

## Thematic Investing

## OK Zoomer: Gen Z Primer

Thematic Investing

This is a redaction of a report originally published on November 10, 2020.

**Here come the Zillennials! Gen Y is out, Gen Z is in**

They've never known a life without Google, 40% prefer hanging out with friends virtually than in real life, they will spend six years of their life on social media and they won't use credit cards. They're the 'clicktivists': flourishing in a decade of social rights movements, with 4 in 10 in our proprietary BofA survey seeing themselves as 'citizens of the world'. The Gen Z revolution is starting, as the first generation born into an online world is now entering the workforce and compelling other generations to adapt to them, not vice versa. Thus, about to become most disruptive to economies, markets and social systems.

**\$33tn income by 2030, to pass Millennials by 2031**

Gen Z's economic power is the fastest-growing across all cohorts. This generation's income will increase c.5x by 2030 to \$33tn as they enter the workplace today, reaching 27% of global income and surpassing Millennials the year after. The growing consumer power of Gen Z will be even more powerful taking into account the 'Great Wealth Transfer' down the generations. The Baby Boomer and Silent generation US households alone are sitting on \$78tn of wealth today.

**9 in 10 live in EM, while DM suffers from "peak youth"**

Gen Z could be EM's secret weapon. APAC income already accounts for over a third of Gen Z's income and will exceed North American and European combined income by 2035. 'Peak youth' milestones are being reached across the developed markets – Europe is the first continent to have more over-65s than under-15s, a club North America will join in 2022. In contrast, India stands out as *the* Gen Z country, accounting for 20% of the global generation, with improved youth literacy rates, urbanisation, and rapid expansion of technological infrastructure. Mexico, the Philippines and Thailand are just a few EM countries that we think have what it takes to capitalize on the Gen Z revolution.

**Beneficiaries: eCommerce, payments, luxury, media, ESG**

Gen Z is the online generation: nearly half are online 'almost constantly' and a quarter of them will spend 10+ hours a day on their phone. In our survey, over a quarter of Gen Z's top payment choice was the phone, while credit cards weren't even in their top 3. This generation is the least likely to pick experiences over goods, and values sustainable luxury – choosing quality over price as their top purchase factor.

**"Peak" generation: alcohol, meat, cars, travel headwinds**

Only half of US teens can drive, while our survey finds that less than half of Gen Z drink alcohol, and more than half have some kind of meat restriction. A third of them would trust a robot to make their financial decisions. Gen Z's activist focus filters into their interactions with business, too – 80% factor ESG investing into their financial decisions, and they have also driven consumer-facing sustainability campaigns, such as single-use plastics. Harmful consumer sectors, such as fast fashion, may be the next focus.

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Refer to important disclosures on page 12 to 13.

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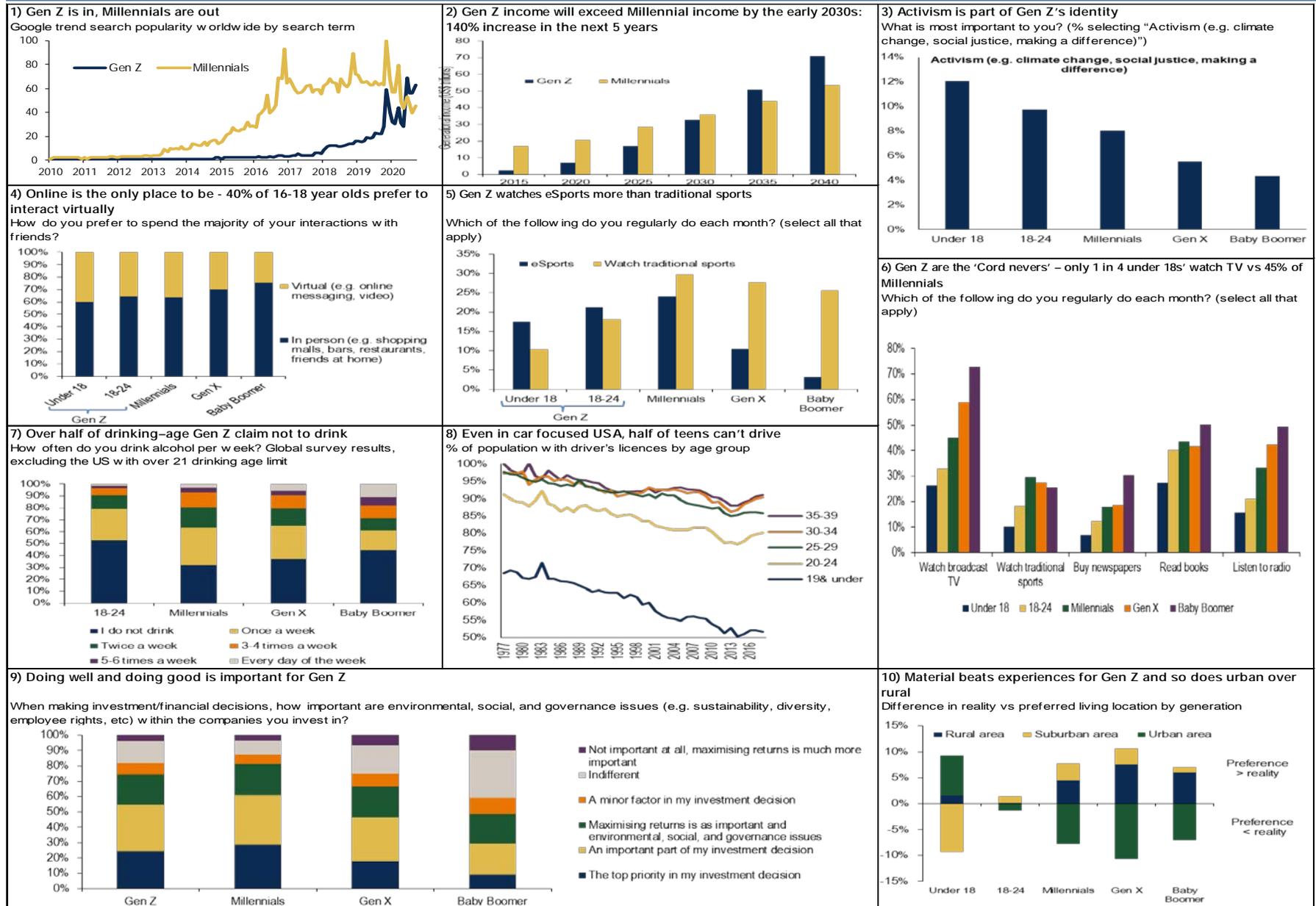
01 December 2020

