CAPITAL GROUP℠

10 investment themes for the next 10 years

2020 edition

"We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next 10."

Microsoft founder Bill Gates

At Capital Group, we approach investing with a long term view. Why is that important? Because longer measurement periods mean more time for well-researched, high-conviction investments to perform well.

Join us on a journey to 2030, as three Capital Group investment professionals offer their perspectives on the themes shaping the future for investors.

BRAD BARRETT

Equity investment analyst

CHERYL FRANK

Equity portfolio manager

CHRIS THOMPSEN

Equity portfolio manager

1. The big keep getting bigger

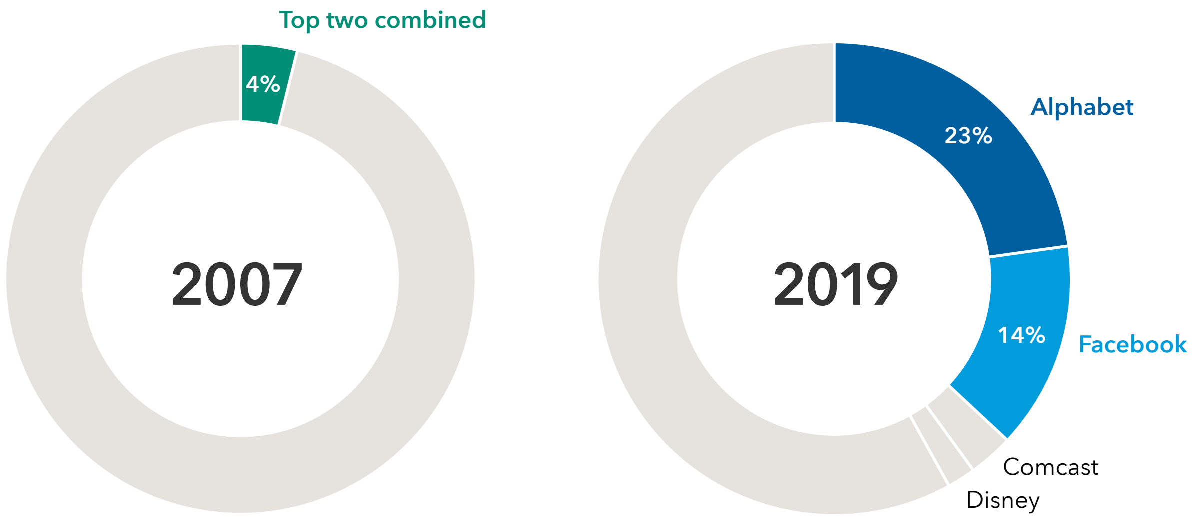
When it comes to market share in the digital era, size matters. It's a theme affecting many industries but is perhaps most obvious in online advertising where Google (Alphabet) and Facebook control 37% of the market. This is in sharp contrast to the fragmented days of 2007, when the top two competitors combined for just 4%. High barriers to entry and scale advantages that favour global instead of regional players are two reasons this trend could continue well into the next decade.

There is also now a very tight feedback loop related to a company's service quality and the scale of its business. Consumers tend to prefer social media sites that already have a large and growing user base. Search engines provide better results when more people use them. And the bigger a streaming platform gets, the more it can reinvest in content, helping lower costs and attract even more users.

"Because of their size, [Google and Facebook] are driving the best returns for advertisers. They are growing by driving more usage and showing more relevant ads – not by raising prices."

Brad Barrett,
Capital Group equity analyst

Global advertising share of top two companies



Sources: Capital Group calculations, company financials. As of 31/12/19.

