



RBC BlueBay
Asset Management

Megatrends 2022

Turmoil fails to derail long-term investment trends

It's been a tumultuous year for investors. Near-term pressures such as stagflation and economic volatility have raised questions about investing in long-term megatrends. But climate change and technological advances remain major investment drivers, according to our new survey of 800 fund buyers, consultants and wealth managers¹.



Introduction

This year has been unprecedented. The Russian invasion of Ukraine has led to a major global supply chain shock that has triggered shortages of cooking oil, grain and – perhaps most significantly for the future of the world economy – energy, with many countries’ dependence on Russian gas exposed. The scale of this crisis also reflects how many countries have not yet built sufficient renewable energy capacity.

Climate change and technology remain megatrends

Our 2022 Megatrends survey explores whether the themes we identified in our inaugural survey last year are enduring, or whether their influence on investment decisions has been replaced by newer concerns.

We have increased our panel of wholesale investors to 800, from just over 500 last year, and they span seven regions – the US, the UK, Germany, Switzerland, the Nordics (Sweden, Denmark, Finland and Norway), Italy and Spain.

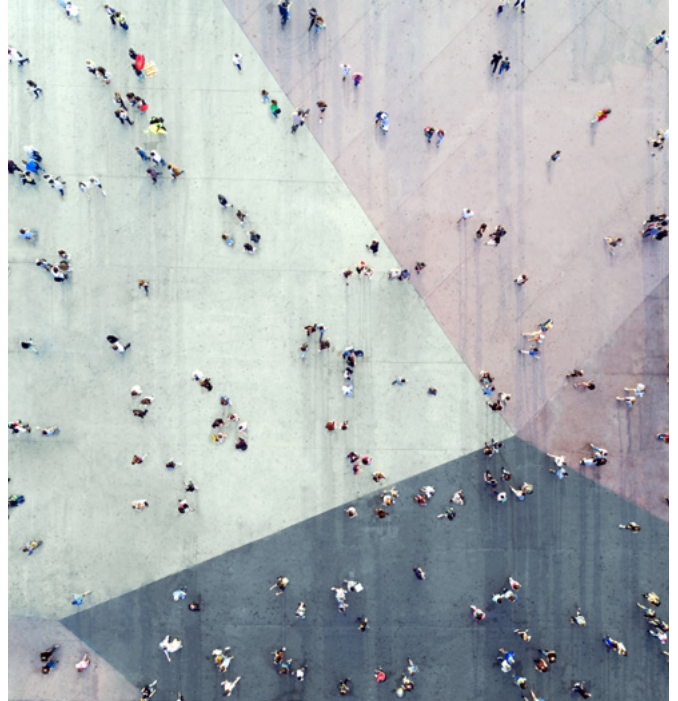
There is an overwhelming consensus (90%) that last year’s main themes – climate change (60%), technological advances (59%) and healthcare innovation (36%) – will be the key trends that influence investment decisions over the next five years.

Higher inflation rates weighing on returns for at least 3-5 years is a concern for half the respondents. US investors are most pessimistic, with 59% expecting a drag on returns over five years, while 26% think it will go beyond six years. International wholesale investors mainly expect portfolio returns to hover in the 5-6% range during the period, with 39% of those surveyed taking that view.

Investors not decamping to private markets

How does short-term volatility influence portfolio allocation in an environment where investors say they want to honour long-term strategic themes?

One particular narrative for the past couple of years suggests that investors have sought shelter from the volatility of public markets by piling into private markets. Our survey does not fully support that thesis.



Respondents are on average allocating 22% of their portfolios to private markets, and more than half (54%) either expect not to increase or even to decrease their holdings over the next 3-5 years. Of the remainder, only 14% forecast a significant increase. At the same time, just over half (56%) of respondents expect public markets to outperform private markets over the next 5-10 years.

Asked for their views on how the current market volatility will affect the investment case for public equities and fixed income, 46% of wholesale investors said it hasn’t changed the case for investing in public markets, with the remaining respondents split equally between supporters and detractors.

The case for public markets is further strengthened by asset allocation priorities over the next three years. Equities and fixed income remain the primary allocation choices for 31% and 27% of respondents, respectively, ahead of other asset classes.

Similarly, the preferred investment approach by the majority of respondents (77%) is active over passive. This is perhaps reflective of investors’ appreciation of the need to be nimble and not as tied to indices, allowing them to potentially shield more against the volatility of investing in public markets.

Executive Summary

Emerging markets (EM):

An overwhelming majority and more than last year (86% versus 83% in 2021) expect EMs to grow. All respondent markets are looking to capitalise on this, with more investors in the UK and Switzerland set to allocate funds in this area compared with last year. Within EMs, Asia (excluding China) continues to be considered the most investible with 59% of respondents agreeing, although China has increased by 5 percentage points in importance since 2021, up to 41%.

Future asset allocation:

Market capitalisation (42%) and sectors (40%) are the most commonly used filters for portfolio allocation, but that is likely to shift to earnings per share growth. For current and future fund selection preferences, there are likely to be global shifts towards small and mid cap (30% to 33%) and large cap (40% to 42%) over the next three years, as well as to absolute return (33% to 37%) and value (28% to 33%).

Environmental, social & governance issues:

Most international wholesale investors (57%) say that environmental, social & governance (ESG)

issues are an important consideration. This is especially the case for US wholesale investors at 68%. The Russian invasion of Ukraine and concerns surrounding supply chains are driving the influence of ESG.