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**Exhibit 1: 10 things you need to know about Gen Z in 10 charts**



Source: 1) Google Trends; 2) Euromonitor; 3) BofA Thematic Proprietary Survey n=14,592, Aug 2020 "What is most important to you?" Options: Activism, family, career, love, religion, other; 4) "How do you prefer to spend the majority of your interactions with friends?"; 5) BofA Survey "Which of the following do you regularly do each month?"; 6) BofA Survey "Which of the following do you regularly do each month?"; 7) BofA Survey "How often do you drink alcohol per week?"; 8) US Department of Transportation Federal Highway Administration, Euromonitor; 9) BofA Survey "When making investment/financial decisions, how important are environmental, social and governance issues within the companies you invest in?"; 10) BofA Survey "Which best describes where you live?"- "Where do you want to live? I would prefer to live in:".





# How will Gen Z impact industry?

**Table 1: How will Gen Z impact industry?**

Sector	Beneficiaries/Challenged	Gen Z Comments
<b>eCommerce</b>		
eCommerce	Beneficiary	45% of US teens are 'almost constantly' online, meaning online is the only place to be, social eCommerce integration, Covid behavioural change, & wealth transfer to accelerate transition
Warehouse/Logistics Real Estate	Beneficiary	eCommerce trend driving growth in logistics demand with 3x the real estate needed for distribution for eCommerce vs traditional bricks & mortar. Also aided by deglobalisation theme
Shopping Malls	Challenged	Rapid drop in appeal of shopping malls for under 30s in past 10Y, eCommerce to continue to disrupt and reduce appeal. Covid limits switch to 'experience' activities for shopping malls
<b>Travel</b>		
Aerospace	Challenged	Air travel likely to remain muted in medium term, sustainability/'flight shaming' reducing the appeal for Gen Z, business demand slow to recover as alternative low cost tech available
Autos	Challenged	Declining share of younger generations have driver's licences, falling consumer income, less commute/travel demand as work from home is sustained, increasing demand for sustainability, continued improved air quality. Gen Z and Millennial continued preference for shared mobility could bring resurgence post-lockdown.
Consumer Services (Hotel/Travel)	Challenged	Peak Travel? Gen Z does not seem to be more interested in experiences vs goods compared to previous generations, potentially expanding to travel. The last sector to recover from coronavirus crisis.
<b>Consumer Discretionary</b>		
Consumer Luxury	Beneficiary	Status symbols continue to matter for the next generation, with social media an 'always on' place to measure and compare social markers
Pets	Beneficiary	Gen Z is the loneliest generation, a surge in pet ownership over lockdown, means heightened long term demand for pet products. Gen Z & Millennials increasingly willing to pamper pets with high quality products
General/Apparel Retail	Limited impact	Peak stuff and shift to online eCommerce will get faster, private label disruption and fragmentation, fast fashion sustainability concerns, global to local apparel/sourcing automation is costly. However, Gen Z preference for products over experiences and social media a positive long term.
Consumer Durables	Challenged	Animal spirits of the consumer is decreasing, traditional demographics like Boomers, Gen X, EMs slow to recover, lowering ability to afford big ticket items
<b>Communication Services</b>		
Telco Service Providers	Beneficiary	Telco services as necessary a utility as water/electricity as Gen Z increasingly live online with other generations following suit. Risk from 5G capex costs & cyberattacks bringing network down
New Media & Entertainment	Beneficiary	Gen Z watches more eSports than traditional sports, only 26% of under 18s watch broadcast TV vs 45% of Millennials. Gen Z will drive faster shift towards eSports, video & music streaming consumption, total reality will be the nextgen media platform to enable this in the future
Big Tech Platforms	Beneficiary	40% of Gen Z prefer interacting online with friends vs in person. Integrated services (social media, messaging, online shopping, payments) showing connected importance of multi-vertical platforms reducing friction between consumers and products aided by network effects, but beware of data privacy regulatory headwinds
Old Media & Entertainment	Challenged	Gen Z, generation of 'cord nevers' will accelerate drive away from traditional media that Millennials started as half the share of Gen Z watch broadcast TV vs Millennials. Coronavirus will accelerate cord cutting of TV and switch to streaming, advertising agencies suffer further by lower consumer spend on top of digital marketing disruption
<b>Consumer Staples</b>		
Household & Personal Care	Beneficiary	Hygiene and health is the new wealth for consumers with growing focus on skin care vs makeup
Food Staples	Beneficiary	DM and younger generations have a rising focus on plant based alternatives, EM Consumer also structural driver for FMCG. Lockdown necessity, online innovation (food delivery, meal kits), future contactless stores, logistics automation
Food Delivery	Beneficiary	Improving delivery densities, falling delivery costs making regular takeaways more affordable to frugal consumer meaning sector could grow 4x by 2025 from just 0.5% of meal share today
Beverages / Alcohol	Challenged	Demand impacted as the Gen Z reaching drinking age is not taking up drinking as much as older generation, over half of drinking-age Gen Z claims not to drink vs a third of Millennials
Tobacco	Challenged	Health conscious and educated younger generations compounded with regulations to discourage uptake continuing the structural decline. Upside risk: successful transition to alternative products such as cannabis.
<b>Financials</b>		
ESG Investing	Beneficiary	Gen Z's social causes are part of their identity and this extends to their financial decisions as well. 4 in 5 Gen Z factor ESG into investment decisions and are more open to new investment philosophies including automation of investment decision making
Payments	Beneficiary	Cash is no longer king nor hygienic, compounded with growth of mobile/eCommerce transaction volume. New generations most open to new payment methods e.g. phone, cryptocurrency
Banks	Challenged	Retail banking branches need to restructure to provide new generation-expected services, which are being provided by online & fintech disrupting traditional banking (zero cost FX transactions, digital, mobile services, investment platforms, etc), big data/open banking (PSD2) to continue to disrupt as tech firms also able to compete for Gen Z consumers.
<b>Materials</b>		
Paper & Packaging	Beneficiary	eCommerce is the leading sector driver, growth in parcels deliveries, plastic sustainability, better packaging to reduce food waste, forest tree carbon sinks relevant to ESG investing
Chemicals	Challenged	Increasing ESG risk from PFAS, plastic backlash/petrochemical risk driven by Gen Z, ag chems fertilizers risk but could also benefit from EV battery and future food ingredients
<b>Information Technology</b>		
Semiconductors	Beneficiary	Growing tech use by consumers and business, the biggest beneficiary of coronavirus with Moore's Law as the key enabler of the connected world (IoT, sensors, chips, driverless cars),
Tech Hardware	Beneficiary	WFH, online/virtual living requires demand for smarter devices (smartphones, wearables, AR/VR headsets), 5G telco equipment capex cycle

