THEMATIC INVESTING WITH ETFs
Megatrends: Own the Future
Audio Script

iShares
by BlackRock

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Thank you so much for watching today. In our discussion, we're going to focus on megatrends, the long-term transformational forces that are driving not just the future of our economy but also our society, and we're going to discuss as well how these can play an important role in your portfolio.

So let's talk about some historical examples of structural growth opportunities. The punchline here is they're happening faster and faster. It took 35 years for the telephone to become mainstream. It took 16 years for the personal computer to become mainstream. Only seven years for the web, only four years for Facebook. More recently, it only took TikTok 2 years to reach half a billion users. We believe the exponentially increasing rate of technological innovation and adoption means that even potential long-term, structural opportunities are playing out today within a condensed timeframe.

Now let's draw a really important distinction between structural opportunities and cyclical ones. Structural opportunities play out over long periods of time-- 5, 10, 15, even 20 years-- and they feel so powerful because they feel almost inevitable. So think about areas like aging populations, the rise of middle class consumers in emerging markets, the long-term adoption of technological breakthroughs. These feel almost inevitable, and they play out over these long periods of time. But, in contrast to that, we have cyclical themes. These are shorter term. They might be driven by interest rates or short-term government policy. The thing about cyclical themes is that they often rise as quickly as they fall, meaning that timing your entry and your exit becomes critical. In contrast, for long-term structural themes, megatrend themes, timing is significantly less important because your investment horizon can be long-term as you attempt to capture long-term structural growth.

Now, how exactly do you go about that, as an investor? Well, we see that as something of a Goldilocks problem. And what I mean by that is, when you're looking to invest in structural growth opportunities, in megatrends, a single stock approach may be too narrow, a traditional index may be too broad, but a megatrend targeted strategy, or index, could be just right. So let's dig into that a little bit more.

I'm guessing you're probably familiar with this acronym, FAANGM, F-A-A-N-G-M, now that represents Facebook, Amazon, Apple, Netflix, Google, and Microsoft, some of the most innovative, successful companies of the last 20 years. And I think it's also safe to say that these companies rode the last 20 years of megatrend structural changes to become as dominant as they have. Facebook: with the rise of social media, Amazon: e-commerce, Apple: the smartphone, Netflix: streaming, and Google: search, Microsoft: operating systems and software. All megatrends of the past 20 years. And of course, we would have loved to have been very early investors in one of these companies, and for those of you who were, congratulations. But, I would submit that picking these companies in their early days is actually really challenging.

And so we're going to play a little game here right now. We call it, spot the FAANGM. What we're going to actually look at are two pure play e-commerce companies, and how they performed in the late '90s. Let's take a look. We have Company A and Company B. A was up a whopping 213% in the late '90s. B was up 22%. Pretty different performance outcomes, and I think it's safe to say that, by the late '90s investors and the world at large knew that e-commerce was coming, that this theme was going to change the world. But these two companies had very different fortunes over the period. Now Company A that did so well was an online seller of toys. Company B, up 22%, was an online seller of books. And with that, you can probably see where I'm going with this story. These two companies were eToys, which you probably never heard of, and Amazon.

So Company A was eToys, an online seller of toys that filed for bankruptcy. Company B of course was Amazon, which over the next 20 years, gave investors a 51x return on their investment. Pretty different performance outcomes. So an investor who identified the theme of e-commerce correctly, may have knocked it out of the park with Amazon, or might have lost it all with eToys. And that's the challenge of single stock picking in these themes.

But, what about a traditional index? If you diversify, you take less of that single stock risk. The thing is, some investors may not want to be too diversified. Let's look at the NASDAQ Composite Index, which measures the returns of all stocks listed on the NASDAQ exchange, over the same 20-year period. An investor may have said to him or herself: *you know what? I'm going to invest in technology more broadly to capture this e-commerce opportunity.* Well, over the same 20 years, the NASDAQ Composite saw about a 6x return. And hey, it's not bad to more than quintuple your money, over a 20-year period, but that's a far cry from that 51x return you would have seen with Amazon. And one of the reasons for that is, that tech-focused index, the NASDAQ, isn't targeting a specific theme like e-commerce. It's targeting many themes around technology. And I would submit, e-commerce as a theme actually goes far beyond technology.

So, we've talked about these two approaches. Selecting single stocks, while offering great upside, can be risky. It can work out really well if you get Amazon, not so well if you get eToys. We've also talked about tracking a traditional index, like the NASDAQ Composite, where you would have done well, but not nearly as well as with Amazon. And again, this is a Goldilocks example, right? So what we think might be just right is the megatrend approach. If you invest in a thematic index, focused explicitly on e-commerce, in this case, MSCI's e-commerce benchmark, you would have had a 27x return over this period. Not quite what you got with Amazon, but you didn't take the risk of getting an eToys, and you significantly outperformed the NASDAQ or that broad traditional technology index.