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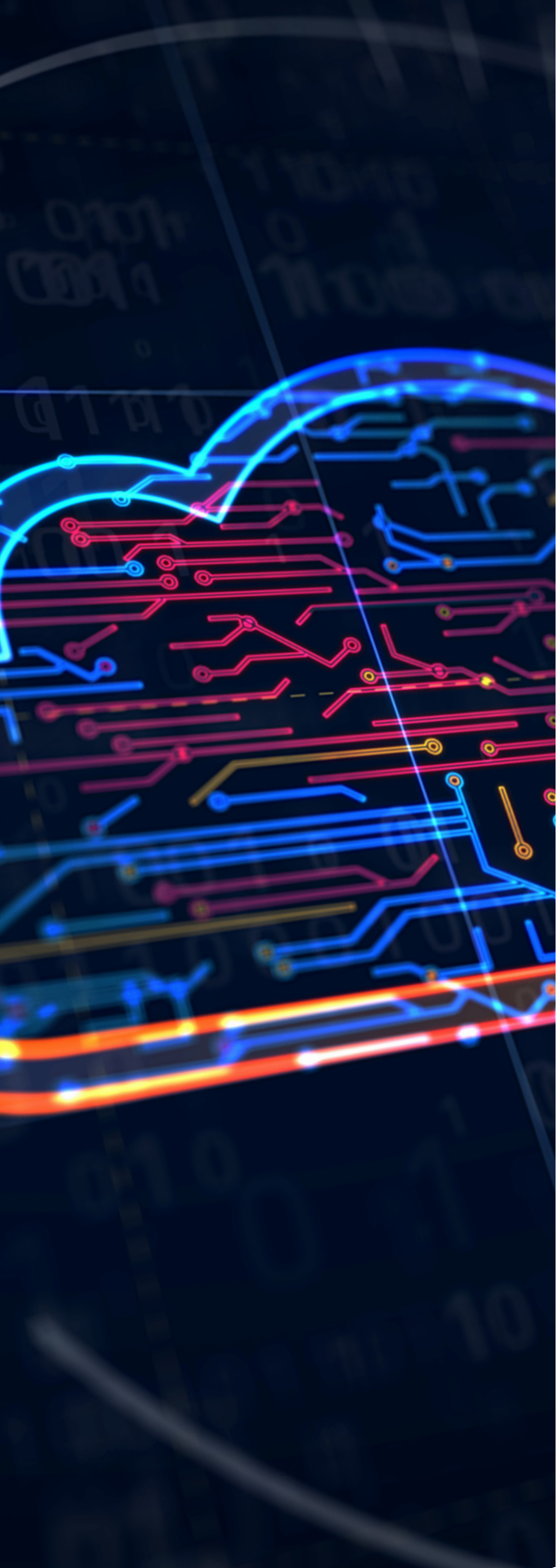
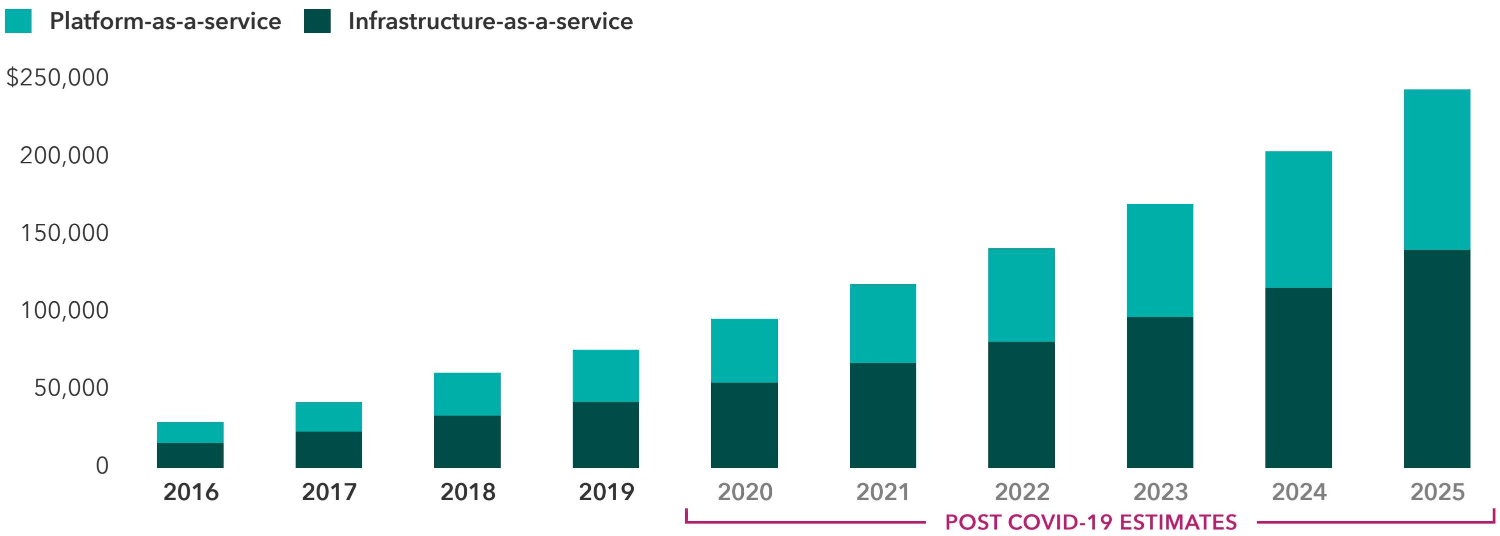