Source: BofA Global Research

# BofA Generation Survey results

Our 2020 BofA Thematic Demographics Survey, conducted by SurveyMonkey, polled over 14,500 consumers aged 16 and over across the US, UK, France, Germany, Japan, South Korea, China, India, Mexico, and Brazil. The survey was undertaken in late August 2020 and was an internet-based survey. A few key results:

- Gen Z would rather use cash than pay by credit card
- 45% of Millennials, the ‘cord cutter’ generation, still watch broadcast TV. In contrast, only a third of 18-24 year olds and just a quarter of under 18s do
- Teetotal generation: Over half of Gen Z does not drink alcohol at all, vs a third of Millennials
- 40% of 16-17 year olds prefer hanging out with friends virtually than in person
- c.1 in 3 Gen Z and Millennials would trust a robot to make their financial decisions
- More than four out of five Gen Zers factor ESG into their investing
- Four in 10 Gen Zers see themselves as ‘citizens of the world’ vs just two in 10 Baby Boomers
- “Generation rent”, Gen Z, is the only generation that does not want to move to the suburbs or countryside
- eSports is watched more often by Gen Z than traditional sports
- Only 14% of Gen Z expect their banks to have physical branches versus 40% of Baby Boomers

## Exhibit 2: Payment methods: credit is out, new tech is in

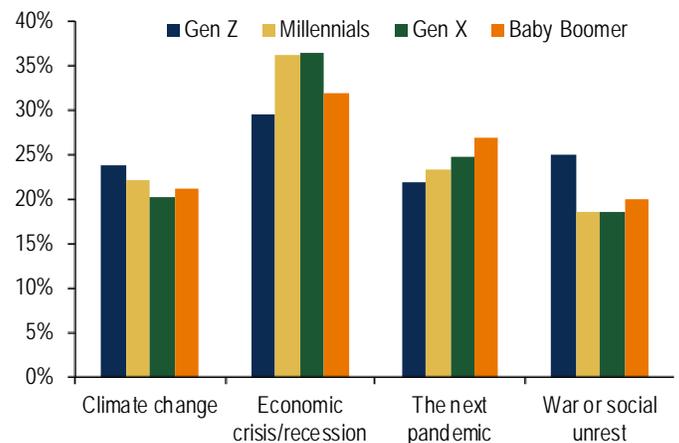
Top payment preferences by generation

The Generations	Top choice	Second choice	Third choice
Gen Z	Cash 	Phone 	Debit card 
Millennials	Debit card 	Phone 	Credit card 
Gen X	Debit card 	Credit card 	Cash 
Baby Boomer	Credit card 	Debit card 	Cash 

Source: BofA Thematic Proprietary Survey n=14,592, conducted Aug 2020 “What type of payment method do you prefer to use?”

## Chart 1: Gen Z expects social unrest

“Which of these are you most concerned about?”



Source: BofA Thematic Proprietary Survey n=14,592, conducted Aug 2020 “Which of these are you most concerned about?”



## Did you know?

### Did you know?

- \$10tn of lifecycle earnings could be lost by today's students due to Covid lockdowns.<sup>1</sup>
- 9 out of 10 of Gen Z thinks it's appropriate to use their phone in the bathroom, and 36% think it's appropriate to use it in a place of worship<sup>2</sup>
- Gen Z & Millennials have a much weaker handshakes than other generations<sup>3</sup>
- Gen Z will spend nearly 6 years of their life on social media... that's more time spent than eating, studying & socializing combined<sup>4</sup>
- Young surgeons are losing the dexterity to stitch up patients because they're spending too much time swiping smartphone screens<sup>5</sup>
- Gen Z have a shorter attention span than goldfish, at 8 seconds<sup>6</sup>
- Millennials are 5x more willing to share their clothes and 2x share their toothbrush than smartphone with their friends<sup>7</sup>
- 55% of surgeons recently reported having patients mention social media as their primary reason for plastic surgery - up from 42% in 2015<sup>8</sup>
- Gen Z must emit 8x less carbon than Baby Boomers to stay within 1.5C of warming<sup>9</sup>
- The majority of US women no longer have children in their 20s<sup>10</sup>
- Over half of teenagers admit to sitting in silence on their phones, while hanging out with friends for long stretches of time<sup>11</sup>
- Clicktivists: 72% of Gen Z believe they can be part of a social movement even if they participate only through social media<sup>12</sup>
- Gen Z is the first cohort where the majority has some kind of meat restriction in their diet<sup>13</sup>
- 58% of Gen Z said they can't be without internet access for more than four hours before becoming uncomfortable<sup>12</sup>
- 70% of Millennials would consider a lab-grown diamond, when getting married, which costs around a third less than a mined one<sup>14</sup>
- Americans placed a cannabis order every 8 seconds in 2018...<sup>15</sup>
- ...But it's a Baby Boomers industry, as they spend on average 53% more than Gen Z on marijuana in the US<sup>15</sup>

