



INVESTMENT MEGATRENDS IN THE POST VIRUS WORLD

Agenda

- What is a long term trend
- What are the 7 key long term trends?
- How to use them in investment
- Investment Outlook



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Seven long term trends:

- How to use long term trends
- What are the key long term trends
- How to use them in investment



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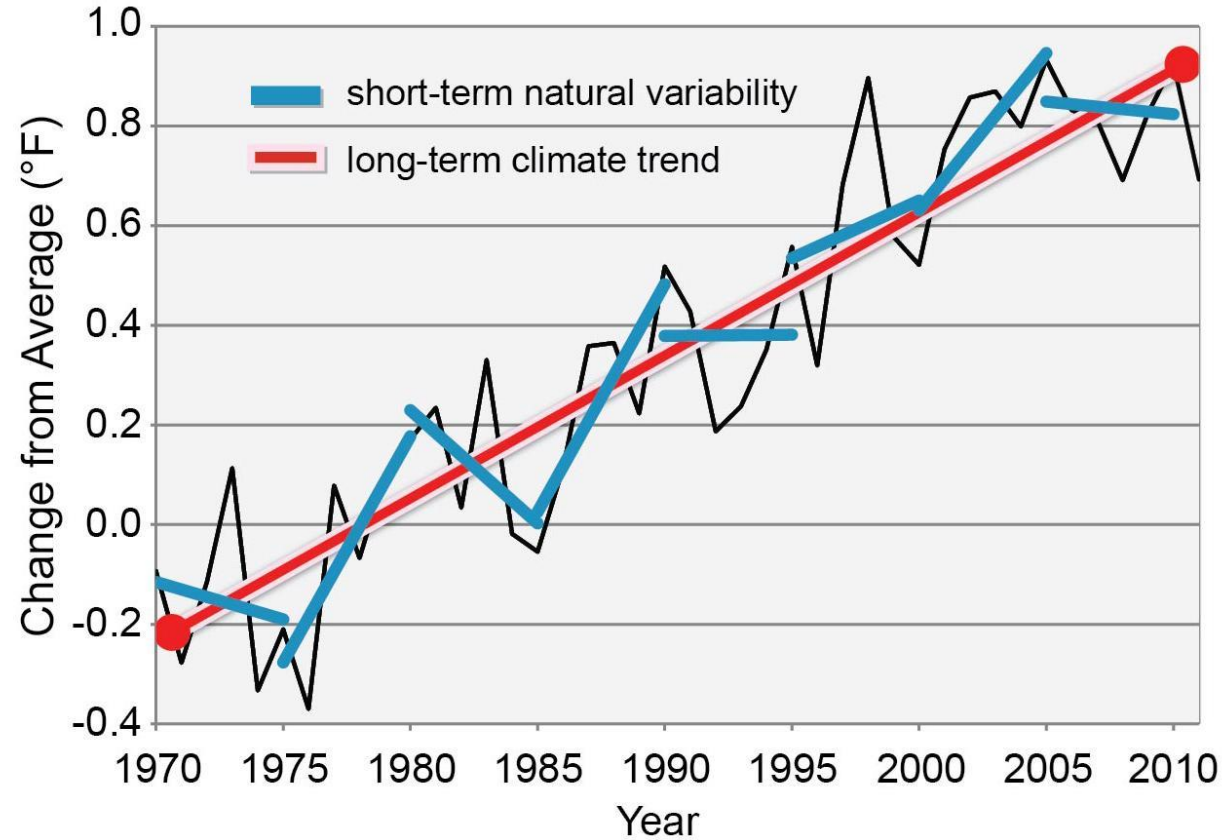
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What is a long term trend?:

Short-term Variations Versus Long-term Trend



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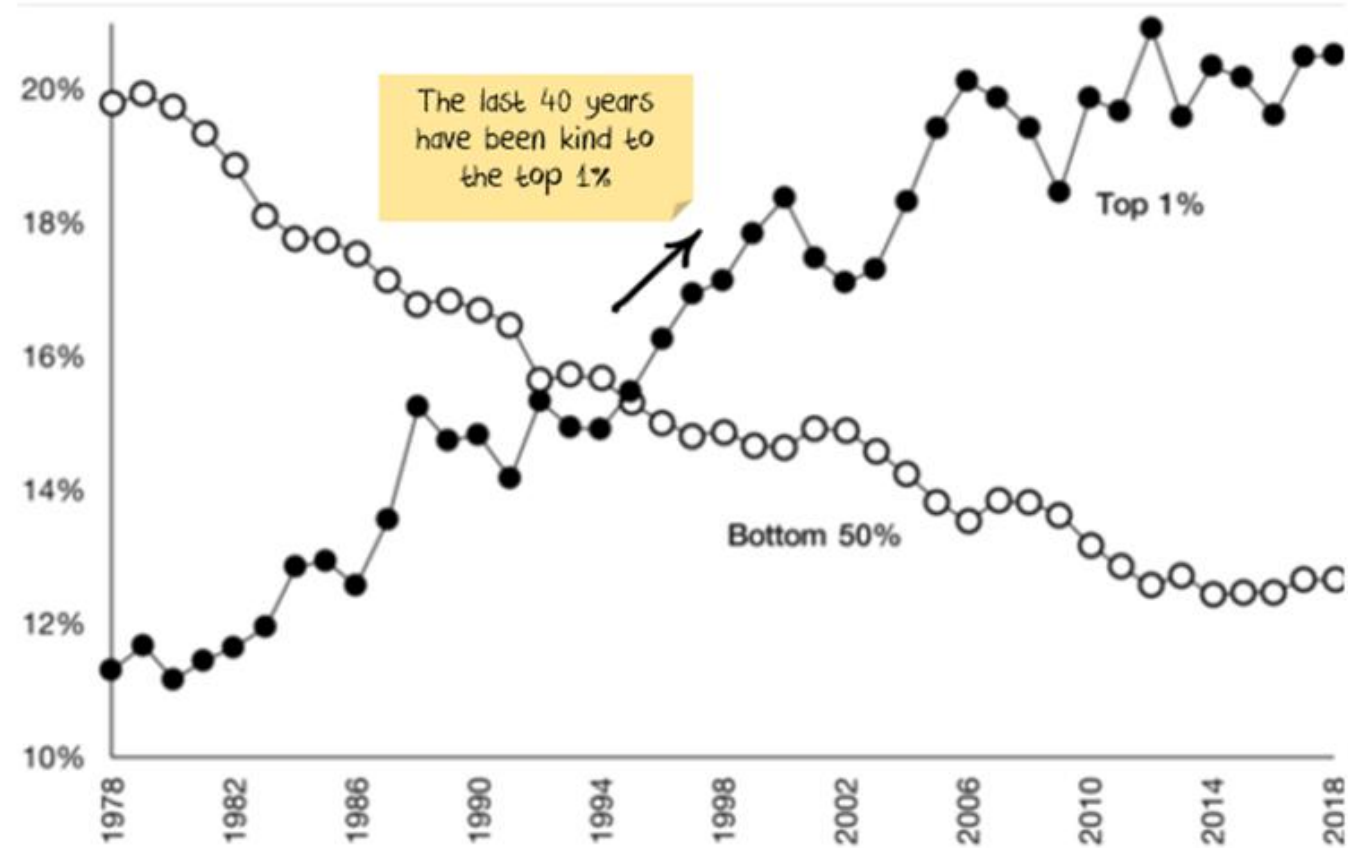
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Trend 1: Rising inequality