And so I think the focus here shouldn't be: how do you pick the FAANGM company? The question is actually: how do you spot the trend? And I would argue trends are often on the tips of our tongues. Are you wondering if self-driving cars are cool? If they're interesting? Are you curious, how they're going to change your commute or our community? Do you wonder, as I do, whether our children will actually ever drive a car, themselves?

And not only are these themes relatable and all around us, they're intuitive. Will there be more self-driving cars on the road 10 years from now than there are today? Seems like a pretty strong yes. Now, of course, we have to go deeper still in really understanding long-term themes. And so BlackRock has put an incredible amount of work into laying out these five megatrends: our super highways to the future. And this is really the best thinking across our firm, around the world, and from BlackRock investors of all shapes and sizes. So let's click through what these five megatrends are.

The first would be technological breakthroughs: long-term adoptions of new technology, like cybersecurity or artificial intelligence. The second is demographics: changes driven by aging populations and impacting breakthroughs in areas like genomics and immunology. Third, we have rapid urbanization: the rise of cities in emerging markets and their revitalization in developed markets, often accessed through infrastructure. Fourth, climate change: shifts in preferences on the parts of consumers, corporations, and governments towards a cleaner, greener tomorrow, playing out through investments in areas like electric vehicles and clean energy. And last, but certainly not least, emerging global wealth: the rise of the middle-class consumer in emerging markets. So, these are our five megatrends, and we can take a quick tour through them now.

We'll start with everyone's favorite, technological breakthrough. But before we do that, I'd actually like to ask you two questions. The first is this: would you rather sacrifice for one week your smartphone or dessert? Take a second, think about it. The second question is: would you rather sacrifice for one week your smartphone or alcohol? Your glass of wine at dinner or your beer at the ballgame.

Think about the answer and at the same time, we'll take a look at the national results to these questions. Drumroll please... almost 50% of Americans are willing to give up dessert for their smartphone, and a whopping 74% are willing to give up alcohol in favor of their smartphone. Now, 20 years ago, these numbers would have been completely shocking. Even 10 years ago, they probably would have been surprising. But here and now, it's probably not a shock at all. The smartphone has become an incredibly important part of our lives, and in really a short period of time, compared to things like sweets and alcohol that have been things humans have enjoyed for hundreds, if not thousands of years. And, of course, when we say that we don't want to give up our smartphone, it's not because we're enamored with this piece of glass or metal or plastic. What we're really saying is, in this day and age, we're not willing to be disconnected.

And so, fundamental to this trend of technological breakthroughs is the idea of connectivity. You know, at the start of 2021, there were about 35 billion internet-connected devices in the world, but by 2025, in less than five years, that will have more than doubled, to 75 billion. And over the course of the pandemic , connectivity became that much more important. In fact, you probably tried, as I did, a range of new technologies, from telemedicine to tele-education to working from home. So, connectivity is more important than ever and accelerating faster and faster, leading to opportunities in areas like artificial intelligence. It's really important, as we think about it, also in areas like cybersecurity, because the more connected we are, the more challenges we may face. And that brings us to our first MegaRule.

Now as we go through this section, in addition to touring the megatrends, we're also going to tour three MegaRules by which BlackRock and iShares build our megatrend ETFs. The first of these is to weight for tomorrow. Not W-A-I-T. Quite the opposite, actually. We want to be thinking about the companies that have the potential to be the leaders of tomorrow. And let's take a look at that historically. Back in 2001, you can see who the top five firms were in the S&P 500 – GE, Microsoft, ExxonMobil, Walmart, and Citigroup. Fast forward 20 years, and the list looks fairly different. Microsoft stays at the top, but Apple, Amazon, Facebook, these are new companies that rode megatrends to prominence and weren't at the top or anywhere near it back in 2001. So what's interesting is, if you look at those companies in 2001, these companies were innovators, right? They were once highly prominent players, but they didn't make it or remain in the top of the league tables when it came to the present day. And, of course, all of this begs the question, who's going to be on top there in 2041? Now, by virtue of these companies being atop the S&P 500, they are already likely part of your portfolio. That set here that you see at the end of 2021. So, when we build megatrend ETFs, we focus actually on the small and the mid-cap innovators that may be less represented in your portfolio, but have the potential to be the mega-cap leaders- the folks on top of these league table in the future.

So, our second megatrend is demographics and social change. And I referenced this earlier. Two of the areas of massive medical breakthrough that we're seeing are in genomics and immunology, and part of that is driven by aging populations-- the fact that, in the next decade, there will be more grandparents than grandchildren in the United States for the first time in our history. That leads to more health care spending. That leads to more spending on medical breakthroughs and in these areas in particular.