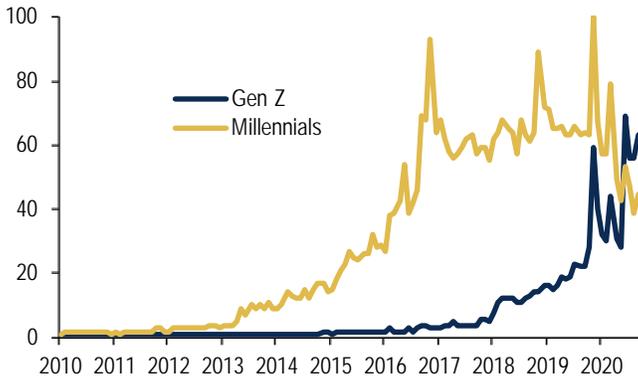
Sources: <sup>1</sup> World Bank 2020, <sup>2</sup>US Cellular survey 2018, <sup>3</sup>Fain, Weatherford, *Journal of Hand Therapy*, 2016, <sup>4</sup>WHO 2020, <sup>5</sup>Imperial College London, <sup>6</sup>Microsoft, <sup>7</sup>O2 Mobile Life 2016, <sup>8</sup>AAFPRS 2018, <sup>9</sup>Carbon Brief 2019, <sup>10</sup>US Census Bureau 2020, <sup>11</sup>Screen Education, *Slicktext* 2019, <sup>12</sup>Center for Generational Kinetics 2019, <sup>13</sup>Euromonitor, <sup>14</sup>CBInsights, <sup>15</sup>Eaze Insights 2018.



# What's trending?

**Chart 2: Gen Z is in, Millennials are out**

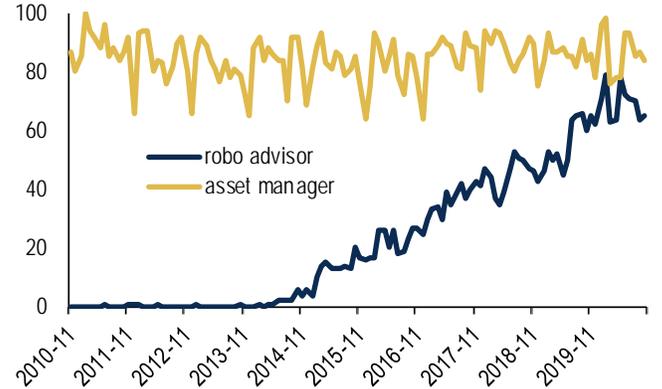
Google search popularity for 'Gen Z' and 'Millennials' worldwide



Source: Google Trends

**Chart 3: Covid recession didn't scare investors from robo advisors**

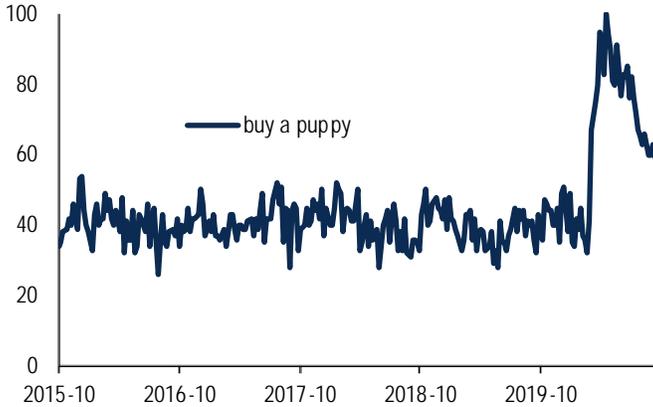
Google search popularity for 'robo advisor' and 'asset manager' worldwide



Source: Google Trends

**Chart 4: The search for companionship during lockdown will have long term effects on the pet industry**

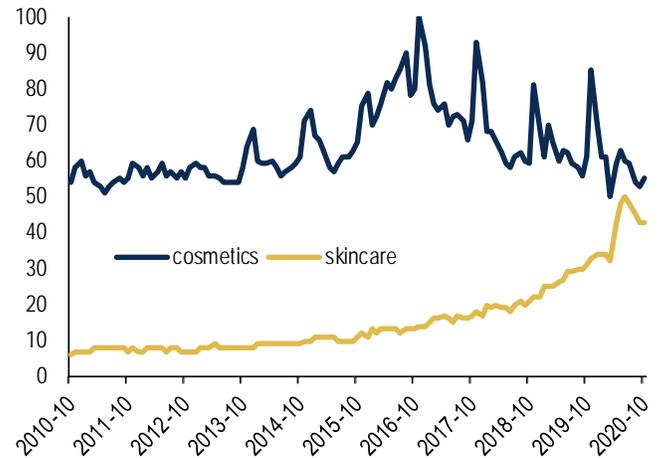
Google search popularity for 'buy a puppy' worldwide



Source: Google Trends

**Chart 5: Self-care is growing in importance**

Google search popularity for 'cosmetics' and 'skincare' worldwide



Source: Google Trends

**Chart 6: The hunt for sustainable clothing is on**

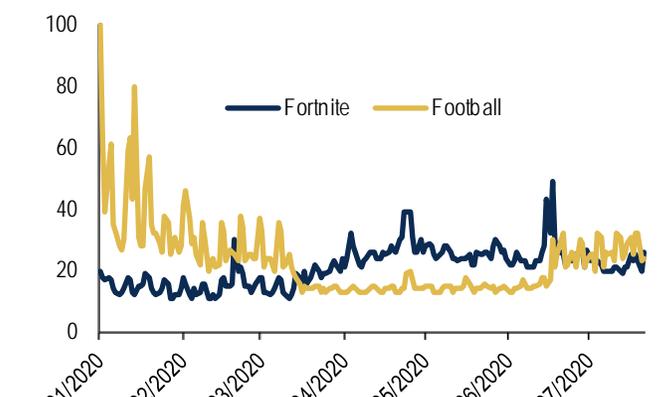
Google search popularity for 'sustainable clothing' worldwide