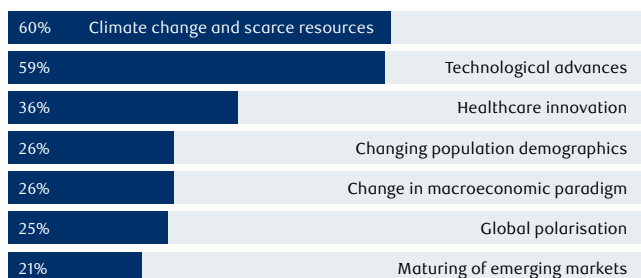
Private and public markets:

Investors are allocating an average of 22% to private markets, with more than half (54%) of those surveyed expecting not to increase this over the next 3-5 years. Just over half (56%) of investors believe public markets will outperform private markets, and this view is held more strongly in the US and Nordic markets, at 70% and 71%, respectively.

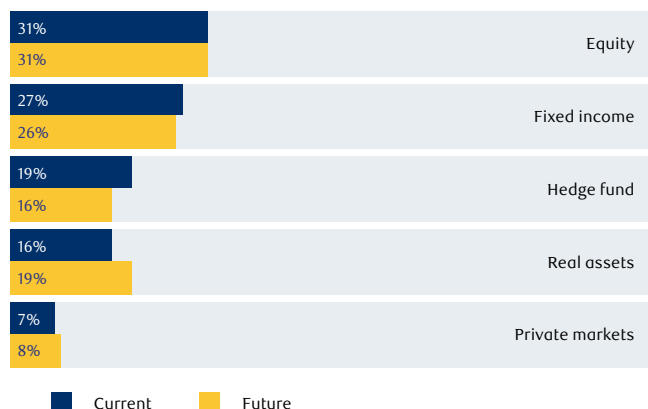
Market outlook:

International wholesale investors see climate change and technological advances as the key megatrends over the next five years, with most continuing to believe investing in megatrends will influence how capital is allocated. The majority predict that inflation will weigh on returns for up to 3-5 years and that the average rate of return will be 5-6% during that time.

What will be the main megatrends over the next 3-5 years?



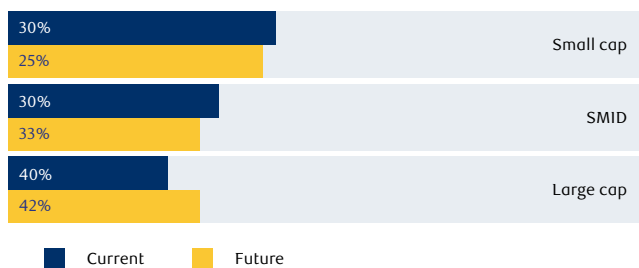
Current and future fund allocation preferences



Research methodology

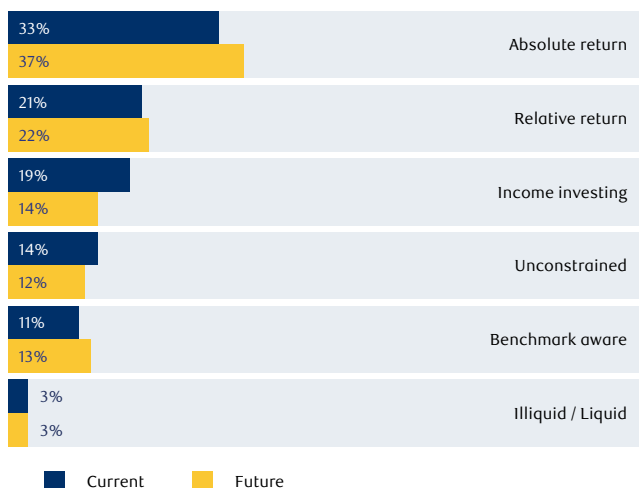
The fieldwork for this survey was conducted between 1st September and 12th October 2022 by research house Opinium Research on behalf of RBC BlueBay Asset Management. Views from 800 wholesale investors were canvassed across the UK (100 respondents), Germany (100 respondents), Italy (100 respondents), Switzerland (100 respondents), Spain (100 respondents), the Nordic countries (100 respondents), and the US (200 respondents).

Shift to SMID and large cap for equities



“ Higher inflation rates will weigh on returns for at least 3-5 years ”

Investors favour absolute return over relative



Where investors put their money

- International wholesale investors expect North America (25%) and China (27%) to continue to record the biggest equity rally. However, this is down from 2021 (with North America at 30% and China at 32%) and there are signs of a shift towards Europe (Western Europe up 4 percentage points to 19% and Central and Eastern Europe up 5 percentage points to 9%).
- Nordic wholesale investors are the only ones using inflation-linked bonds (45%) as their primary hedge against the surging inflation risks. Internationally, this strategy comes fourth (38%) after increasing exposure to a fixed income asset class that trades well in this environment (46%), rebalancing asset allocation from equities to bonds (42%) and expanding allocation to private markets (39%). The latter is primarily driven by US investors (53%).
- Comparing findings from our 2021 survey versus 2022, there are likely to be shifts towards ESG factors within investments, and away from sustainable investing over the next three years in the UK (54% from 46% currently), Germany (49% from 44%) and Switzerland (52% from 47%). There are opposite moves towards sustainable investing in the Nordics (55% versus 39%), Italy (58% versus 49%) and Spain (46% versus 40%).
- China has remained largely separate from EM allocations (61% separate versus 39% part of the allocation). The biggest shift in the last year has been among German investors, with 48% now keeping China separate from EM allocations versus 52% last year.

“ China has remained largely separate from EM allocations ”



Regional findings: US

The vast majority of US wholesale investors (87%) consider megatrends to be important in deciding capital allocation over the next 3-5 years.