2. Cloud demand is sky-high

"We've experienced two years of growth in two months," said Satya Nadella, CEO of Microsoft, referring to the great acceleration in demand for cloud services during the pandemic. Capital Group equity manager Cheryl Frank agrees. "I think an ever-larger number of companies will go cloud-first or cloud-only." With global information technology spend around $3.7 trillion in 2019 even a moderate increase in companies switching to the cloud could have a massive impact on the bottom line for market leaders.

Revenue in public cloud market (millions USD)



Source: Statista. As of 30/6/20. Forecast adjusted for expected impact of COVID-19.

This is another case where the big get bigger and the well-entrenched – such as Amazon's AWS and Microsoft's Azure – are likely to maintain staying power. The barriers to entry, switching costs and the ecosystem effects are significant, making it tough for new players to reach competitive scale. Frank also expects the big cloud providers to influence the tech supply chain, based on what they decide to produce themselves and what to outsource. Vendors who supply equipment needed to grow data centers, such as CPUs, batteries and cooling equipment, may become vulnerable as a result.

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3. Innovative leaders may emerge in emerging markets

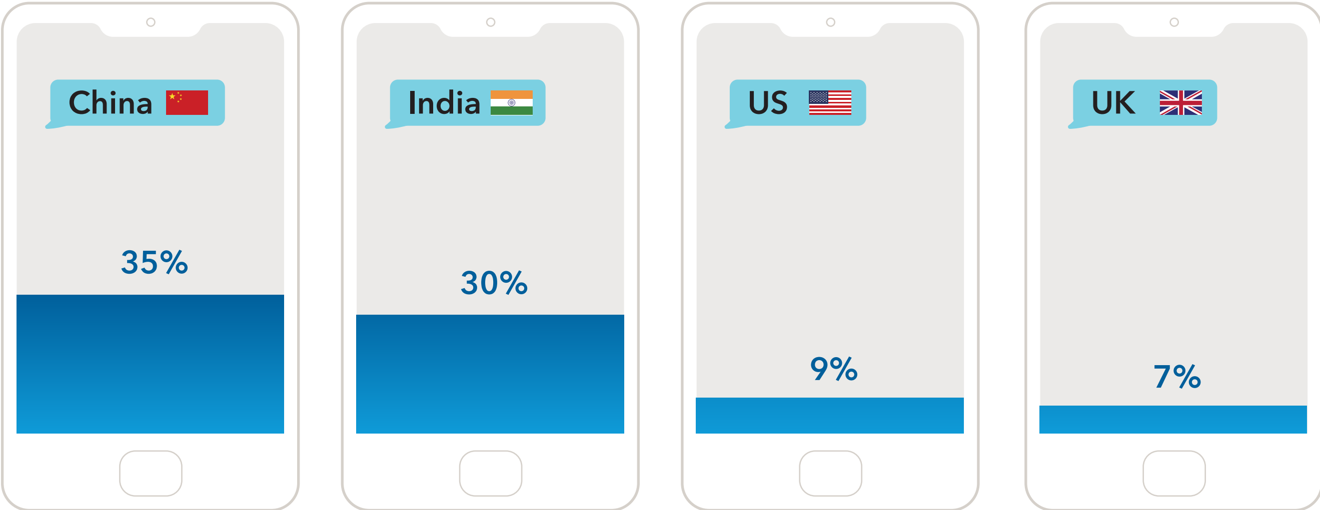
If you think the most innovative companies are in the U.S., think again. When it comes to innovation, large U.S. tech companies seem to get most of the attention. But that conversation may shift toward what's happening in China and other emerging markets. Portfolio manager Chris Thomsen believes we are going to see emerging markets companies move towards becoming true innovators.

Innovation is flourishing for mobile-based services and payment platforms in developing countries. China has a middle class of 420 million people that's very tech savvy. These are consumers who are comfortable using mobile phones to make their lives more efficient. As a result, there is a lot of innovation within China to meet that demand.