Source: Google Trends

**Chart 7: eSports competes with traditional sports**

Google search popularity for 'fortnite' and 'football' worldwide



Source: Google Trends



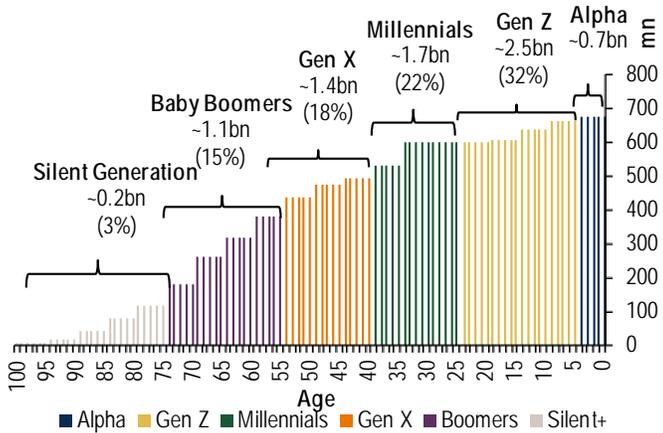
# Gen Z 101: The global influencers

## Gen Z: a population of 2.5bn and 140% growth in economic power over 5Y

Gen Z, born between 1996 and 2016, is the largest population at 2.5bn accounting for a third of the global total. Already, Gen Z has \$7tn of income. In addition, this influential generation has the fastest-growing income, set to increase 140% in the next five years to \$17tn in 2025 and \$33tn by 2030. Gen Z is set to overtake Millennials' total income by the early 2030s. The largest Gen Z markets by income are the US and China at \$1.2tn and \$1.1tn, respectively, followed by India, Japan, Germany, the UK and France. The influence of this generation is set to grow further as the great wealth transfer from Baby Boomers and Silent generation, who own \$78tn in the US alone, is about to begin.

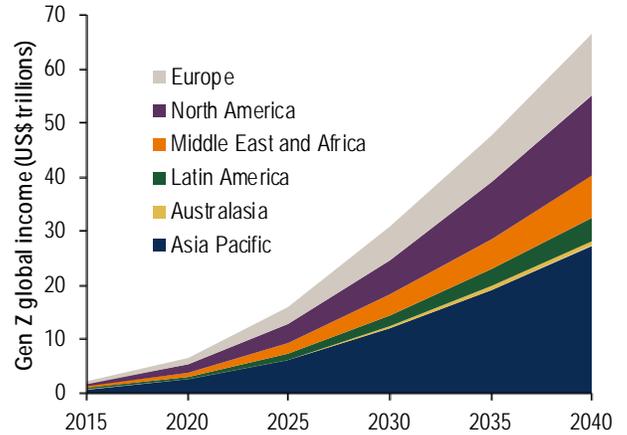
**Chart 8: Gen Z accounts for 2.5bn people**

Global population (millions)



Source: UN

**Chart 9: Gen Z income to reach \$70tn by 2040**



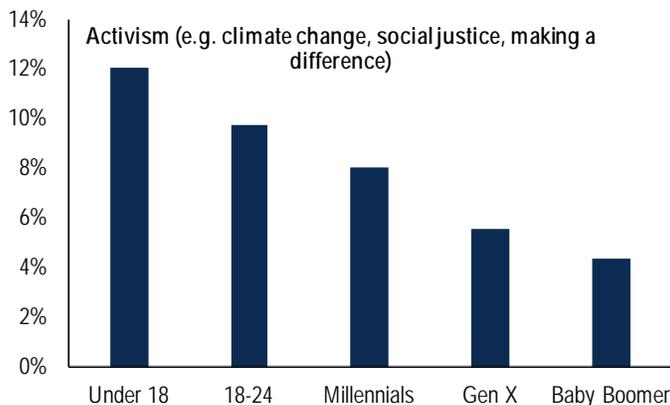
Source: Euromonitor

## Gen Z is not Millennials 2.0: fiscally conservative, socially activist, materialistic

In contrast to Millennials, Gen Z have grown up in the shadow of the Great Financial Crisis in 2008-09 and during a decade of social activism. Social issues form part of Gen Z's identity. They are digital dependents rather than Millennial digital pioneers. Also, the generation is more fiscally conservative than Millennials. However, some demographic factors remain similar for the two generations; both are delaying marriage, children, and homeownership, as well as postponing other traditional consumer purchases.

**Chart 10: Over 10% of Gen Z value activism above all other priorities**

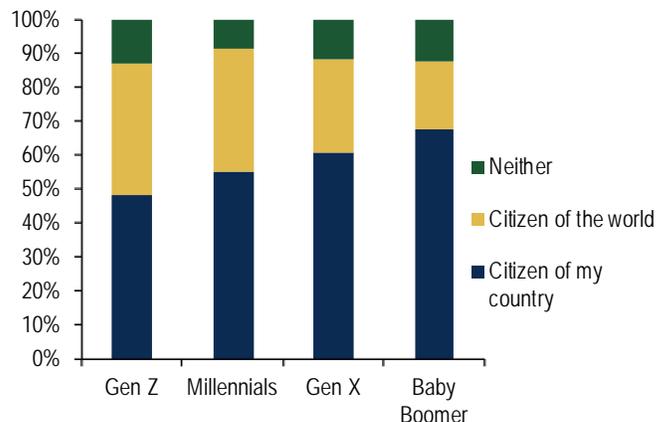
What is most important to you? (% selecting "Activism (e.g. climate change, social justice, making a difference)")



Source: BofA Thematic Proprietary Survey n=14,592, "What is most important to you?" Options: Activism (e.g. climate change, social justice, making a difference), family, career, love, religion, other

**Chart 11: Gen Z are citizens of the world**

"Do you consider yourself to be a citizen of the world or a citizen of your own country?"