They believe the key megatrends will be:

- Technological advancements (70%)
- Climate change and scarce resources (49%)
- Healthcare innovation (42%)

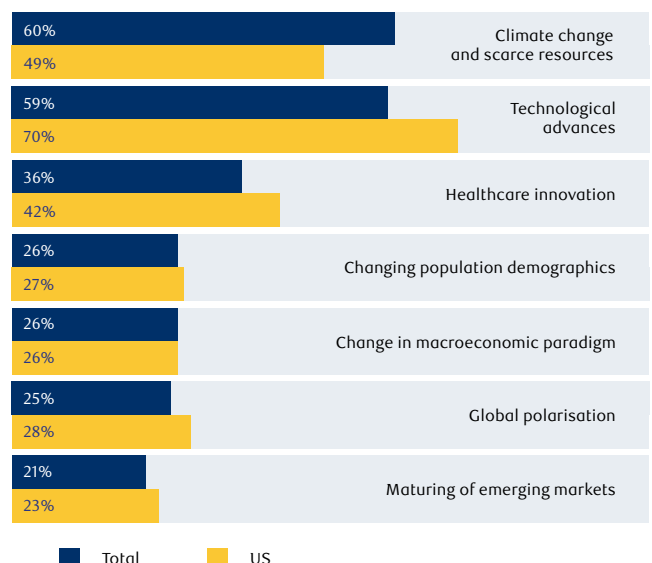
Investors in the world's largest economy firmly back public markets, with 70% (versus 56% internationally) of them expecting public markets to outperform private ones.

“ US investors are the most pessimistic about inflation weighing on returns ”

They are currently allocating 25% of capital on average (versus 22% internationally) to private markets, with more

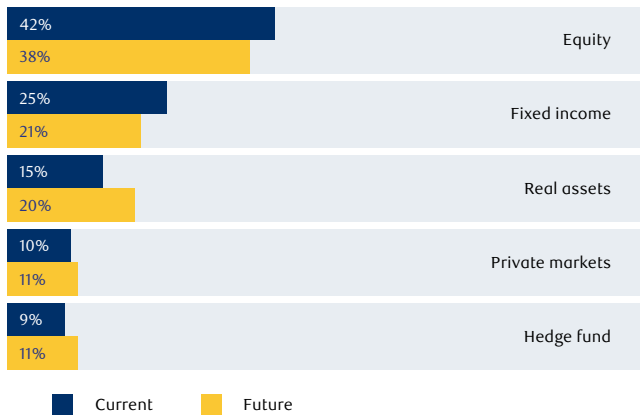
than half of them (55%) either planning not to increase or to reduce it over the next 3-5 years. They are the most pessimistic about inflation weighing on returns (59%, with the international average at 50%) over the same period.

What will be the main megatrends over the next 3-5 years?



Unlike most of their counterparts in other regions, their primary focus from an asset allocation perspective, in order to benefit from EM growth, is Central and Eastern Europe (58%), ahead of Asia and China (49% and 30%, respectively).

Current and future fund selection preference: US



Market capitalisation and sectors are the most-used investment filters for US investors (both 40%), but they see that shifting to sectors (75%) and earnings per

share growth (69%) in the future. For current and future fund selection preferences, US investors follow the international average trend with a shift towards SMID and large cap and value.

Investors in the US are most likely to consider ESG factors as important (68%), with the Russian invasion of Ukraine and concerns about supply chains having a great deal of influence in driving interest in ESG factors (80%). Almost half of those (47%) who don't profess an increase in interest say they are driven by the outperformance of sectors traditionally not considered to be ESG-friendly.

68%

of US investors

are likely to consider
ESG as important

70%

of US investors

believe technological
advancements are
a megatrend





Regional findings: UK

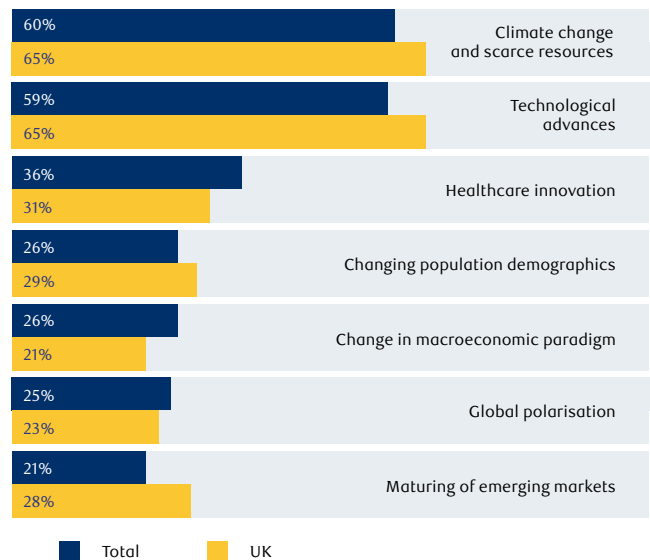
Most UK wholesale investors (89%, slightly below the 93% in 2021) consider megatrends to be important in deciding capital allocation over the next 3-5 years.

They believe the key megatrends will be:

- Climate change and scarce resources (65%)
- Technological advancements (65%)
- Healthcare innovation (31%)

UK investors allocate just over a fifth (22% on average) of capital to private markets, with over half (54%) not planning to increase their holdings over the next 3-5 years. At the same time they are less optimistic about public markets outperforming private markets over the long term (47% versus the international average of 56%).

What will be the main megatrends over the next 3-5 years?

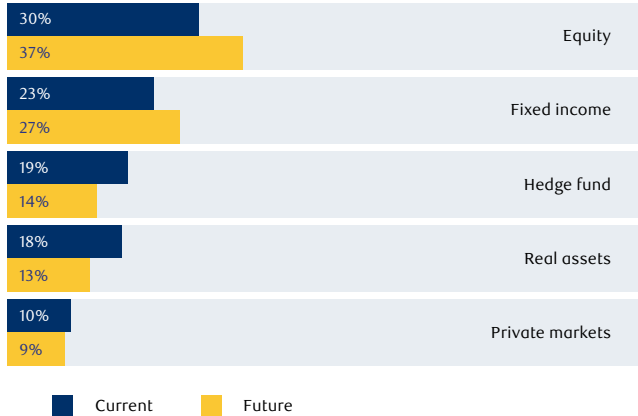


“ UK wholesale investors are more likely to favour Asia (excluding China) as the most investible EM ”

They are most likely to rebalance their portfolios towards bonds to benefit from higher interest rates (45%), and are more likely to expect an equity rally in Central and Eastern Europe (17% compared to a 9% international average). Even more UK investors than last year (62% versus 58% in 2021) are looking to capitalise on the expected growth

in EMs. They are more likely to favour Asia (excluding China) as the most investible market (68% compared to a 59% international average).