Successful new entrants may scale more quickly than older companies, likely long before they become household names outside of local markets. Consider Pinduoduo, which is an e-commerce company in China that is less than 10 years old but has already surpassed a $100 billion market cap[1]. Likewise, the $200 billion[2] multi-service platform Meituan has over 450 million active users[3]. There are going to be a lot more of these cropping up across industries.

1. Source: Bloomberg, as at June 2020
2. Source: Meituan, as at August 2020
3. Source: Meituan, as at 30 June 2020

Penetration rate of "mobile wallet" transactions



Source: Statista, U.S. Census Bureau. "Mobile wallet" transactions refer to transactions at point-of-sale that are processed via smartphone applications and are estimates as of 12/31/19.

"We used to refer to companies like Alibaba as the 'the Amazon of China' or Baidu as the 'Google of China', but these companies have really developed and localized their technology, while accelerating their growth in ways different from the U.S."

Chris Thomsen

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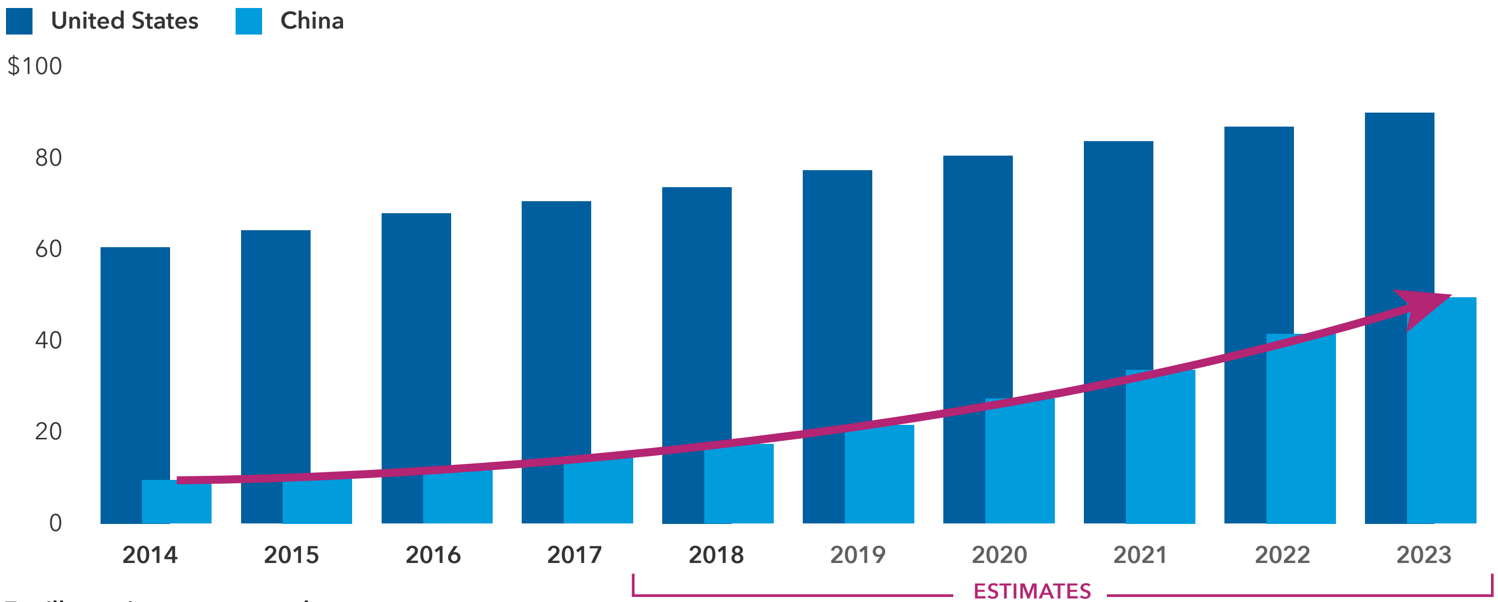
4. The prognosis looks good for a cancer cure

A cure for cancer may be closer than you think. Breakthroughs in gene therapy and new applications of artificial intelligence are accelerating drug development. Equity portfolio manager Cheryl Frank, who has covered the health care industry for 21 years, believes some cancers will be functionally cured with cell therapy between now and 2030. New, reliable tests will enable very early detection of cancer formation and location. Beyond 2030, cancer could be largely eradicated as a major cause of death through early diagnosis. Cheryl believes the next wave of pharmaceutical innovation may come from an unexpected place.