Share of US income: Top 1% vs Bottom 50%



Source: Nucleus Wealth, Emmanuel Saez and Gabriel Zucman



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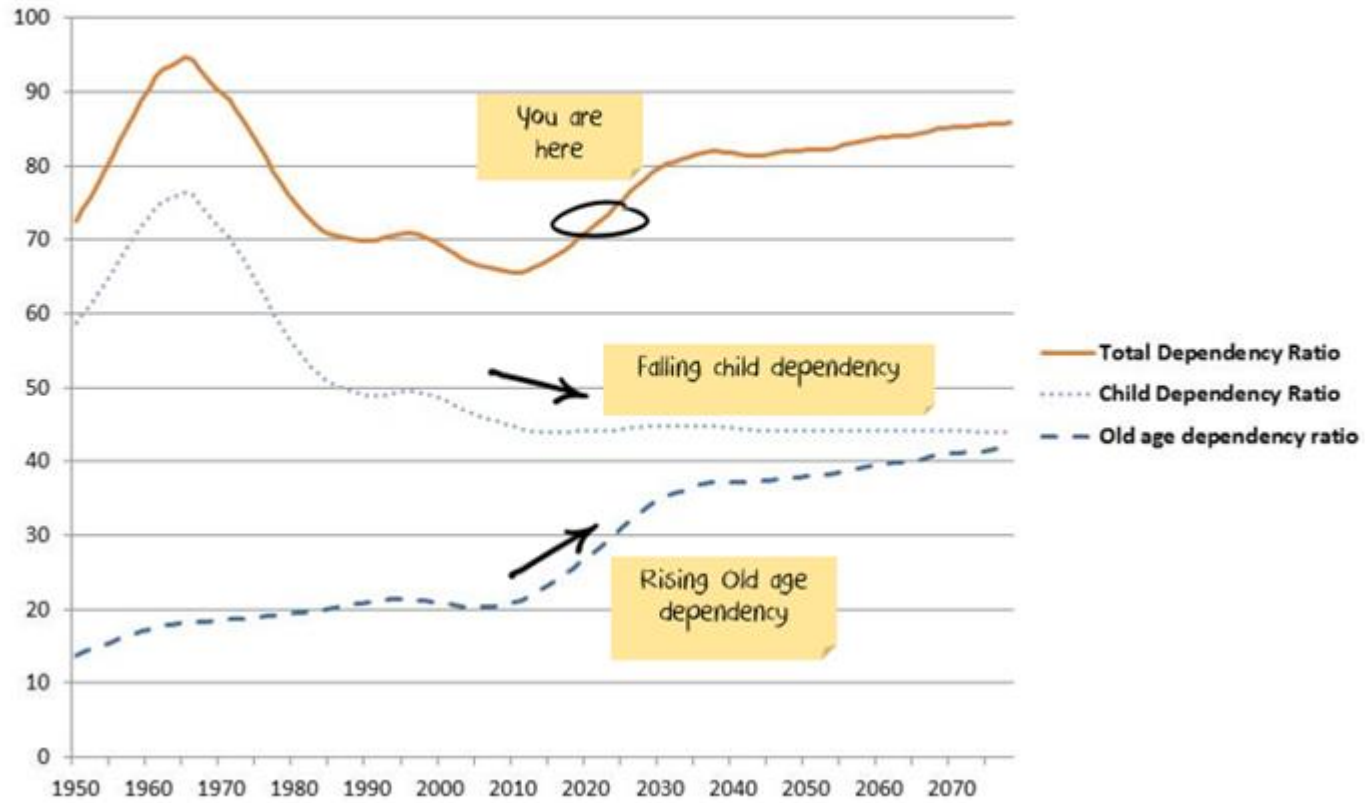
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Trend 2: Baby Boomers

Dependency ratios in the U.S. over time



Source: Nucleus Wealth, US Census



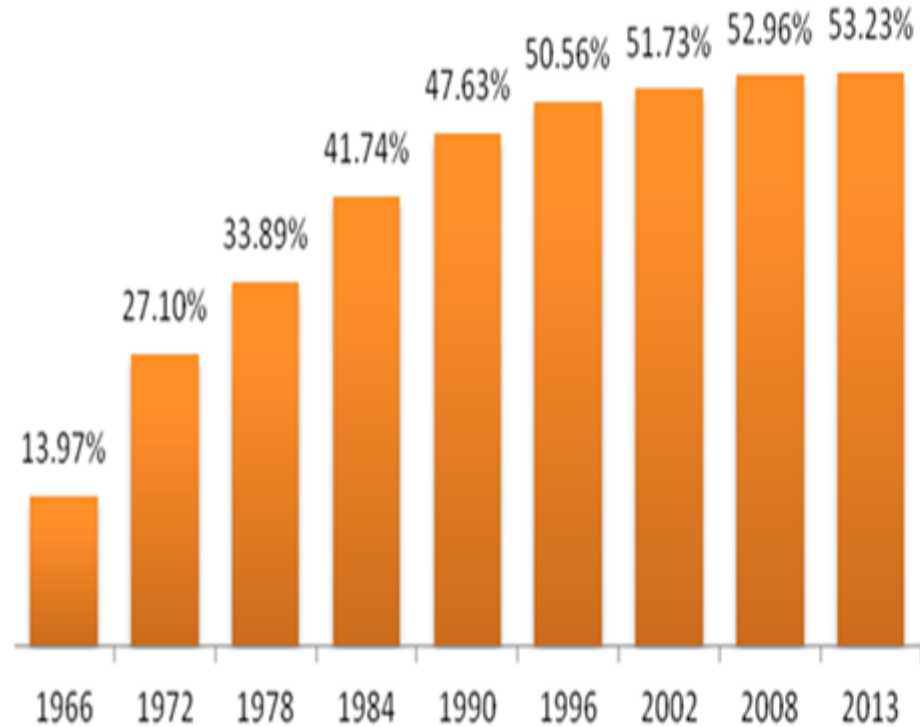
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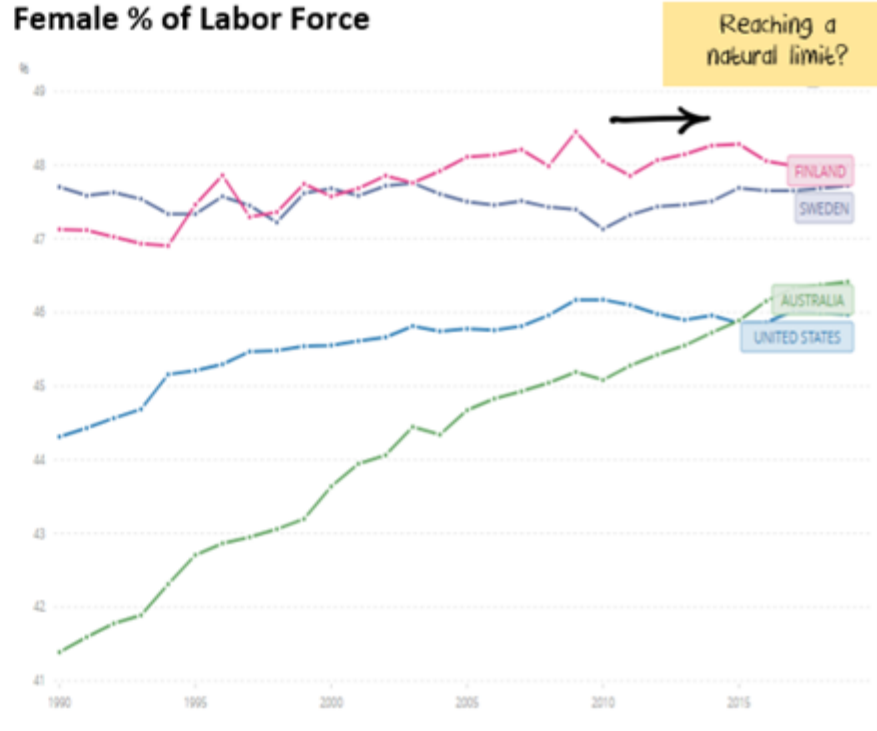
Trend 3: Women in the workforce