Current and future fund selection preference: UK



UK wholesale investors mostly use sectors (49%) as investment filters, but this will shift to earnings per share growth rate (70%) in the future. For current and future

fund selection preferences over the next three years, there is likely to be a move towards ESG (46% to 53%) and absolute return (35% to 47%).

Half of UK respondents view ESG as an important consideration and among this group 72% said that concerns about global supply chains caused by the Russian invasion of Ukraine are driving more interest in ESG factors. Of those who said the Russian invasion of Ukraine has not changed their interest in ESG factors, more than half (52%) are influenced by the outperformance of sectors not traditionally viewed as ESG-friendly.

45%

of UK wholesale investors

are likely to rebalance their portfolios towards bonds to benefit from higher interest rates





Regional findings: Germany

Most German wholesale investors (91%) consider megatrends to be important in deciding capital allocation over the next 3-5 years.

They believe the key megatrends will be:

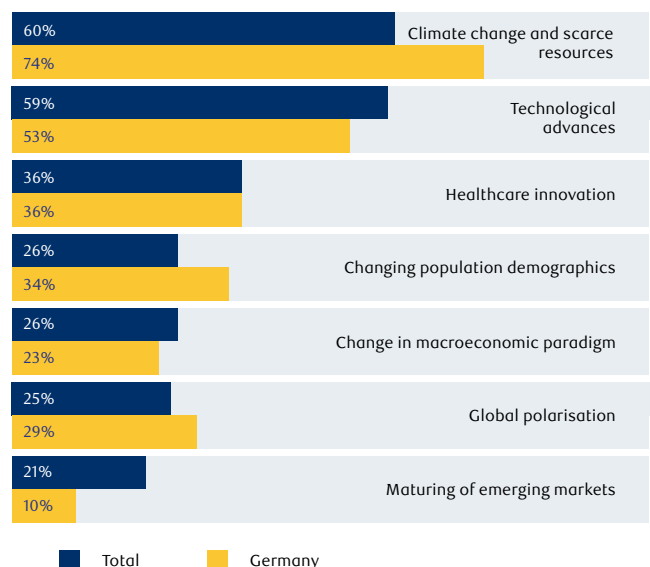
- Climate change and scarce resources (74%)
- Technological advancements (53%)
- Healthcare innovation (36%)

German wholesale investors are in line with the international average, allocating 22% on average to private markets, and almost six in 10 plan to hold or decrease their allocation. Just over half (52%) believe public markets will outperform private markets, broadly in line with the international average (56%).

“ German wholesale investors are most likely to expect an equity rally in China (33%) ”

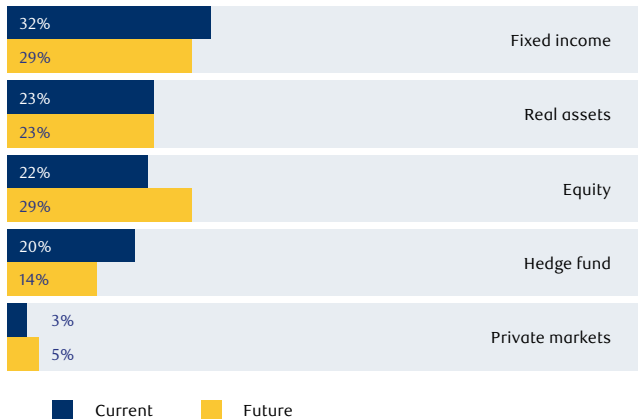
German wholesale investors are most likely to increase exposure to asset classes that trade well in an environment of high interest rates (49%) and are most likely to expect an equity rally in China (33%).

What will be the main megatrends over the next 3-5 years?



While the vast majority of the German wholesale investors surveyed (80%) are optimistic about the EM growth outlook, fewer than half (48%) are looking to capitalise on it (versus 57% in 2021). Of those pursuing

Current and future fund selection preference: Germany



EM, 58% favour Asia (excluding China), while only 36% see Central and Eastern Europe as the most investible region (versus 49% international average).

In Germany, market capitalisation (41%) is the most-used filter for capital allocation, but that is likely to be trumped by earnings per share growth (65%) in the future. For current and future fund selection preferences, there is likely to be a shift towards ESG factors within their investments, absolute return and active management over the next three years.

While fewer than half consider ESG factors an important investment consideration (49%), among this group the Russian invasion of Ukraine and its subsequent supply chain concerns are driving interest in ESG factors (60%). The outperformance of sectors that are traditionally not considered to be ESG-friendly is driving investor interest a lot or somewhat (47%), just below the international average of 51%.

91%

of German wholesale investors

consider megatrends to be important in deciding capital allocation over the next 3-5 years





Regional findings: Switzerland

Most Swiss wholesale investors (88%, unchanged from 2021) consider megatrends to be important in deciding capital allocation over the next 3-5 years.