Pharmaceutical R&D spending (billions USD)



For illustrative purposes only.
Source: Statista. 2019 through 2023 are estimates.

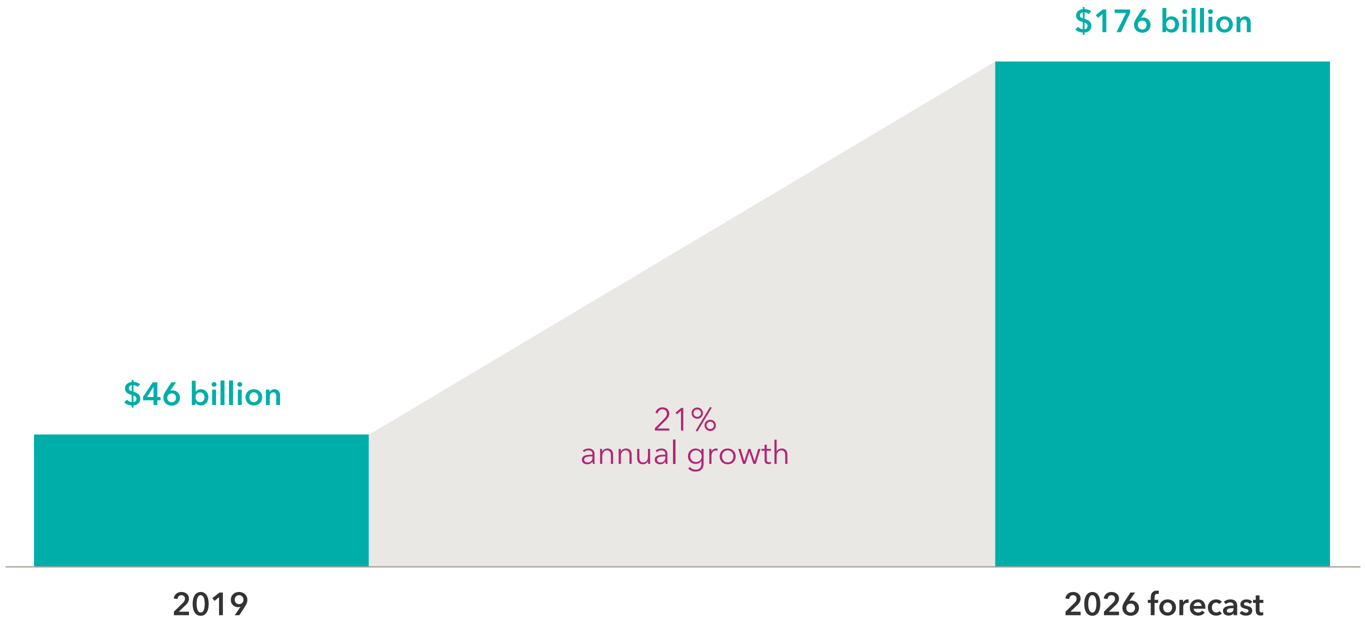
"I expect to see many global blockbuster drugs from China by 2030. The country has the biggest population of cancer patients in the world, and it's significantly easier to enroll those patients in clinical trials. I expect they will begin to produce novel drugs within five to 10 years and sell them at one-tenth of the cost in the US."

5. House calls are coming to health care

Pharmaceutical companies have been in the spotlight as they race to develop treatments for COVID-19. But one of the biggest shake-ups in the health care industry may be happening on a more personal level. Just a few months ago, the idea of meeting with a doctor through a laptop screen may have seemed impractical, impersonal and ineffective. But after months of social distancing, many of us in several countries have had our first telehealth experience and realized it works.

Cheryl Frank believes that this could lead to a vastly different landscape by 2030. Her view is that a combination of telehealth, at-home diagnostic and medicine delivery will enable almost everything to be treatable from home.

