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# Lasting investment themes amid uncertainty

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**Diversification across geographies, style, and asset classes is important, even when equity markets remain near record highs. As a result, we believe investors should consider including different investment styles, including thematic investing.**

**Thematic investing provides access to secular drivers of growth along with diversification.** Thematic investing seeks to take advantage of predictable global trends, such as population growth, aging, and urbanization, along with technological developments like AI. Areas of the economy that benefit from such secular trends can deliver above-average earnings growth over a full economic cycle. Since such themes may contain small- and mid-cap companies not represented in well-known benchmarks, this form of investing offers opportunities beyond a traditional index orientation.

**Certain themes look especially attractive at present, in our view, including water scarcity, and digital data.**

- **Water scarcity:** This month's number one longer-term investment theme is "water scarcity." Aged infrastructure, rising living standards, and ongoing industrialization in emerging markets have increased the pressure on global water infrastructure and allocation. This trend should benefit select companies involved in wastewater purification, along with suppliers of equipment for water exploration, distribution, and treatment. This theme tilts toward small-cap and mid-cap opportunities and aligns with our preferences for US infrastructure beneficiaries and the industrials sector. Within fixed income, we believe that investment grade municipals focused on the water and sewer sector offer high-quality opportunities as well. According to RBC Capital Markets, the value of the entire water market is more than USD 655bn, and is expected to grow at a mid-single-digit annual rate on average over the next few years.
- **Digital data:** Driven by a desire to stay connected all the time and the need to efficiently multitask throughout a busy day, most of us are producing unprecedented amounts of data. We believe favorable demographics and other secular trends should drive solid data growth. With the convergence of technologies accelerated by generative AI, we see

five enabling technologies—artificial intelligence, augmented reality/virtual reality, big data, 5G, and other moonshot technologies—that are set to transform many industries in the coming years. We expect them to grow in aggregate by 26% on average annually over the next five years, from USD 324bn in 2022 to USD 1tr in 2027.

Diversification within themes can help optimize risk-adjusted returns. Investors can select a wide range of themes that reflect their interests, from genetic therapies and oncology to the circular economy and the food revolution. However, a strategy that offers exposure across a range of themes provides greater diversification, and active management can ensure emerging new investment trends are not neglected.

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