Female Participation Rate



Source: US Equal Employment Opportunity Commission

Female % of Labor Force



Source: Nucleus Wealth, World Bank, International Labor Organization



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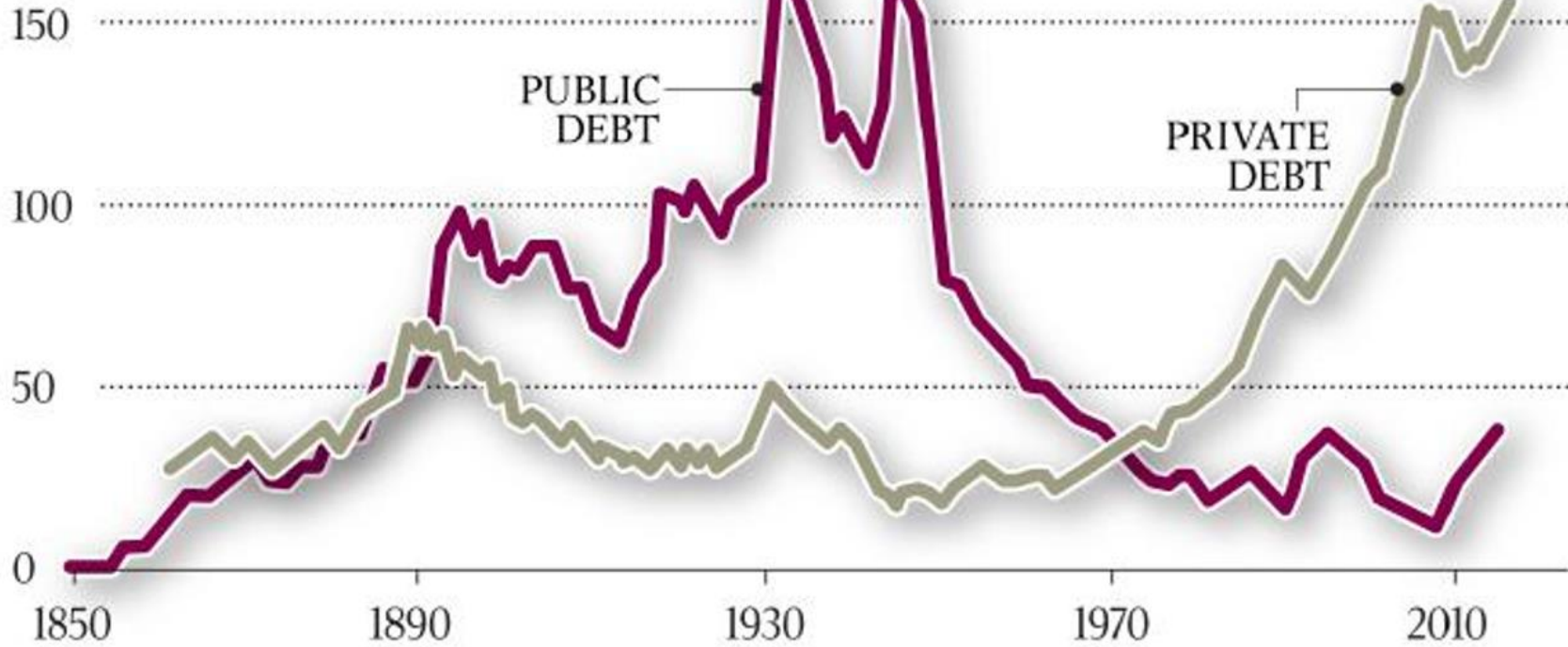
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Trend 4: Debt

