

## Changing demographics

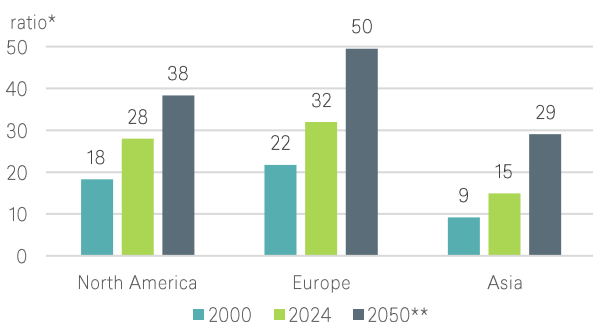
### The aging trend in the coming years poses massive challenges for society. How will this affect the capital markets?

The aging global population inevitably has consequences for the economy and financial markets. A smaller workforce will have to care for more retired people (see chart). As life expectancy continues to rise, the growing needs of the elderly population will not only be in the area of healthcare and nursing. As today's elderly are fitter than their predecessors, sectors such as the leisure and travel industry must also adapt and focus their offerings more on this new target group.

and retraining and that technology should be used to increase productivity.

Without strong countermeasures, the aging population could lead to weaker economic growth, declining tax revenues and therefore dwindling scope for government investment. An aging population may also pose a threat to society if increased additional government payments into pension funds lead to funding gaps in areas such as education.

#### Old-age dependency ratio rises sharply



Source: United Nations, DWS Investment GmbH as of 9/10/24  
\* Number of elderly people (over 65 years) relative to 100 people of working age (15-64 years) \*\* Forecast

According to the United Nations, the proportion of people over the age of 65 will double in the next three decades.<sup>1</sup> By 2050, Asian countries are expected to have the highest proportion of this age group. The problem is already acute in Japan and other Asian economies are following as life expectancy increases rapidly. By 2050, around 40% of the population in Hong Kong, South Korea and Japan will be aged 65 and over, compared with just 20% in many developed countries.<sup>2</sup>

Given this trend, the number of older people retiring will likely significantly exceed that of younger people joining the workforce. This is because longer life expectancy does not automatically translate into longer working lives. We believe more opportunities should be created for lifelong learning

In our view, it will be difficult to finance all the measures needed without recourse to the financial markets. This is particularly true for pension systems. In Germany, for example, around 21% of the federal budget will already be spent on the first pillar of the pension system by 2024.<sup>3</sup>

The savings behavior of young people will also have to change significantly as they will need more second and third pillar pensions later on. We expect to see a significant increase in the number of market participants given new regulations to promote pension investments, for example in equity or bond funds.

It is not yet clear how much the changed requirements for state pension funds and increased private pension provision will affect the financial markets. If more is saved in younger years, for example in supposedly safe bonds that are sold in batches in older years to close the private pension gap, yields will eventually have to rise to keep the securities attractive to younger investors.

However, we believe that some sectors will also benefit. The necessary paradigm shift in the healthcare and nursing sector should provide support. In particular, prevention, diagnostics and screening should see additional demand. But we also expect increased demand in what might be called the more cheerful areas of spending: leisure, food, technology and travel.

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## Footnotes

<sup>1</sup> World Population Prospects 2024, United Nations as of July 2024

<sup>2</sup> The World's Oldest Populations, Statista as of 2/20/24

<sup>3</sup> Der 477-Milliarden-Haushalt: Wofür der Bund das Geld ausgibt, BR24 as of 2/2/24

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as of 9/10/24; 102654\_1 (09/2024)

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