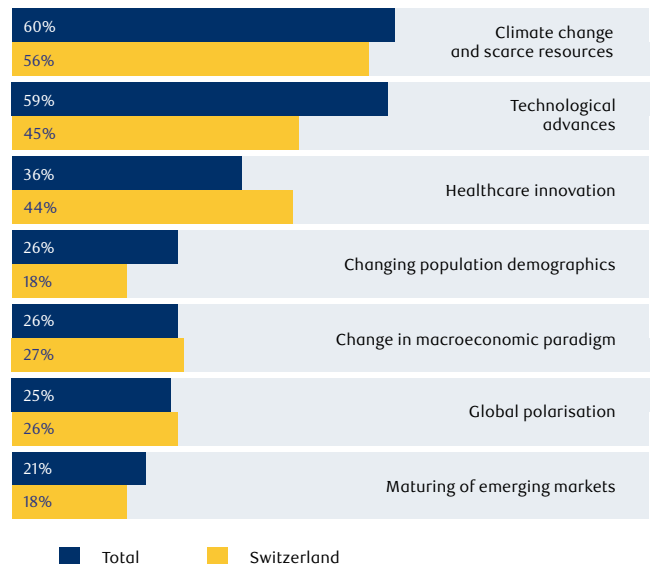
They believe the key megatrends will be:

- Climate change and scarce resources (56%)
- Technological advancements (45%)
- Healthcare innovation (44%)

Swiss wholesale investors are allocating 21% to private markets, with an almost even split of holding/decreasing and increasing allocation to private market assets over the next 3-5 years. Almost half (49%) of those taking part in the survey believe public markets will outperform private markets, somewhat below the international average (56%).

Investors are deploying a number of tactics to adjust to the high interest rate environment, with increasing exposure to asset classes that trade well in this environment (37%) and a third (33%) shifting their portfolio allocation to bonds.

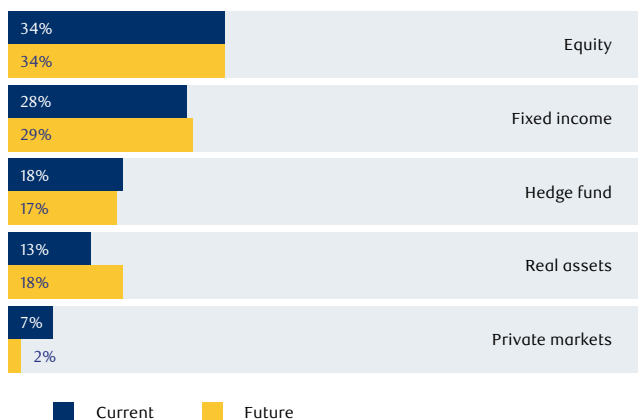
What will be the main megatrends over the next 3-5 years?



“ The Russian invasion of Ukraine is driving interest in ESG factors, propelled by concerns around supply chains ”

Swiss wholesale investors expect to see the biggest equity rally in China (28%). Like their international wholesale investor peers surveyed, they, are very optimistic about EM growth prospects and this year more of them (59% versus 46% last year) aim to capitalise on it. They have picked Asia (excluding China) as the most investible EM (65% versus 59% international average).

Current and future fund selection preference: Switzerland



Swiss wholesale investors mostly use sectors (40%) as their allocation filter, and this is likely to increase (62%).

For current and future fund selection preferences, Switzerland follows a similar pattern to the UK, with a shift towards ESG (47% to 52%) and absolute return (30% to 39%).

49%

of Swiss wholesale investors

believe public markets will outperform private

65%

of Swiss wholesale investors

picked Asia (excluding China) as the most investible EM

Over half (55%) of Swiss wholesale investors see ESG as an important consideration, and among this group, like in most other regions, the Russian invasion of Ukraine is driving interest in ESG factors (71%), propelled by concerns around supply chains (69%). In contrast, among those who see no change in interest, 45% say this is at least somewhat down to the outperformance of sectors traditionally not considered to be ESG-friendly.





Regional findings: Nordics

Most Nordic wholesale investors (92%, down from 95% in 2021) consider megatrends to be important in deciding capital allocation over the next 3-5 years.

They believe the key megatrends will be:

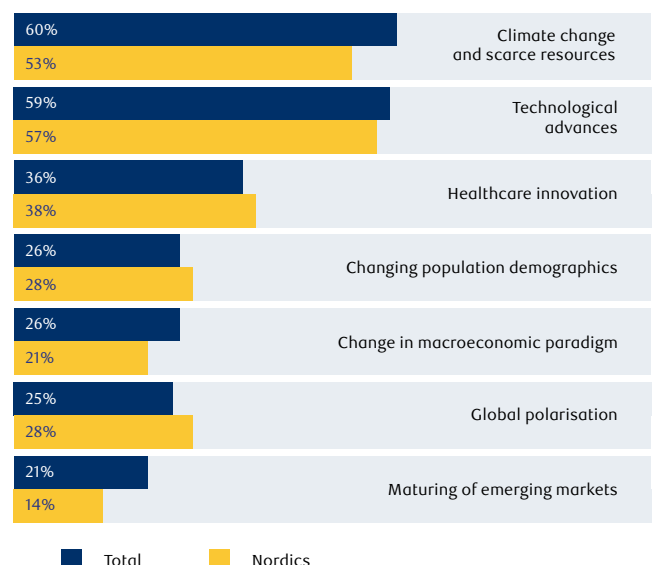
- Technological advancements (57%)
- Climate change and scarce resources (53%)
- Healthcare innovation (38%)

“ Nordic wholesale investors are the least invested in private markets ”

Nordic wholesale investors are bucking some of the general trends. They are the least invested in private markets (19%), and, of those, 56% either don't expect to invest any further or to decrease their holdings over the next 3-5 years. They are also the most convinced, at 71%, that public markets will outperform private markets, well above the international average (56%).

