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Annual Outlook 2024: Cautiously Optimistic and Investing in Longevity

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Introduction

As we kick off 2024, for the first time in eight years, we are cautiously optimistic about the outlook for the US economy. As we explore in this report, households and businesses have weathered the interest rate rise environment markedly well, and are in relatively good shape, indicating that the elusive soft landing has been achieved. Despite a mini trade recession throughout 2022–2023, certain emerging market developing economies (including India and Vietnam) remain bright spots for investing and growth, while our look for the Eurozone is more dour.

As this 'jobs-rich recovery'[1] continues to roll on across geographies, there is a very real potential that geopolitics can upend the base case. Any escalation of the conflict between Israel and Hamas that could result in congestion in the Strait of Hormuz can potentially drive oil prices north of US$100 per barrel (and the rest of the commodity basket with it). Already, the disruption in the Bab al-Mandab Strait is pushing up shipping prices through the Red Sea and can potentially disrupt LNG trade to Europe. Additionally, on the geopolitical landscape, as 4.1 billion people head to the polls in 64 countries, certain domestic factors—such as record house prices in many geographies—have the real potential to disrupt the status quo in many jurisdictions, arguably more than certain foreign policy issues.

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Emerging pockets of financial instability can also disrupt the economic recovery. Risks lurking within non-bank financial institutions (NBFIs; in India, non-banking financial companies, or NBFCs[2])—and, specifically, within private credit markets—can spur a crisis, potentially in 2025. Accordingly, we diagnose how these risks have been built up over time and what regulators are doing (or poised to do) to address imbalances within elements of the financial system to help restore greater resilience within credit markets.

Lastly, our key investing theme for the year focuses on longevity: that is, investing in longer life spans. As we explore, this means different things in different geographies. While the US is further down the longevity trajectory (with windows for capital allocation into the venture capital, biotech, and consumer sectors), Europe also offers emerging opportunities in the medical tourism space. This element of the 'consumerisation of healthcare' trend also offers bright spots within Asia, including dairy farms in emerging Asia. One key aspect of investing in longevity relates to the sheer size and growth of the asset and wealth management industry. As we highlight, while the US market continues to present opportunities for greater consolidation, Japan also offers prospective investors a significant opportunity for long-term capital allocation.

Conclusion: Investing in Longevity

In purely macroeconomic terms, longer life expectancy usually conjures negative notions. Aging populations are a contributing factor to 'secular stagnation'; with lackluster immigration policies, many countries are locked in for a trajectory of lower, slower growth. As gross national income declines and spending on entitlements (such as healthcare) rises, many governments have lost sight of a fiscal balance. In fact, rampant fiscal deficits worryingly seem to be of little concern for many policymakers, on both sides of the party bench. Also, deepening and widening wealth inequality can also be a feature of aging populations: in the case of the US, and set against the backdrop of the 'gig economy', the salaries of those retiring from the workforce are not necessarily matched by those of new entrants to the labour market.

However, there is a bright side to aging, which is investing in longevity. This means different things in different geographies. In the US, which is arguably more advanced on the longevity spectrum, the craze for 'biohacking' (whereby a person chooses to optimise their health via DIY biology) has created opportunities for investing in consumer healthcare, as well as in biotech and venture capital.[57] This is a facet of another key investing trend, the 'consumerisation of healthcare'. In the US, the complementary and alternative medicine market is poised to be worth US$411.4 billion by 2030[58] (given a cumbersome and exorbitant healthcare system, many consumers take matters into their own hands).

In Europe, which is a bit further behind the US in the wellness craze, the prospects for medical tourism offer potential for long-term investment. The market is heavily fragmented and can benefit from consolidation and perhaps collaboration from leading hospitality companies as well as health and beauty brands. The prospect of rolling out 'medispas' in France is a case in point; while the country is the most visited in the world, and is (rightfully) associated with beauty, the medispa market is as yet underdeveloped, and is garnering attention from global investors.[59]

Certain aspects of the food system are also closely interrelated with the investing in longevity theme. In EMDEs such as Vietnam, wealth creation is spurring changing tastes in food and (as was the case in China) increased dairy consumption. Accordingly, some of the world's largest private equity houses are deploying capital to Vietnam's budding domestic dairy market, alongside seed capital from multilateral development banks (MDBs).[60] Growing at 8 percent per annum, Vietnam's total food market is one of the fastest growing in the world.[61] And, investing in the country's growing food distribution network has attracted Japanese investment.[62] Also, in a green shade, one MDB has invested in an aquaculture initiative in Vietnam, with a focus on reducing methane emissions in cattle feed.[63] If successful, such an investment can be proliferated across Asia where increased dairy consumption coincides with greater climate and environmental action.

Lastly, in considering the investing theme of longevity, one clear opportunity arises, which is deploying capital to the asset wealth management (AWM) industry. Again, this means different things in different geographies. In the US, the sheer size of the market is forecasted to expand by 4.5 percent CAGR, to reach US$72.5 trillion in 2027.[64] The AWM industry in the US has been rife with consolidation in recent years, and groups have become investment targets for private equity, family office, and multifamily office investors. The decline in asset valuations resulting from a higher interest rate environment is also likely to contribute to swifter consolidation. Within the next three years, 16 percent of AWM groups are forecasted to vanish or to be acquired.[65]

Looking to Asia—and with an eye on expansion—the total growth AUM in wealth management within Asia Pacific is forecasted to rapidly expand within the next four years, with growth rates estimated to be 50 percent higher than that in the US.[66] Although China has been a critical market for many global wealth managers, Japan is also a promising market. As a facet of the BoJ's ultra loose monetary policy, the yield on Japanese bonds is not entirely lucrative; in fact, according to data from the BoJ, Japanese households maintained over 2000 trillion yen (roughly US$13 trillion) in financial assets, but over half of this is at close to negative yielding rates.[67]

Accordingly, some local entities in Japan are piloting the launch of digital securities, to be able to offer higher yields in the form of security tokens to Japanese households in 2024. Additionally, in the offering of real assets, some of the world's most sophisticated alternative investment groups are focusing on providing Japan's wealthy households access to real estate, private equity, and infrastructure investing products, via both private as well as public markets.[68]

Endnotes

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