Up, up and away

% of GDP



Source: UBS, LF Economics



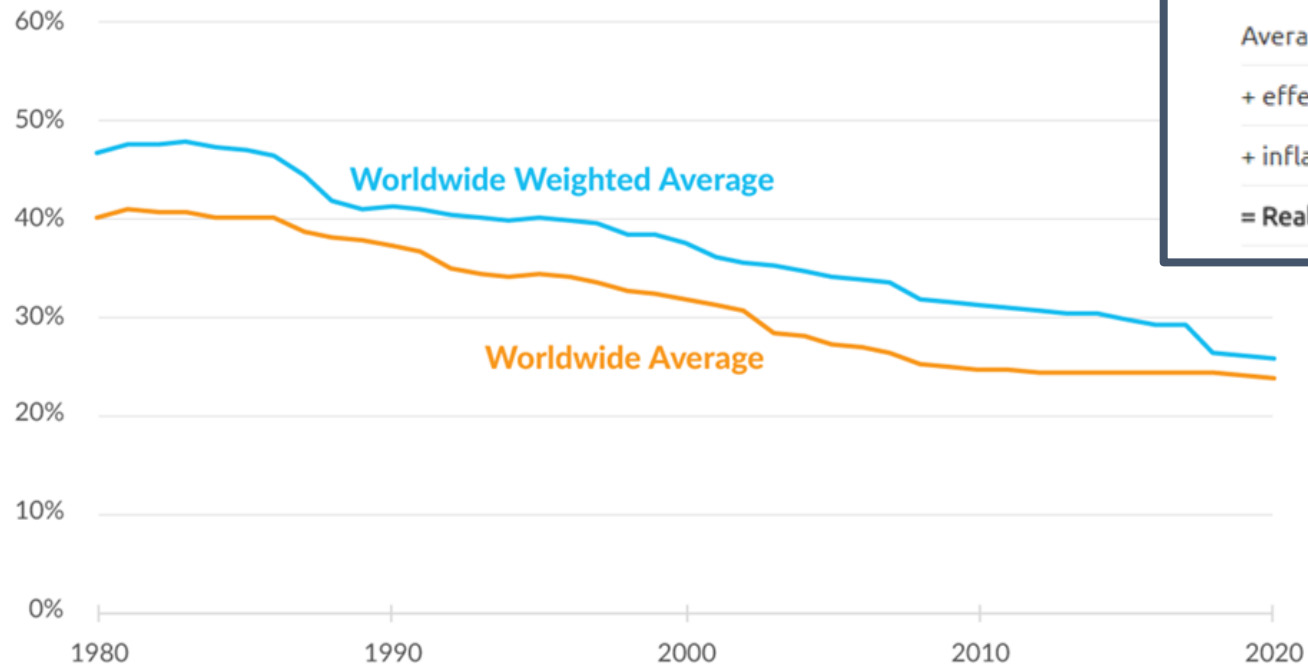
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Trend 5: Company tax rates

Statutory Weighted and Unweighted Corporate Income Tax Rates, 1980-2020



Average Annual Real pretax EPS growth	2.0%
+ effect of tax cuts	1.3%
+ inflation	2.8%
= Real annual EPS Growth	6.1%





Note: The number of countries included in calculated averages varies by year due to missing corporate tax rates for years prior to 2020; that is, the 1980 average includes statutory corporate income tax rates of 74 jurisdictions representing roughly 60 percent of 1980 world GDP, compared to 177 jurisdictions representing above 95 percent of world GDP in 2020.

Sources: Statutory corporate income tax rates were compiled from various sources. GDP calculations are from the U.S. Department of Agriculture, "International Macroeconomics Data Set."