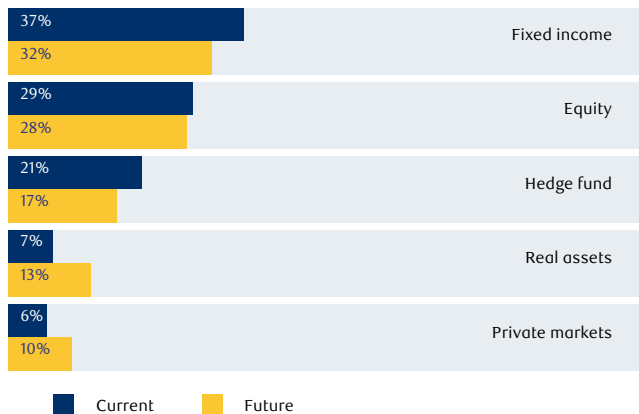
They are also most likely to use inflation linkers (45% versus 38%) to hedge against inflation risks. And they are the most likely to expect the biggest equity rally in Western Europe (32%, compared to an international average of 19%).

What will be the main megatrends over the next 3-5 years?



Well over half (57%) of the Nordic wholesale investors surveyed are looking to benefit from EM growth, although this is a drop from 72% in 2021. Nordic investors are betting on Central and Eastern Europe as the most investible EM (58% versus 49% international average).

Current and future fund selection preference: Nordics



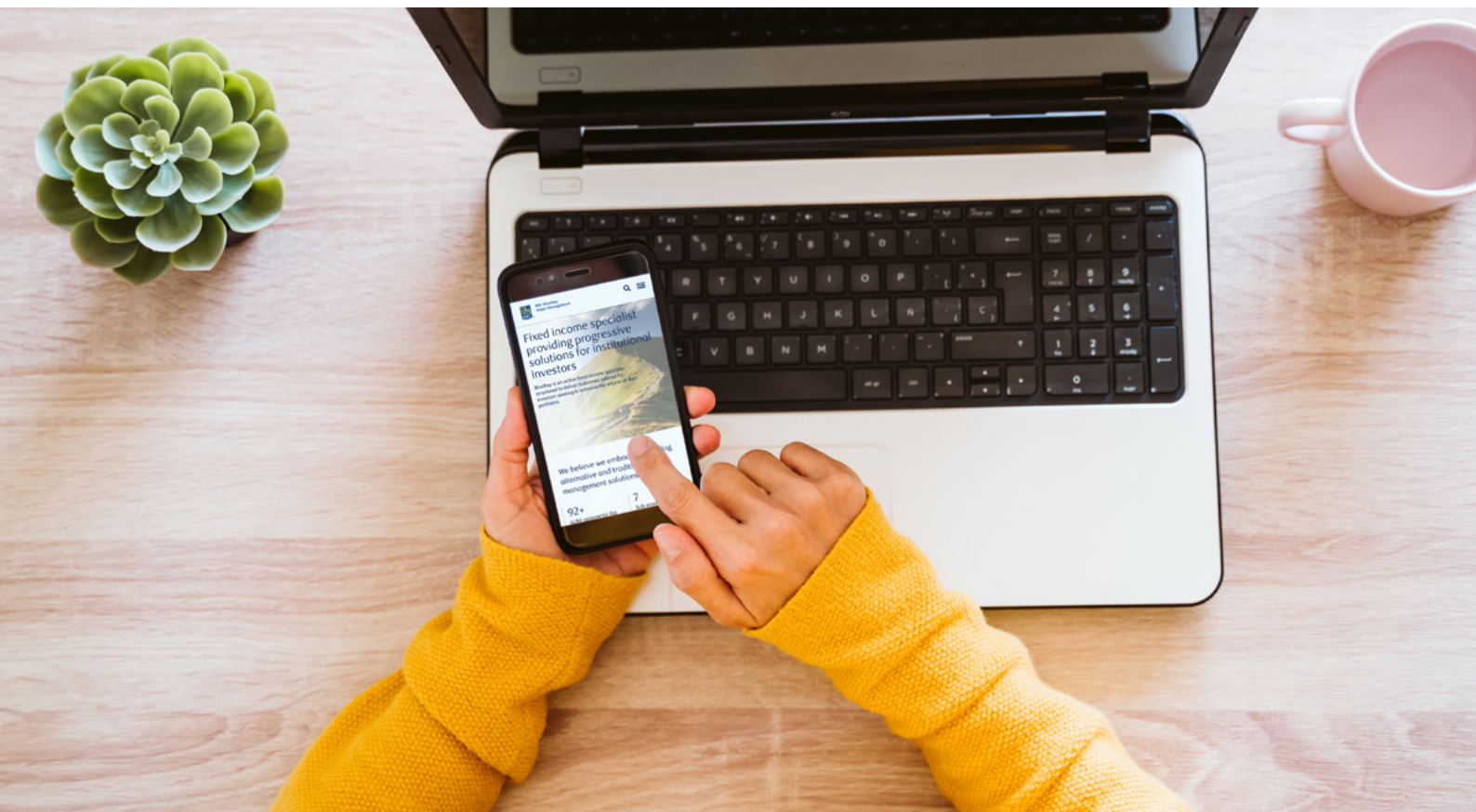
Market capitalisation (46%) is their most used filter, but that's expected to shift to earnings per share growth (65%). For current and future fund selection preferences, the Nordics also challenge the international trend with a shift away from absolute return (39% to 30%) towards relative return (22% to 29%) over the next three years. There is also a shift towards sustainable investing (39% to 55%).

Over half (55%) of Nordic wholesale investors consider ESG an important consideration. Just like their peers, their interest in ESG factors is driven by the supply chain concerns (78%) prompted by the Russian invasion of Ukraine (82%). Just over 40% of investors who have not bought into ESG factors say it's because of the outperformance of sectors traditionally not considered to be ESG-friendly.

55%

of Nordic wholesale investors

consider ESG an important consideration





Regional findings: Italy

Most Italian wholesale investors (93%, down from 97% in 2021) consider megatrends to be important in deciding capital allocation over the next 3-5 years.