Global telemedicine market size



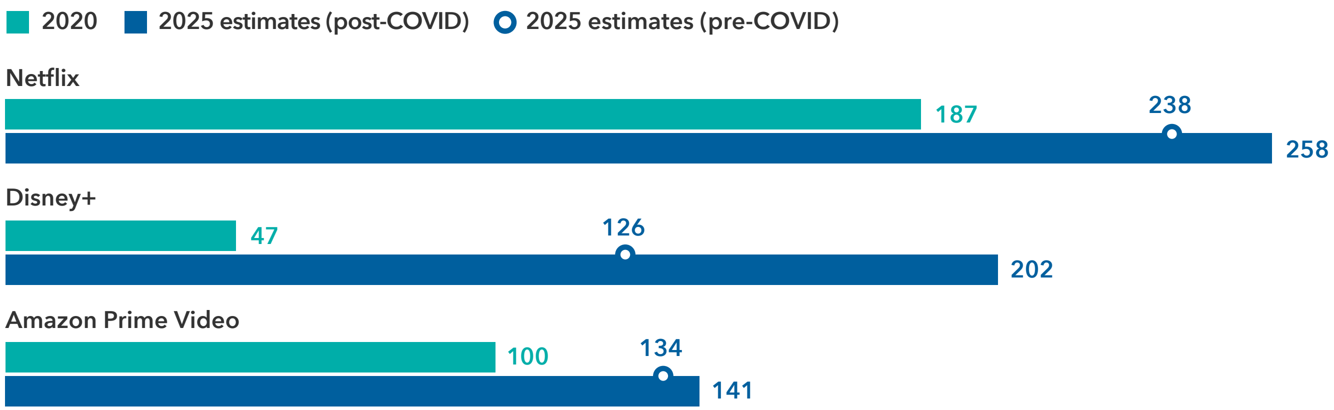
For illustrative purposes only.
Sources: Capital Group, Statista. As of 30/4/20. Forecast includes impact of COVID-19.

"Personal devices will use this data to help us improve our health, while physical doctor visits may evolve to be only diagnostics and procedures. Wearable and implantable technologies will essentially become an extension of ourselves."
Cheryl Frank
Equity portfolio manager

6. Content is king, but streaming is the kingdom

The shift to streaming content is another consumer trend that got turbocharged as a result of COVID-19, but this could just be the beginning. Even if consumers moderate their TV consumption in a post-COVID world, the trend toward streaming could still remain in place.

Streaming video subscribers (millions)



Source: Statista. Pre-COVID estimates as of 28/2/20. Post-COVID estimates as of 30/6/20.

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This is great news for platforms like Netflix, Amazon Prime Video and Disney+ that could continue to see robust subscriber growth. It's an enormous market. TV continues to dominate people's leisure time. And it's shifting rapidly from linear to streaming. You have this incredible combination of streaming being both better and cheaper than traditional television, and it is hard to see this changing.

"Roughly one-third of all content consumption is currently done over streaming platforms, but by 2030 I think that's going to increase to more than 80%."
Brad Barrett,
Capital Group research director

7. Artificial intelligence could spark the next tech revolution

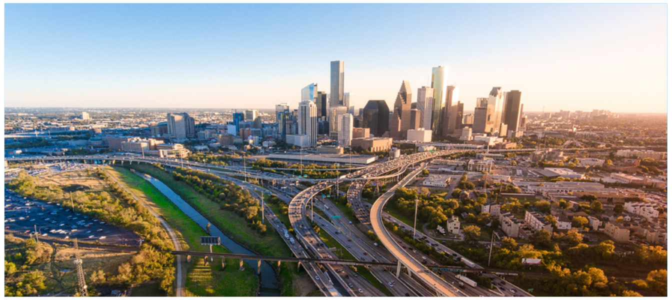
No need to fear the rise of the machines. Machine learning – which is a form of artificial intelligence in which computer algorithms improve themselves in real time by processing tons of data – is already all around us. From speech recognition to fraud detection the applications are vast, and computers are getting smarter and more capable every day. Because they can access enormous amounts of data, the algorithms and computing power are at a place where they can teach themselves in ways that were never possible.

8. Self-driving cars may rule the roads

AI is also driving advances in autonomous vehicles. The world could look vastly different if autonomous vehicles eat into the 15 trillion miles that are driven annually.

A world where self-driving cars rule the roads sounds like science fiction today, but we're closer than many may think. According to Capital Group equity analyst Brad Barrett "The foundation is already there. There are no new technological breakthroughs that need to happen. Real people are already riding in these vehicles with no safety drivers. Ultimately, I think it's going to be cheaper and safer, and you're not going to have to pay attention to the road. That's a pretty compelling value proposition."

AI could help transform cities and vehicles of the future



BIG DATA/CLOUD COMPUTING		SELF-DRIVING CARS	
Smart transportation	Smart energy	Vehicle-to-vehicle communiction	Advanced navigation
Smart buildings	Smart retail	Long-range radar	Semiconductors
Smart health	Smart security	Hands-free software	Sign recognition

Source: Capital Group

"There are big implications for land use, energy consumption, real estate, the ways cities are designed – really for everything."