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Trend 6: World trade

Merchandise trade (% of GDP)

World Trade Organization, and World Bank GDP estimates.

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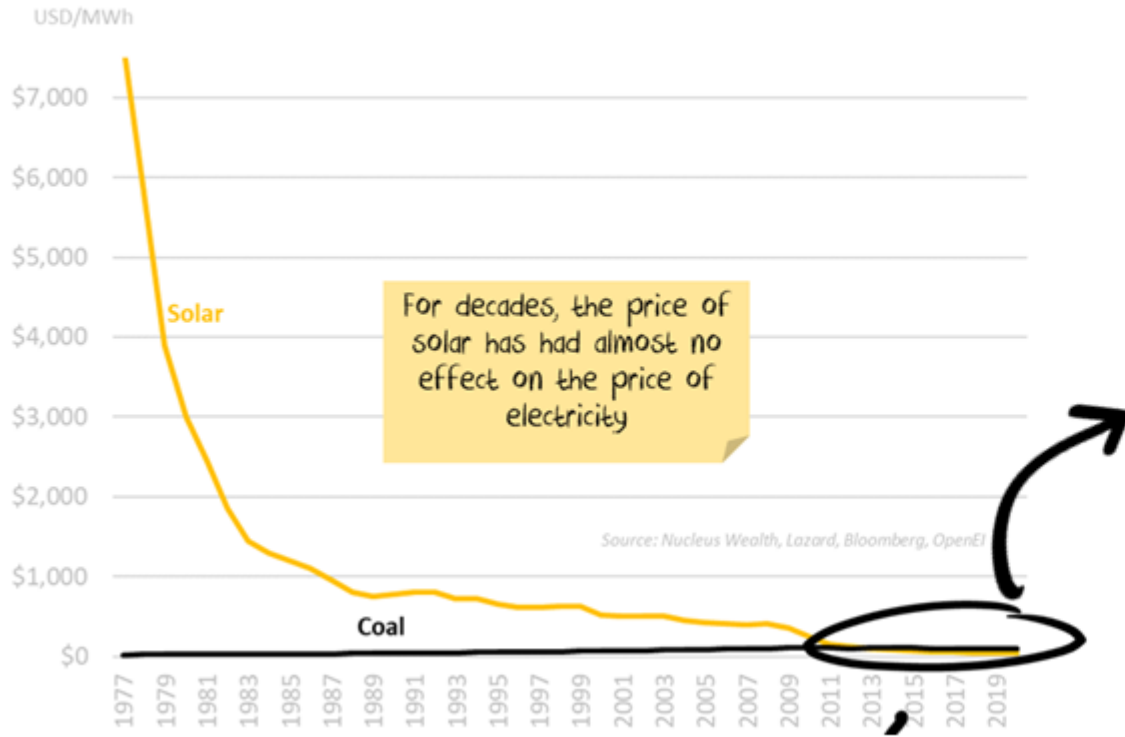
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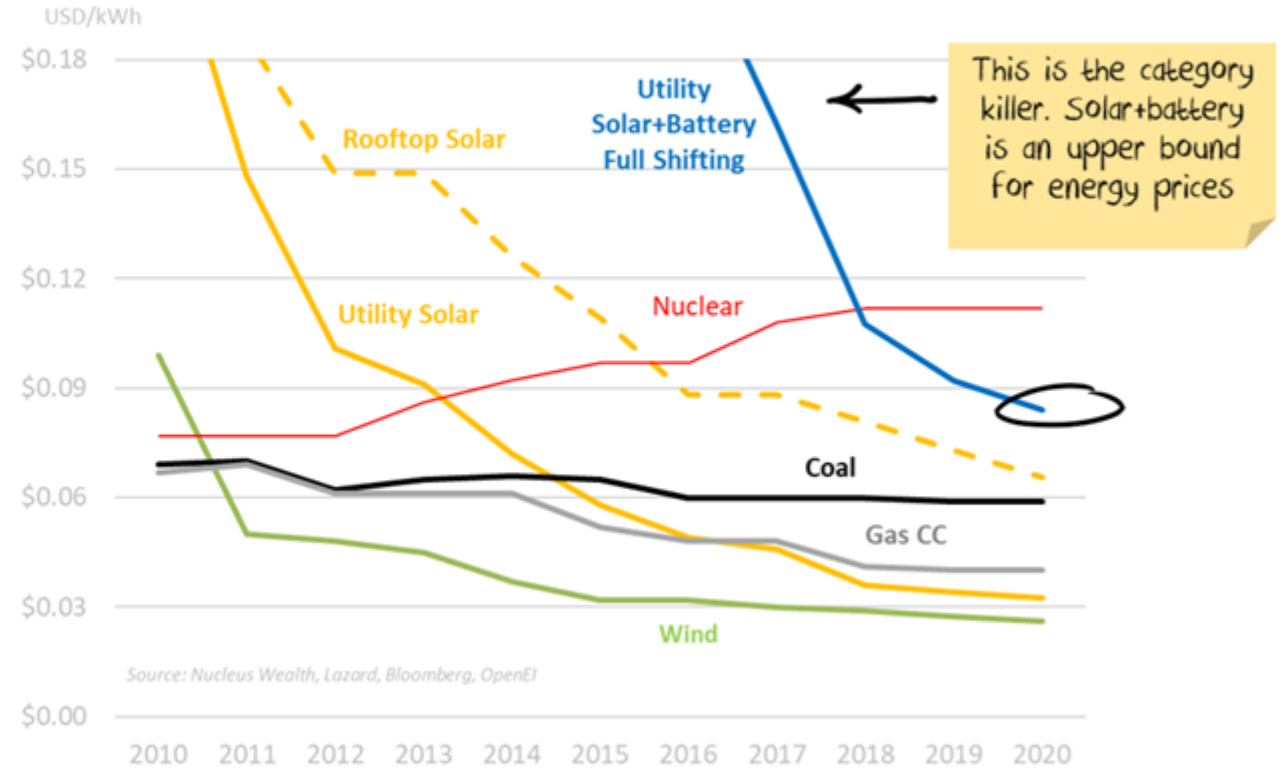