So, genomics is really mapping human DNA and sometimes manipulating DNA or RNA. And, in fact, while it cost $2.7 billion to sequence a human genome in 2003, it costs less than $1,000 today. That's enabling personalized medicine. It's also enabled us, again in 2020, facing the coronavirus, to come up with a completely and radically new form of vaccination, the mRNA vaccine, that many of us may have received. And that vaccine is a groundbreaking byproduct or form of genomics, never before used in history. And it has the potential to be applied to any number of diseases that might threaten us in the future, from HIV to influenza. Genomics remains an area of remarkable breakthroughs, as does immunology, where we stimulate or de-stimulate the body's immune system to fight disease, particularly via precision medicine in cancer treatments, where we're already seeing extended lives, boosting lung, renal, brain, and skin cancer survival rates.

Our third megatrend is rapid urbanization: the rise of cities in emerging markets and the revitalization of cities in developed markets. The numbers here are pretty staggering. The World Bank estimates that there will be $100 trillion of infrastructure spending over the next 20 years. And, in just the next 10 years, you can see where a lot of that's coming from. Cities like Delhi and Dhaka will add nine million citizens each.

Shanghai will add seven. Cairo will add five. I could go on. Emerging markets are growing their cities rapidly and creating infrastructure booms at the same time, but the infrastructure opportunity is also in developed markets where, in the West, in Europe, the United States, Japan, infrastructure is in need of repair and revitalization. This has been accelerated, given what we've seen during the pandemic, as governments around the world look to get their economies back on track by spending significantly on infrastructure to help make that a reality and as supply chains are disrupted and reshoring activity occurs. For example, take U.S. President Biden's Build Back Better program, significantly driving infrastructure investments across the United States.

Our fourth megatrend is climate change and resource scarcity. We're talking here about firms that are at the cutting-edge of building a cleaner, greener tomorrow. We're not just talking about screening out polluters; we're talking about owning innovators. We see trillions of dollars of spending coming in clean energy, electric vehicles, and the like, to meet these goals of consumers, corporations, and governments. Again, spending to get economies back on track in 2022, isn't just focused on traditional infrastructure, like roads and bridges and tunnels. It's also focused on renewable infrastructure, which is a huge part of many of these government programs.

And that takes us to MegaRule number two and this is about connecting the value chain. So, if you want to invest in one of these clean energy themes, for example, electric vehicles, you can't just think about one company, say Tesla. That's usually the name that comes to mind first around electric vehicles. But there's a wide range of companies playing in the EV and the AV spaces.

And, not just car companies. Think about Valeo that builds the software and sensors to help self-driving cars navigate, Infineon that puts the batteries in an EV, Albemarle that puts the materials into those batteries, and ABB that builds the electric vehicle charging infrastructure networks. So, when we build our megatrend ETFs, we don't just pick one company or even industry. We look at a whole value chain or ecosystem of opportunity.

So we've come now to our final megatrend: emerging global wealth. And I find these to be some of the most powerful stats in our discussion today. China mints two billionaires on average every week. By 2026, China and India may have populations of 1.5 billion each, and 90% of new middle class entrants are in Asia, specifically emerging markets. And this is my favorite stat of all, 44 people escape extreme poverty in India every single minute of every single day. This rise in wealth in emerging market countries is supercharging a whole range of megatrends, as well as the global economy itself.

And that's what really informs our third MegaRule, this idea of thinking beyond borders. Now I talked about the need to be flexible in Megatrend investing, going beyond single sectors to capture opportunity. Well, megatrend investors need to take a similarly unconstrained approach to geography; Megatrends know no borders and neither should your megatrend investment. Take internet adoption in China and India. With a combined online population of over 1.4 billion people, China and India have 4x as many folks online as the US. Despite this, only half of China's population has access to the internet so far. India, which is a population comparable to China's, has an even smaller share of its population online. So you tell me where the biggest runway is.

And so that's why when we build these megatrend ETFs we have to think beyond borders. We have to think globally about these opportunities, because at the end of the day, it's all about owning the future. And that's what iShares Megatrend ETFs seek to deliver. So, across the five megatrends we've talked about, you see a range of tickers and themes to help you access megatrends in your portfolio. These run from IHAK, our cybersecurity ETF, IRBO to capture robotics and artificial intelligence, IDNA to capture those breakthroughs in genomics and immunology. IFRA, capturing the US infrastructure boom driven in this post-pandemic world by government spending. ICLN, I-C-L-N, and IDRV, I-D-R-V, capturing the growth in global clean energy and electric vehicles, respectively. Of course, we also have CNYA and TCHI, giving you access to the rising incomes of mainland China's consumers and Chinese companies at the forefront of technological innovation. But if you want to keep it simple, there's one ticker, iShares' XT, our exponential technologies ETF, that can give you access to all five of these megatrends in your portfolio with just one trade.

So we covered our MegaRules: to weight for tomorrow, connect the value chain, and think beyond borders. That's how we build these ETFs to help you capture long-term megatrend outperformance.

The world is rapidly changing, and now is an opportunity - not just to rebalance or even reinvest portfolios - but to reimagine them for the future that lies ahead. That's what iShares Megatrend ETFs are all about.

Thank you so much for joining us today. We've built megatrend ETFs to help you access the future, and we hope in this conversation, we've provided a little bit of education about what that future might hold.

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