

Climate change is one of five mega trends that will shape the world, UN economists say.

Asia Asset Management (21 September 2020)

By Goh Thean Eu

Climate change is one of five man-made mega trends that will shape the world this century, and potentially jeopardise efforts to put the world on a more sustainable footing without urgent policy action, United Nations' chief economists warn.

Inequalities, urbanisation, rapid population changes and technological revolution are the other four major trends they identify in a new report.

These "human-made megatrends will continue to dominate and frustrate global efforts to put the world on a more sustainable and prosperous path, unless urgent policy interventions to influence them are taken now", the UN Economist Network says a report titled Shaping the Trends of Our Time, published on September 17.



"Whether their impact is positive or negative overall will depend on the policies implemented today," it adds.

The economists paint a rather bleak picture of the current state of affairs. They lament that progress on the UN's 15-year Sustainable Development Agenda set in 2015 is already off-track, and possibly reversed by the coronavirus crisis in many cases. And policy commitments haven't translated into policy actions.

"Sustainable finance is increasing, but neither fast enough nor at the necessary scale. The change in our behaviour and mindsets does not yet match our ambitions for sustainable development," the report says.

But asset managers such as Jakob Nilsson of Federated Hermes argue that the mega trends are overly broad. To be sure, trends are key for investment decisions, but he suggests they should be more specific. "Companies that are able to profit from today's emerging mega trends will be tomorrow's corporate winners. The UN trends are very broad," Mr. Nilsson, the US company's head of distribution for Asia Pacific, tells Asia Asset Management (AAM).

“From an investment perspective, we would suggest looking at areas like water, food scarcity, health and wellbeing, education, financial inclusion, future mobility and energy transition,” he says. Others offer a different perspective. The way Ismitz Matthew De Alwis, chief executive officer of Malaysian fund management firm Kenanga Investors, sees it, the key trends identified by the UN economists are already accelerating and will be important drivers of corporate earnings and stock market returns. “These forces, which we call megatrends, are giving rise to a new set of powerful investment themes,” he tells AAM.

According to Mr. De Alwis, his firm deems it “essential” to study the evolution of these trends as they can have a “meaningful impact not just on how we live and how we spend money, but also on government policies and corporate strategies”.

“Identifying the potential for structural change and investing in expected transformations early can be a key driver of successful investing. This may be an opportunity for investors to position their portfolios for long-term growth potential,” he says. Kuala Lumpur-based Kenanga Investors had 12.6 billion ringgit (US\$3.06 billion) of assets under management at the end of 2019.

Pittsburgh-based Federated Hermes had US\$628.8 billion of assets under management as at June 30, 2020.

thumb generally states that the younger you are, the more risk you can shoulder. Affin Hwang Asset Management chief learning officer Steve Lim concurs, citing the age-old adage that “Danger provides opportunities”.

“As part of their tactical allocation, investors can maintain a certain percentage of their assets in liquid cash to cherry pick companies with strong fundamentals and growth potential whose prices have been irrationally punished in a market rout due to Black Swan events such as the Covid-19 pandemic,” he adds.

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