Trend 7: Energy Costs

Long Term



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Trend 7: Energy Costs





Levelized Costs (USD/kWh)	Levelised Cost Ex Fuel	Fuel	Total
Onshore Wind	\$ 0.03		\$ 0.03
Utility Solar	\$ 0.04		\$ 0.04
Natural Gas @\$3/mmBtu	\$ 0.02	\$ 0.02	\$ 0.04
Natural Gas @\$6/mmBtu	\$ 0.02	\$ 0.04	\$ 0.06
Coal @ \$50/Ton	\$ 0.04	\$ 0.02	\$ 0.06
Coal @ \$75/Ton	\$ 0.04	\$ 0.02	\$ 0.07
Utility Solar + partial battery	\$ 0.07		\$ 0.07
Coal @ \$100/Ton	\$ 0.04	\$ 0.03	\$ 0.07
Natural Gas @\$9/mmBtu	\$ 0.02	\$ 0.06	\$ 0.08
Utility Solar + full battery	\$ 0.09		\$ 0.09
Offshore Wind	\$ 0.10		\$ 0.10
Nuclear	\$ 0.10	\$ 0.01	\$ 0.10

Utility solar and wind
the cheapest option

And adding a partial
battery to offset the
evening load is now at
parity with other costs

Source: Nucleus Wealth, Lazard, Bloomberg, Open EI



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Trend 7: Energy Costs

Prices if solar+battery costs fall 20% p.a. for 5 years (USD/kWh)

	Levelised Cost Ex Fuel	Fuel	Total
Utility Solar	\$ 0.01		\$ 0.01
Utility Solar + partial battery	\$ 0.02		\$ 0.02
Onshore Wind	\$ 0.03		\$ 0.03
Utility Solar + full battery	\$ 0.03		\$ 0.03
Natural Gas @\$3/mmBtu	\$ 0.02	\$ 0.02	\$ 0.04
Natural Gas @\$6/mmBtu	\$ 0.02	\$ 0.04	\$ 0.06
Coal @ \$50/Ton	\$ 0.04	\$ 0.02	\$ 0.06
Coal @ \$75/Ton	\$ 0.04	\$ 0.02	\$ 0.07
Coal @ \$100/Ton	\$ 0.04	\$ 0.03	\$ 0.07
Natural Gas @\$9/mmBtu	\$ 0.02	\$ 0.06	\$ 0.08
Offshore Wind	\$ 0.10		\$ 0.10
Nuclear	\$ 0.10	\$ 0.01	\$ 0.10

Source: Nucleus Wealth, Lazard, Bloomberg, Open EI

If costs decline at 20% per annum (like they have for the last ten years) then in five years time, the cost of running new solar will be cheaper than the fuel cost of an existing power plant