Source: BofA Thematic Proprietary Survey n=14,592, conducted Aug 2020

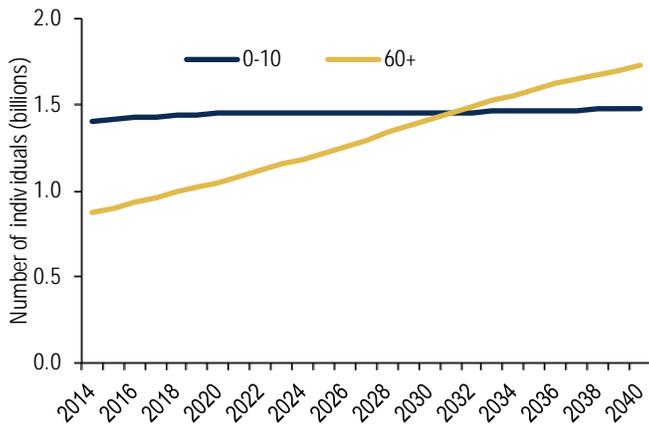


### Intergenerational conflict to continue to grow

Shifting demographic dynamics are set to increase tensions between generations. Declining birth rates alongside longer lifespans mean demands on a smaller working population to support ageing populations are greater. In particular, Europe is expected to see the ratio of 3.6 workers to each over 65 year old in 2020 decrease to 2.5 workers/over 65 year old by 2040 (source: Euromonitor, UN). By 2031, the over-60s will outnumber the under-10s. Political systems will likely struggle to represent younger generational issues – the Senate and House are now two decades older than the median US citizen. With an unrepresented generation, alternative forms of protest and potentially further social unrest are possibilities. It is perhaps unsurprising then that Gen Z is the generation most concerned about social unrest, with a quarter claiming social instability and war as their greatest concern vs 18.6% of Millennials and Gen X.

**Chart 12: Peak youth: grandparents are outnumbering the kids**

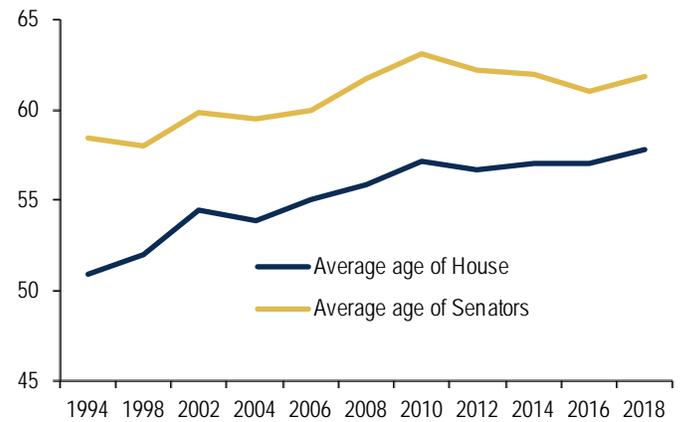
Population of over 60s will outnumber under 10s by 2031



Source: Euromonitor, UN

**Chart 13: US politicians are two decades older than the average US citizen**

Average age of US politician in the House and Senate



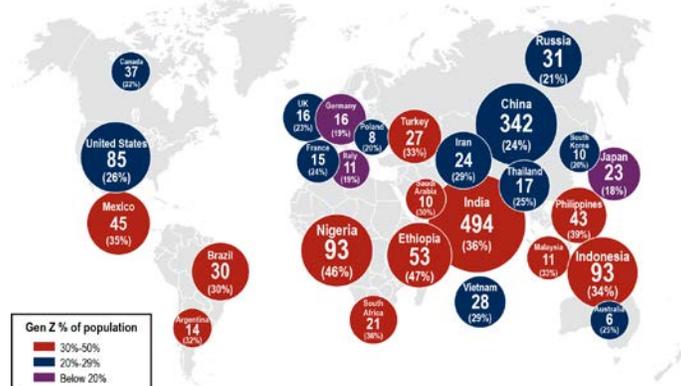
Source: Congressional Research Service

### 89% of Gen Z live in emerging markets

89% of Gen Z are in emerging markets vs 72% in 1950, with the largest income share in Asia, already accounting for 37% vs the US with 20%. Changing demographics are set to benefit India, as the working age population continues to grow, compounded by improving adult literacy, rapid expansion of technological infrastructure, urbanisation, and heightened geopolitical tensions with China. In contrast, China's elderly dependency ratio is set to increase rapidly just as the working age population starts to shrink.

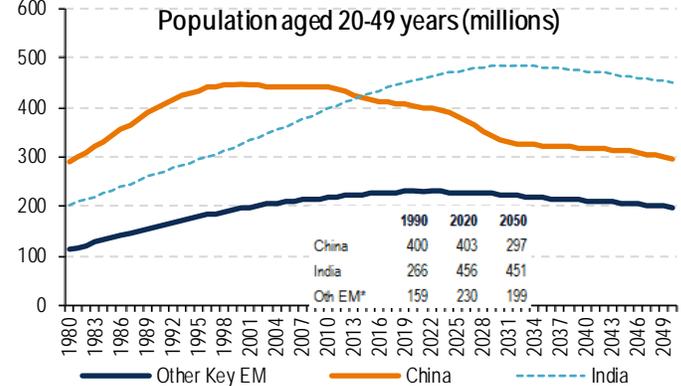
**Exhibit 3: 89% of Gen Z are in the EM**

Size of bubble denotes combined population of the cohorts (million)



