

Six investment trends that will move markets in this decade

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SPREAD BETTING

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YOU might say that trying to predict what will happen in the markets in the next 10 years is a mug's game. A decade ago, the dotcom bubble was still inflating and Lehman Brothers was a flourishing investment bank. Nobody could have seen what the financial world would look like by the start of 2010.

If we do try to look ahead, the landscape looks gloomy. Some have already suggested that the coming years could be a "lost decade" for many Western economies, of the sort that Japan experienced in the 1990s. Investors will almost certainly have to contend with sluggish growth, weak domestic demand and debt-burdened governments over the coming years. It would be easy to become demoralised, and to decide that rather than trying to play the markets, to simply hold defensive positions for the long-term.

Spread betting is all about getting in and out of the markets quickly. If you want to make it work for you, it is vital to understand the large-scale trends that will drive the markets over the coming years. If everything else is uncertain, then these stories are sure to be ever-present. Such themes as the increasing urbanization in emerging behemoths such as China and India, an aging population in the West, global flu pandemics and a greater focus on how to tackle climate change. These and other trends like them form the backdrop for the next decade.

Here we look at some the themes that are sure to be moving the markets between now and 2020.

EMERGING MARKETS POWER AHEAD

One of the key themes for the next 10 years will be the growth of the middle classes in emerging markets. Mass urbanisation in countries such as China should fuel demand for housing and consumer goods, which is good news for the emerging market exporters, especially in SouthEast Asia, who have suffered as Western consumers tighten their belts and reduce spending. In 2009 stock market gains in developing nations raced ahead of their counterparts in the West. Shanghai's equity market rose nearly 80 per cent while in India the Sensex was 81 per cent up on the year. Emerging markets are also expected to be a bigger contributor to global growth than developed countries by 2030. Yogesh Dewan, chief executive and founder of Hassium Asset Management, says that investors will miss out if they are not paying attention to this mega-trend that will continue to gain momentum in the next 10 years.

RENEWABLES

Green energy was a buzzword of the noughties and investors could profit from further investment in green technology. Politicians have declared that the recession is a good opportunity to increase investment in renewable and nuclear energies rather than relying on oil and coal. As greater investment in these areas come to fruition then companies operating in this space should be positioned to do well at the expense of oil-focused firms. Yogesh Dewan points out that there are many ways in which investors can gain exposure to such firms.

The S&P Global Water Index reflects the performance of 30 water stocks, Credit Suisse have a global warming index and there is a Dow Jones Alternative Energy Index, all of which give investors exposure to a broad basket of stocks without the risk associated with individual companies. "Going forward, these indices are going to be a mainstay when you look at pension funds and liquidity will improve. It's early days but you would be foolish not to look at them and not to take them seriously," Dewan says.

HEALTHCARE

Investments in healthcare could be winners in the next decade for two reasons. Aging populations will be a key theme in the coming years. Life expectancy in the UK is increasing rapidly: in 2011, a man who reaches the age of 66 is likely to reach 86, says the Office for National Statistics. Not only will an older population require more medication but also the apparent continuation in flu pandemics and other global health scares will ensure that pharmaceutical and biotech companies will have plenty with which to keep themselves busy. Pharma giants, although they will lose the exclusive rights to some of their best-selling drugs, are also well poised to benefit from more growth in emerging markets.

PENSION FUNDS

The baby boom generation is fast approaching retirement and they are likely to want to save rather than spend, especially given the performance of their pension funds over the past year or so. This will put pressure on pension funds to think about asset diversification and reorientation, says Jeremy Batstone-Carr, director of private client research at stockbroker Charles Stanley. Despite a disappointing performance for equities over the past decade - the FTSE 100 might have regained its pre-Lehman levels, but it is still some 20 per cent below its close of 6,930 on 31 December 1999 - pension funds typically have four times more equities than bonds in their portfolios.

Batstone-Carr says that pension funds realigning their positions will sustain the demand for bonds, as pension funds look for stable sources of income over the coming years. Since pension funds are big players in financial markets it is worth monitoring changes in their strategies.

WESTERN INFRASTRUCTURE

Although the developed world will not see the rapid growth of the emerging markets, there will still be opportunities for investors to pick out themes that should be successful over the next decade, says Batstone-Carr. Much of the deficit spending instigated over the course of recent years has not added to the long-term potential of the economy. He says that governments will need to invest in the economy's potential if we are to return to and sustain pre-crisis rates of growth. Investment in infrastructure such as new the high-speed rail lines recently announced could therefore expand over the coming years. Investors could therefore look at infrastructure firms operating in Britain, Europe and the US, for example. One massive caveat: the possibility of a public finances crisis.

SMART INVESTING

Whichever of these themes you choose to invest in, there are a few key rules that you should think about. Firstly, says Moorad Choudhry, head of treasury at Europe Arab Bank, investors must look for sectors that can perform well in all the macroeconomic scenarios that are expected to characterise the next decade such as inflation, possible sovereign credit ratings downgrades and strong growth in the emerging markets.

Secondly, Choudhry adds: "In the long-term you want to position your portfolio to be sustainable over the entire business cycle rather than just jumping on bandwagons. People should be more realistic about what is sustainable over the coming cycle and shouldn't chase high returns."

Finally, the best approach is to be really diversified and enter all asset classes, picking your entry points carefully based on fundamentals, says Yogesh Dewan. You should be taking risks in areas that you know well and understand - perhaps a sector you are already involved in for work.

After what was a turbulent end to the noughties, the next decade is expected to be a slow and weak revival. But with some targeted investing, and keeping long-term themes in mind, there is no reason that you should not be able to ride out the turbulence of the next 10 years.