely to shape the investment world to come.

A decade of social and environmental megatrends...

Governments, companies and markets will face new social and environmental challenges unlike anything we have seen in the past. By the end of the decade, the world’s population will have increased by nearly 1 billion compared with today, putting a huge strain on the planet’s resources. A rapidly ageing population will challenge pension and healthcare systems and, by 2035 robotic automation could displace up to 50% of jobs. Without firm action, the world could reach an irreversible tipping point by the end of this decade as global temperatures increase and the planet exhausts its carbon budget. All these trends will impact social issues like inequality and immigration, as well as health and environmental problems like pandemics, pollution etc.

...new economic paradigm approaches...

We believe new paradigms will disrupt the status quo this decade. We are in the lowest interest rate environment in 5,000 years with monetary policy becoming less effective. The global economy is late cycle and fears of a recession are rising. We believe stakeholder value will be created in ways other than just profit maximization. These trends, among others, may lead to new economic theories like Modern Money Theory (MMT) and the death of globalization, and accelerate the geopolitical race for technological supremacy.

...and “techceleration”

At the same time, we expect unprecedented strides in innovation and “techceleration”. By 2030, global data knowledge will likely be 32x greater than today’s level. By the mid-2020s, we will interact with an online device every 18 seconds, vs. 6.5 minutes today; and there will likely be 500bn connectable devices globally by 2030. Techceleration will unlock economic value, but will challenge governments, privacy and society like never before (source: IBM).

Exhibit 2: 2020 vs. 2030

The 2020s is the decade of “peak”

Most strikingly, we see the 2020s as a ground-breaking “peak decade” that will see many themes reach their inflection points, and business-as-usual investing will be disrupted. Examples include:

- **Peak Globalization**: the first time in decades that the unrestricted global flow of people, goods, and capital is no longer guaranteed.

- **Peak Inequality**: the first time that profit maximization is no longer the sole objective for Wall St and shareholders, with the rise of ‘moral capitalism’ and the wider importance of stakeholders.

- **Peak Youth**: the first time that there are more seniors than children in the global population.

- **Peak Oil**: the first time that global oil demand plateaus as we transition away from fossil fuels towards renewable energy and electric vehicles (EV).

- **Peak Cars**: the first time that the total fleet number of diesel internal combustion engine (ICE) vehicles on the road declines.

- **Peak Stuff**: the first time that conspicuous consumption ends in developed markets as we shift away from ownership to the sharing/circular economy.

Exhibit 3: Peak Globalization


Exhibit 4: Peak Youth

Source: BofA Merrill Lynch Research, UN

Exhibit 5: Peak Oil

Source: BofA Merrill Lynch Research, IEA

Chart 1: Peak Cars

Source: BofA Merrill Lynch Research BNEF // ICE = internal combustion engine; BEV = electric vehicle
10 themes for the next 10 years

In this report, we highlight BofAML Global Research’s top 10 themes over the next 10 years to help investors navigate the decade ahead in a Transforming World.

Exhibit 6: What is next for the decade ahead?

Quantitative Failure

Recession

Peak Globalisation

Climate Change

Demographics

Robots & Automation

Splinternet

Moral Capitalism

Smart Everything

Space

Source: BofA Merrill Lynch Global Research
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