They believe the key megatrends will be:

- Climate change and scarce resources (70%)
- Technological advancements (48%)
- Change in macroeconomic paradigm (29%)

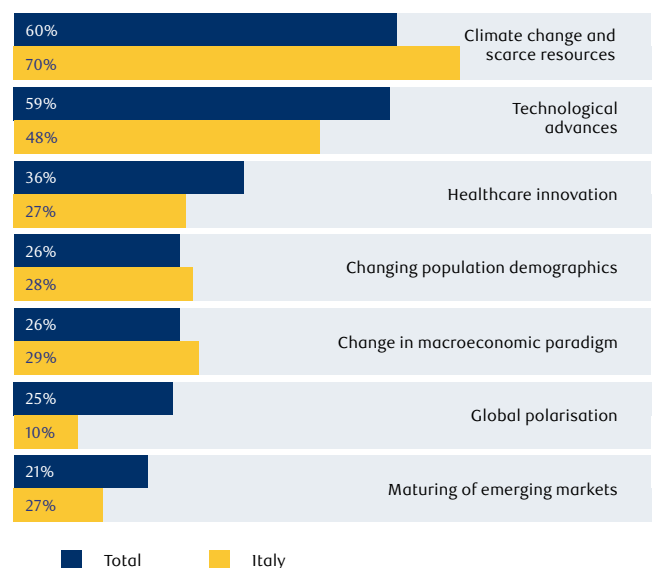
Italian and Spanish investors are at odds with the international investor consensus that healthcare innovation is the third most important megatrend.

“ Almost a third see a change in the macroeconomic paradigm as a megatrend ”

On average, Italian respondents are allocating 20% of capital to private markets, with 55% intending not to increase their allocation or actively divesting over the

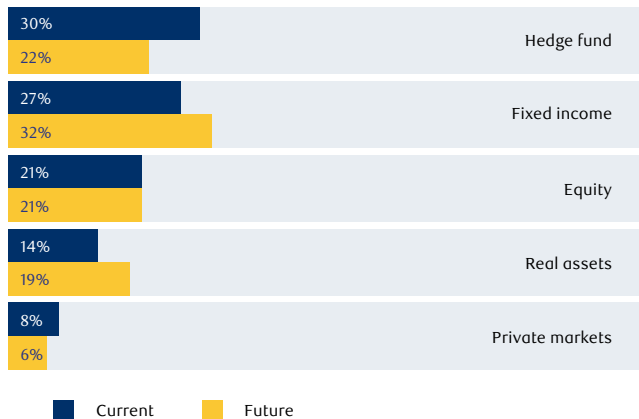
next 3-5 years. Public markets will outperform private markets in the opinion of 54% of those surveyed, more or less in line with the international average (56%).

What will be the main megatrends over the next 3-5 years?



Italian wholesale investors are most likely to rebalance their portfolios to bonds (43%) and increase exposure to assets that do well in the current economic environment (43%). They are also most optimistic about a rally in China (39%, compared to an international average of 27%).

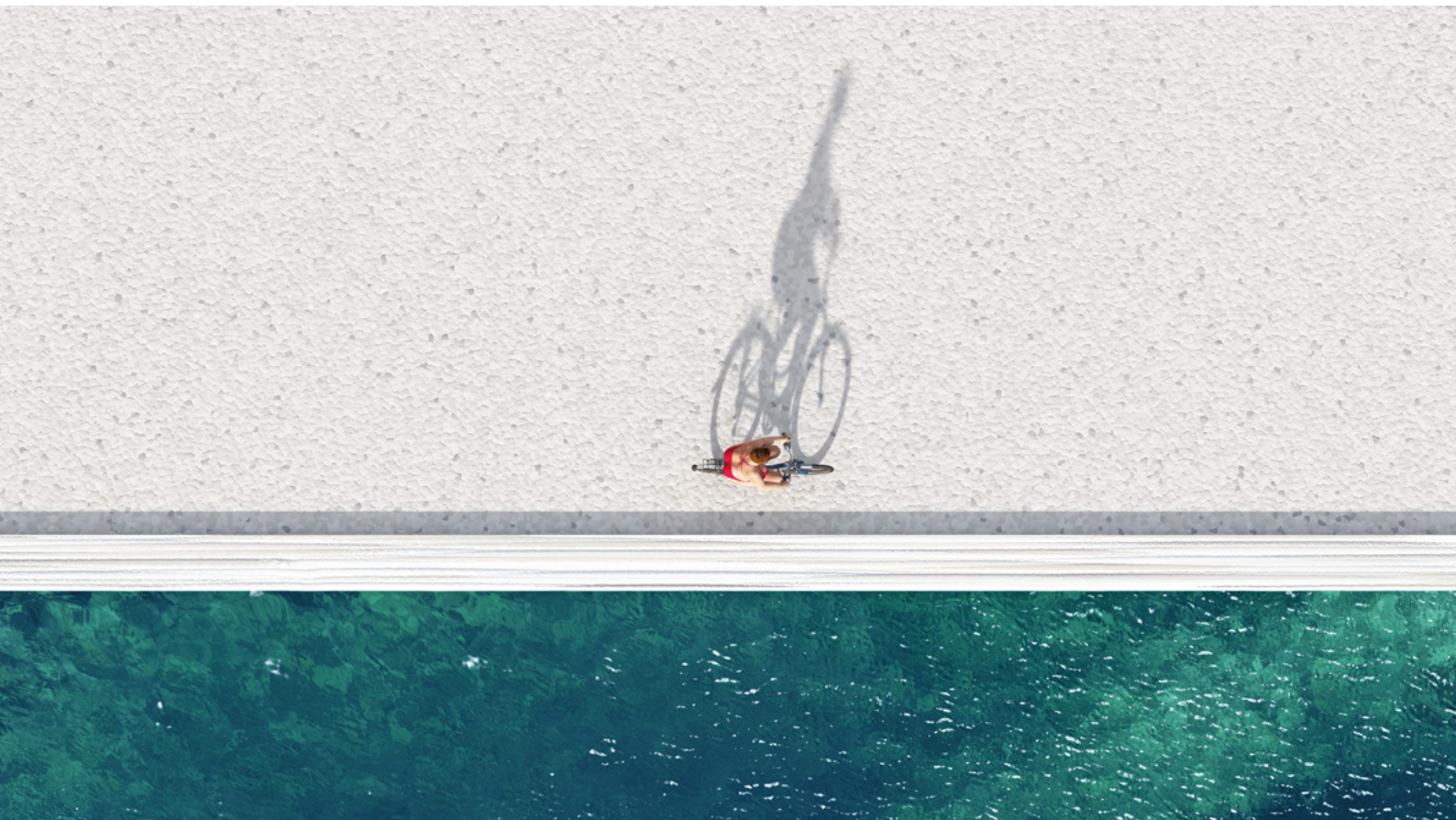
Current and future fund selection preference: Italy



