

*Please note: This is a transcription so there may be slight grammatical errors.*

Mike Vogelzang:

Each quarter, we examine market trends and distill the most salient economic narratives of the day. We often use our microscope to focus on the here and now, but as long-term investors, on occasion we should also take out our telescope to think about how conditions could change over a longer horizon. Future conditions may not alter investment decisions today, but they can and will shape our thinking about distant goals and the guideposts to look for along the way. Today, we highlight three major themes. Let's call them the three Ds. Demographics, deglobalization, and digital transformation. We'll use both our telescope and microscope to examine all three. The most significant and unstoppable force on markets over long periods is demographics, or the study of global population shifts. In the U.S. over the last 30 years, a century of population growth has begun to reverse and is expected to keep falling through 2050.

America is aging. Shrinking populations are a major concern for markets and economies. Labor supply, the number of workers, is a key input into economic growth. If labor is in short supply, output will be lower, leading to smaller economies and less opportunity for all. That's the view through the long lens, but labor shortages are already a problem today with businesses struggling to fill a labor gap of millions of workers, in part because of accelerated retirements during the pandemic. Today, there are roughly 1.5 jobs available for every unemployed worker. This shortage is a boon to workers but adds to inflationary pressures. The second theme on the horizon is deglobalization. Since the fall of the Berlin Wall, the world has benefited massively from increasingly globalized trade. Manufacturing has shifted to lower cost countries, reducing the cost of goods in some places while raising living standards in others. But this trend may reverse over the next decade.

Through today's microscope, we can already see this developing on two fronts. The first is escalating economic and technology competition with China. The second are new and growing fractures in global trade, caused by Russia's illegal invasion of Ukraine. This newly hung autocratic curtain will continue to have global economic repercussions. These conflicts could accelerate a shift that brings workers and trade partners closer to home, or at least to friendlier nations to make supply chains more secure. But there's a significant cost to this transition that could result in higher prices while reducing growth. These first two trends are clear headwinds to watch for over the next few years and decades. But the last

trend brings optimism, digital transformation. Technological advancement has been and should continue to be the power behind current and future economic expansion. Through our microscope, we saw the launch of new AI products drive stock market gains earlier this year. Not only for technology firms, but for a broad swath of industries which stand to benefit.

The improvement and adoption of artificial intelligence will unlock productivity in a host of different industries unlike anything seen before, AI has the ability to amplify each worker's output, creating economic growth even with fewer workers. This helps address some of the demographic challenges mentioned earlier. A changing energy industry, including more efficient generation in storage, represents our best prospect to meet insatiable global energy demand, while also addressing a changing climate. Without ample supplies of electricity, economic growth will stagnate. Bioengineering and genomics will advance human health and prosperity. Last year, the entire human genome was successfully decoded for the first time. This amazing accomplishment offers hope for new therapies and longer lifespans. With one eye on these three longer trends, we're also focused on navigating today's tricky and highly confusing conditions. The range of outcomes over the coming months continues to be wider than normal. The American economy has been resilient in the face of this uncertainty.

As inflation has moderated, it remains sticky at levels above the Federal Reserve's comfort zone. The U.S. consumer continues showing strength despite concerns. Depleted savings, rising credit card rates, student loan repayments, and higher gas prices just to name a few. Economic growth continues its positive track, despite interest rates that have dramatically increased borrowing costs. This represents an increasing problem for businesses, households, and governments. The balance between risks and opportunities defines investing. This trade-off, of course, creates the potential for higher returns. But when we lift our eyes from the microscope of today's pressing issues from the tyranny of the urgent, we see plenty of opportunities in the decade ahead. To be sure, there will be hills to climb and bumps in the road. These could intensify as these issues become acute. Financial plans can provide critical stability, regardless of what the journey may bring. But long-term investors should remember to take a break from the day-to-day headlines and look to a future that, while certain to be different from today, presents unlimited opportunity and potential.

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