Source: UN

**Exhibit 4: China is also ageing fast from here, India's ageing profile looks better**



Source: World Bank Population Data

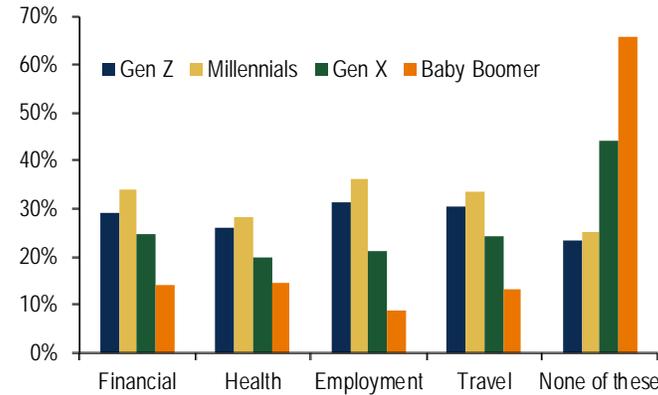


### Tech: from Millennial radical honesty to Gen Z cautious curation

Gen Z are tech-dependent and they are digital natives, with 45% of US teens online 'almost constantly'. However, unlike Millennials that are willing to share all, this does not mean Gen Z is open to all things tech – this generation is more cautious about what it puts online, more likely to use ad blockers, more likely to move on if a site takes too long to load and is less open to automation in their life than Millennials. This generation is also more likely to watch eSports than traditional sports. As such, Gen Z will accelerate some of the trends started by Millennials, e.g. the demise of old media.

**Chart 14: Millennials are the most trustful of robot-made life decisions**

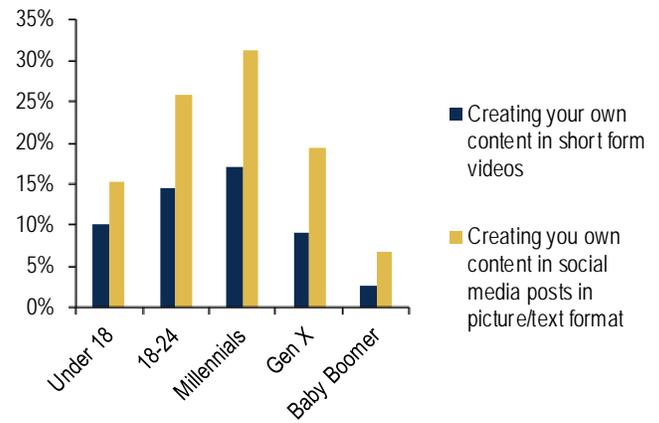
Which decisions would you trust a robot to make on your behalf? (select all that apply)



Source: BofA Thematic Proprietary Survey n=14,592, conducted Aug 2020 "Which decisions would you trust a robot to make on your behalf? (select all that apply)" Options: "Financial (e.g. pension, investments)", "Health", "Employment (e.g. assessing productivity/performance, hiring, firing decisions)", "Travel (e.g. pilotless plane, driverless car)", "None of these".

**Chart 15: Gen Z is much more cautious about posting content online**

% of each age group that regularly creates content online each month



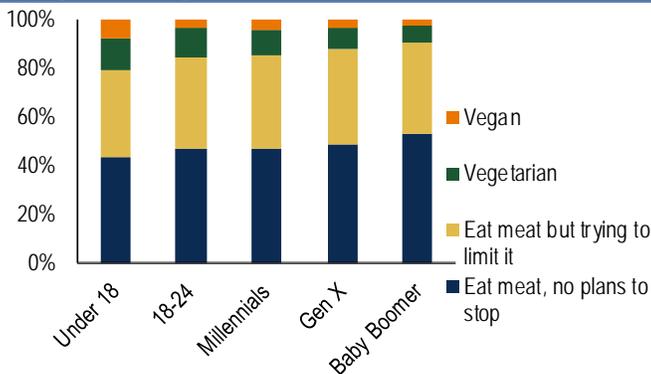
Source: BofA Thematic Proprietary Survey n=14,592, conducted Aug 2020 "Which of the following do you regularly do each month? (select all that apply)"

### The new consumer: sustainable, insular and product focused

Gen Z's key consumer characteristics are sustainability, insularity, and product over experience. The generation's climate change activism feeds into its consumption patterns. Only half of legal age teens in the US can drive. The majority of Gen Z has some sort of meat restriction (and does not drink alcohol). This generation is also influencing consumer-driven sustainable activism through agendas, such as single-use plastics. Harmful consumer sectors, such as fast fashion, may be the focus next. Further, around 40% of teens prefer to meet up online, which not only make this generation the loneliest but also impacts consumer habits, from athleisure and affordable luxury to pets and entertainment. Finally, Gen Z still holds traditional preferences for goods over experiences in sectors such as clothing and homeownership.

**Chart 16: Meat is off the menu**

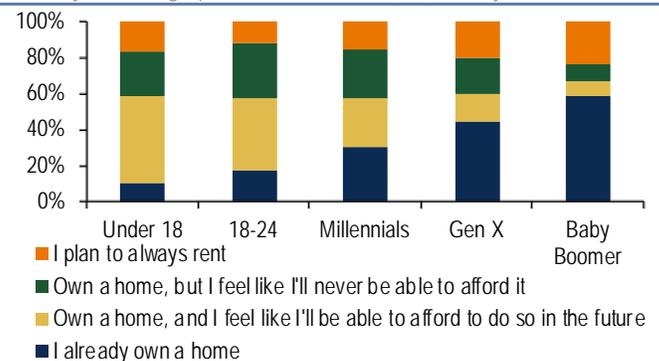
What are your meat eating habits?



Source: BofA Thematic Proprietary Survey n=14,592, conducted Aug 2020 "What are your meat eating habits?"