While almost all those surveyed (94%) predict further EM growth, the number of investors seeking to capitalise has dropped by 13 points to 53% in the last year. Italian investors are more likely to think that Asia and China are the most investible EM (67% and 58% versus 59% and 41% international average).

In contrast to most other markets, Italian wholesale investors mostly use region (47%) as the filter for capital allocation, and intend to increase its usage (72%). For current and future fund selection preferences, unlike their European peers, Italian investors see a shift towards sustainable investment and away from ESG assets over the next three years.

Over half (56%) of wholesale investors in Italy think ESG is an important investment consideration. Among this group, the Russian invasion of Ukraine (73%) and, among those who are concerned about the conflict, the attendant concerns about supply chain disruption (60%) are driving interest in ESG factors. In contrast, among those who see no change, 65% say this is led by the outperformance of sectors traditionally not considered ESG-friendly.





Regional findings: Spain

Most Spanish wholesale investors (90%) consider megatrends to be important in deciding capital allocation over the next 3-5 years.

They believe the key megatrends will be:

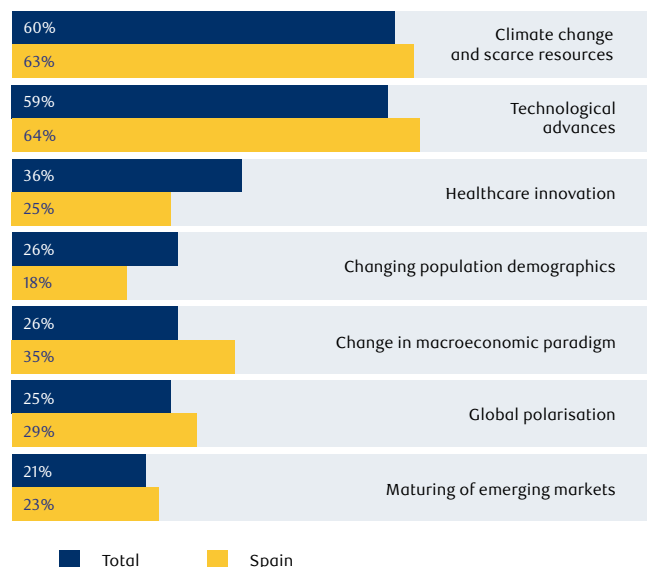
- Technological advancements (64%)
- Climate change and scarce resources (63%)
- Change in macroeconomic paradigm (35%)

Spanish wholesale investors are outliers on a number of metrics. Along with their Italian counterparts they identify a change in the macroeconomic paradigm as the third most important megatrend versus the international consensus of healthcare innovation.

They are currently investing on average 24% of their capital in private markets and Spain is the only geography surveyed where just over half of respondents expect to increase allocation over the next 3-5 years. Maybe not surprisingly, considerably fewer than the international average expect public markets to outperform private ones (35% versus 56% internationally).

“ It’s the only market where more than half of investors expect to invest more in private markets ”

What will be the main megatrends over the next 3-5 years?



Spanish wholesale investors are most likely to rebalance their portfolios to bonds (55%) to benefit from higher interest rates. They expect big equity rallies in China (31%) and Western Europe (28%, compared to 19% international average).

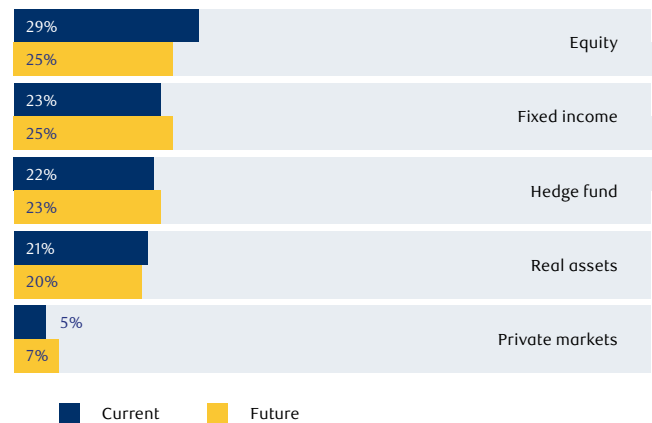
More than half (55%) of Spanish investors are looking to capitalise on growth in EMs. They are more likely to pick Asia (excluding China) as the most investible EM (57%).

Like their Italian peers, Spanish wholesale investors currently mostly use region (49%) as a filter for portfolio allocation, but they expect to shift to sectors (70%) in the future – the biggest shift among those surveyed. For current and future fund selection preferences, they expect a shift towards sustainable investing and a greater preference for absolute return over the next three years.

Nearly half (48%) of Spanish wholesale investors take ESG considerations into account. Concerns about supply

chain disruptions (78%) caused by the Russian invasion of Ukraine (80%) are driving interest in ESG factors. By contrast, among those who see no change in interest, 59% say it's because of the outperformance of sectors traditionally not considered to be ESG-friendly.

Current and future fund selection preference: Spain



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