Brad Barrett,
Capital Group equity analyst

9. ESG could be a pillar of portfolios

Socially responsible investing has been around for years, but a desire for asset managers to screen companies with an ESG lens has risen in 2020. Companies that are more environmentally focused and promote diversity may appeal to consumers that increasingly prefer to align with businesses that match their personal values.

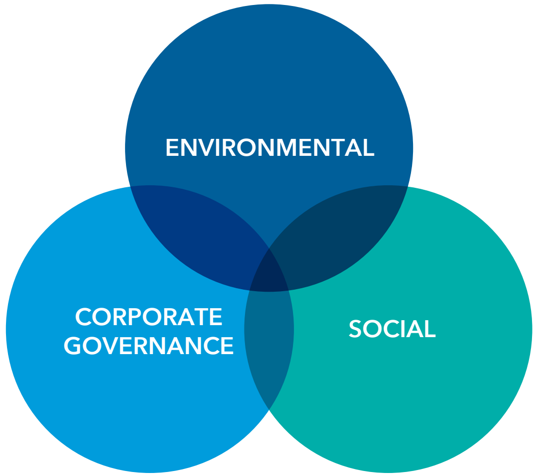
Strong corporate governance could potentially reduce investment risk due to improved transparency and better capital allocation.

Those are but two reasons why businesses with a focus on ESG may appeal to investors like Capital Group. Screening for ESG factors has long been a part of Capital Group's investment process, which is rooted in deep fundamental research and building relationships with company management.

"We look for companies with a long-standing focus on corporate governance. We hold them to high standards of governance and goals of operating in the best interests of investors, employees and society."

Rob Lovelace,
Capital Group president

Environmental, social and governance (ESG) issues are varied and complex



ENVIRONMENTAL	CORPORATE GOVERNANCE	SOCIAL
Climate change	Disclosure & transparency	Workforce diversity
Renewable energy	Executive compensation	Health and safety
Water utilization	Corporate board structure	Training & development
Resource efficiency	Ownership and control	Human rights
Pollution externalities	Capital allocation	Community relations
	Shareholder rights	Supply chain transparency
		Political contributions

10. The U.S. - China rivalry may define geopolitics

In what feels like a lifetime ago, trade disputes between the U.S. and China were the biggest economic storylines in the pre-COVID era, but the frosty relationship between the two superpowers could remain one of the top investment themes over the next decade.

It's not just geopolitics. It will also have a direct impact on businesses as they are forced to take sides and perhaps adjust the way they operate on both sides of the fence. In August, the U.S. issued executive orders to ban popular apps TikTok and WeChat if the U.S. segments are not sold by their Chinese-owned parent companies. Meanwhile, Google, Twitter and Facebook have been banned in China for many years.

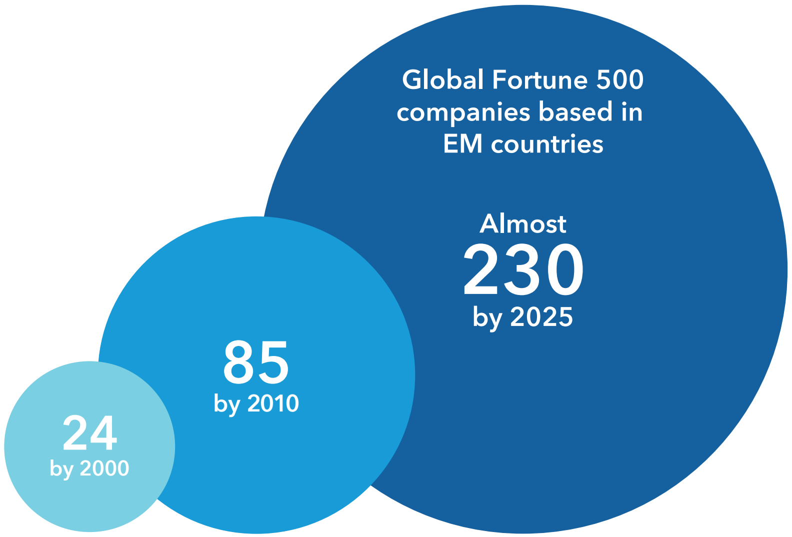
However, even if you avoid companies that may potentially get caught in the crossfire, there remain great investment opportunities.