**Chart 17: Traditional goals: despite high housing costs a consistent share across generations think they'll be able to afford a home**

What are your housing aspirations? Countries: USA, UK, Germany, France



Source: BofA Thematic Proprietary Survey n=4,513, conducted Aug 2020 "What are your housing aspirations?" Countries: USA, UK, Germany, France

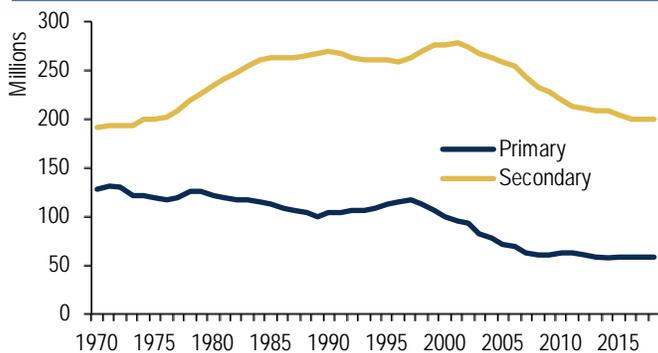


**Education & work: progress has stalled, the long-term impact of Covid**

Gen Z was set to be the most educated generation ever. But progress has stalled and even reversed due to the pandemic. The share of children receiving primary, secondary, and tertiary education had already plateaued pre-Covid. Further, the share of high school graduates going into higher education in the US is declining, as high student loans make the benefits of university increasingly unclear. Covid is set to cost today's students at least \$10tn in lifetime earnings and 50% of lower secondary school graduates are not expected to have the minimum levels of proficiency compared with 40% normally. Like the financial crisis in 2008-09 for Millennials, Covid will challenge and impede Gen Z's career and earning potential. This comes after them already seeing how the GFC affected their parents. Gen Z has had the least amount of work experience during the teens; however, their affinity with tech and tech-focused education may help them enter the workforce as 1bn people will need retraining over the next decade from automation.

**Chart 18: Unlikely to meet 2030 Education UN SDG: 260mn children are still out of school**

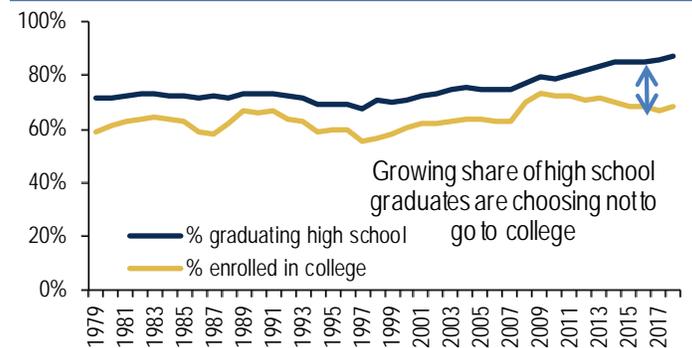
Number of children out of school of primary and secondary age



Source: UNESCO Institute for Statistics

**Chart 19: University has been losing its appeal to US high school graduates over the past decade**

Share of US 17 year old population graduating high school and enrolling in college



Source: National Center for Education Statistics

**Finance: responsible, mobile & ESG**

Gen Z experienced the effects of the last financial crisis through their families, resulting in a more fiscally conservative cohort cautious about taking on personal debt. However, alongside Millennials, Gen Z welcomes new technology as a means of managing finances from phones to cryptocurrencies. This implies that banks and asset managers will need to reassess their services to retain their youngest customers. Finally, Gen Z's social activism extends to finance, where four out of five consider ESG in their investments.

**Exhibit 5: Payment methods: credit is out, new tech is in**

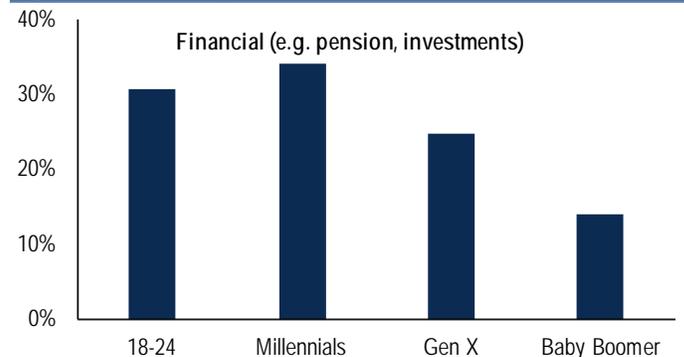
Top payment preferences by generation

The Generations	Top choice	Second choice	Third choice
Gen Z	Cash	Phone	Debit card
Millennials	Debit card	Phone	Credit card
Gen X	Debit card	Credit card	Cash
Baby Boomer	Credit card	Debit card	Cash

Source: BofA Thematic Proprietary Survey n=14,592, conducted Aug 2020 "What type of payment method do you prefer to use?"

**Chart 20: Open to new tech in finance: Close to 1 in 3 Gen Z and Millennials would trust a robot to make their financial decisions**

Which decisions would you trust a robot to make on your behalf? (% selecting "financial (e.g. pension, investments)")



Source: BofA Thematic Proprietary Survey n=14,592, conducted Aug 2020 "Which decisions would you trust a robot to make on your behalf?" (% selecting "financial (e.g. pension, investments)")



### **Who will be the next generation? Gen C is next**

Gen C or Generation Covid will not remember the virus or the associated lockdowns. It is the generation that will have only ever known problem solving through fiscal stimulus and free government money potentially paving the way for universal basic income and healthcare access.

This generation will feel the impact of Covid long after the pandemic ends in terms of how they trust and show intimacy – being trained not to hug, shake hands or even play in groups. Virtual attendance will be as accepted as in-person attendance for all activities, from classrooms, to talent shows, and even family reunions.

Gen C will be unable to live without tech in every aspect of their lives: online virtual tutors will provide personalised schooling; food delivery services will analyse individual's DNA and monthly fitness data to send them each week's personalised food requirements; and their avatars will protest virtually in the online Total Reality world with their friends on the latest cultural movement.



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