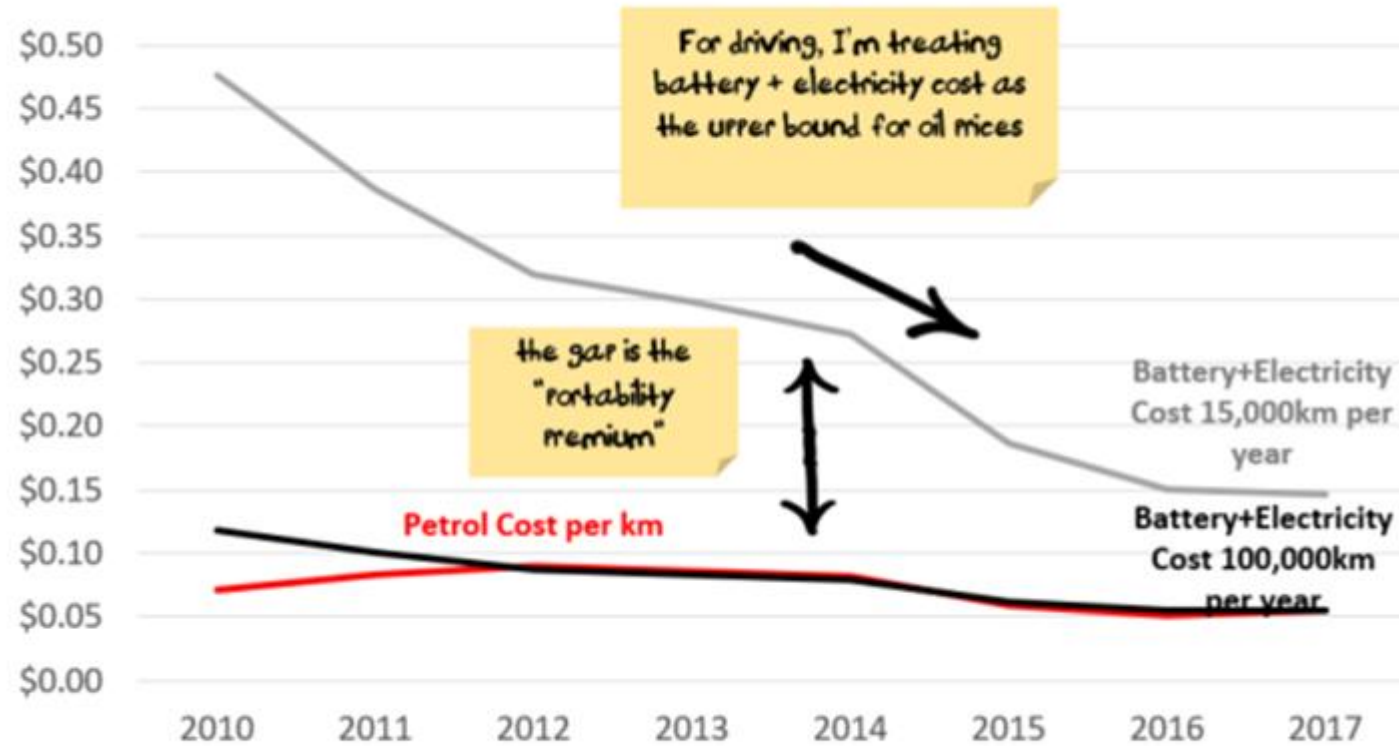
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Trend 7: Energy Costs

Levelised Cost of Driving in the US (USD)



Source: Open EI, Lazard, EIA, Nucleus Wealth estimates



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Bringing it together:

- Last 40-50 year has 5 tail winds, 1 head wind, 1 neutral
- Looking forward
 - 3 head winds: demographics, debt, trade
 - 1 neutral: female participation
 - 3 tail winds: tax, inequality, energy



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Investment Outlook

Structural downturn lurking, acute or chronic?

Key positive factors

- Government stimulus
- Low probability of US tax hikes
- Earnings very good
- Inequality to increase

Other positive factors

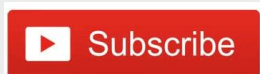
- Bankruptcies limited
- Evictions limited
- Mortgage repayment holidays
- Wage growth very low
- Capital efficiency
- Low oil prices
- Vaccine hope
- Policy certainty
- Structural change in industries leading to cost efficiencies

Key negative factors

- Virus in Northern Hemisphere
- Valuation
- Latent bankruptcies
- Low genuine credit growth

Other negative factors

- Short term gap in US economic conditions
- Inequality longer-term effects
- Effects gradually rolling off
- Structural change in industries leading to weak demand
- Cycle
- Demand weak
- Australian stimulus badly targeted



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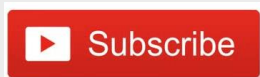
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Viewer question of the week:

What is your biggest megatrend for 2021?

Drop your answers in the comments



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