"Purely domestic Chinese internet companies, for example Alibaba and Baidu, are unlikely to be hurt by a trade war"

Chris Thomsen,

Equity portfolio manager

Emerging economies set to drive global growth



For illustrative purposes only.

Source: McKinsey. As at 31 October 2013.

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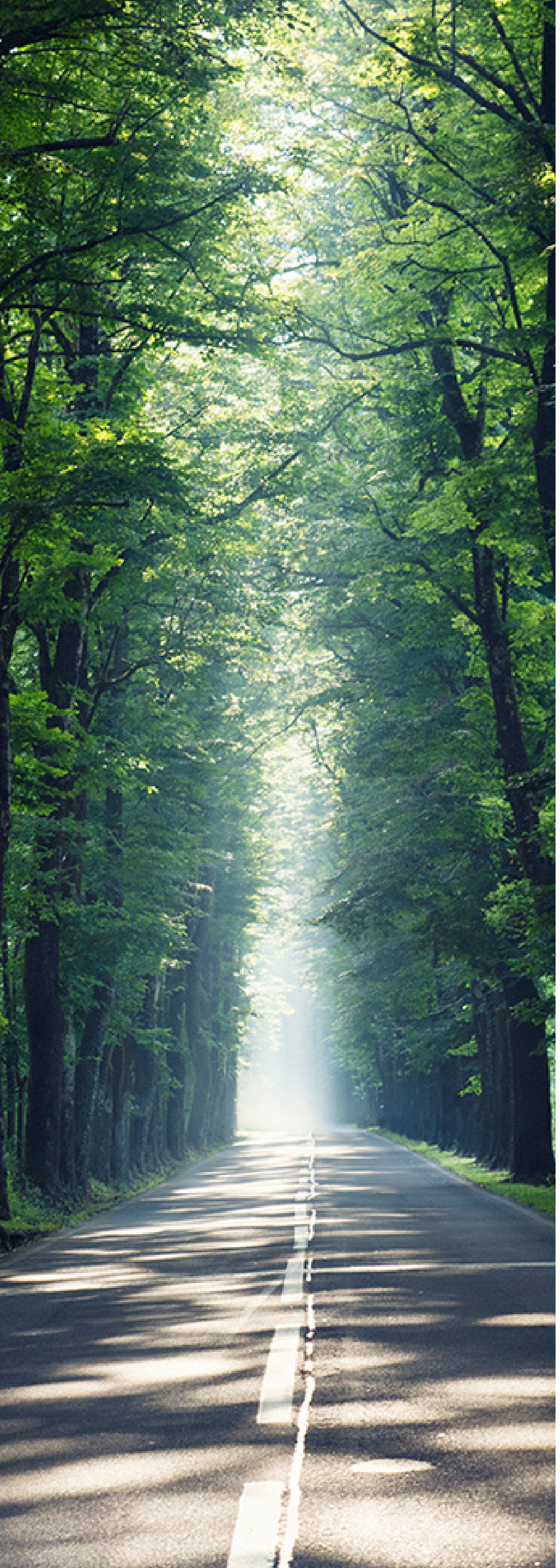

Long-term thinking is built into the Capital System

Imagining life in 2030 may seem like daydreaming, but this type of long-term thinking is baked into The Capital System[SM] and is a major part of our investment process. Our investment team's compensation is largely based on an eight-year time frame, which is unique in an industry that tends to focus on short-term returns. It's this long-term perspective that enables us to look past market volatility and maintain conviction in companies that could change the world over the next decade.

Portfolio manager compensation basis (years)

Source: Capital Group. Compensation paid to our investment professionals is heavily influenced by results over one-, three-, five- and eight-year periods. Increasing weight is placed on each successive measurement period to encourage a long-term investment approach.

Brad Barrett

Equity investment analyst

Brad is a research director with 19 years of investment industry experience. He covers media, cable and satellite, advertising-driven internet companies and telecommunication services in the U.S. Brad holds a bachelor's in economics from Claremont McKenna College.

Cheryl Frank

Equity portfolio manager

Cheryl is an equity portfolio manager with 21 years of investment industry experience. She holds an MBA from Stanford and a bachelor's degree from Harvard.

Chris Thomsen

Equity portfolio manager

Chris is an equity portfolio manager with 22 years of investment experience. He holds an MBA from Columbia and a bachelor's in international economics from Georgetown.