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China's Population Transformation: The Age of Rising Retirement

Dan Rohinton, Vice-President, Portfolio Manager, Global Dividend

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It was just a matter of time, but they finally did it, China is raising its retirement age for both men and women. Men's retirement will shift three years to 63 and women five years to 55 and implemented over a 15-year horizon to manage the demographic shift taking place.

You might be thinking, why do you need to do this in a country with 1.4 billion people?

China over the past several decades has seen a drastic decline in its fertility rate, dropping to a new all-time low of 1.16 births per woman from a peak of 6 in the 1960s & 1970s (sidebar: Canada isn't too far behind!). To put this into perspective you need for "population replacement" a rate of ~2.1 per woman to keep the population pyramid stable. In fact, the population in China starting in 2021 has gone into outright contraction. China in 2023 had its overall population decline by 2.1 million citizens.

This announcement is simply an acknowledgement of a paradigm that has existed for a very long time, the Chinese working age population after decades below replacement has peaked and is now in decline. By the mid 2030's over ~30% of the population will be over the age of 65, a significant increase from ~14% today. To maintain economic stability over this period the government took this natural step to extend the working age further and buffer the demographic impact on the economy.

As Canadians, the greying of China has long-term impacts for our resource intensive economy as well. In past shocks across the global economy, it was the Chinese economic boom that papered over the structural issues right here at home. We will not be so lucky next time.

This is not a China specific trend but a global one that many other nations will have to wrestle with in their own ways. At the end of the day for all nations, demographics is destiny.

Have a great weekend!


China's Population Shrinks Faster
Deaths rose while the number of births fell to a record low in 2023
Absolute change
Births
Deaths
25 million
20
15
10
5
0
-5
1980
1985
1990
1995
2000
2005
2010
2015
2020
Source: Chinese official data
Bloomberg

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There and Back Again: A Verizon Story

Dan Rohinton, Vice-President, Portfolio Manager, Global Dividend

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Rolling back to 2016, news broke that "Verizon Communications sells $10.5 billion in landline assets to Frontier Communications." Fast forward a mere eight years later, after the Labor Day 2024 long weekend, we read, "Verizon Communications is acquiring Frontier Communications for $9.6 billion."

The intriguing journey of Verizon and Frontier deserves its own novel – if you include the bankruptcy cycle in between! However, it's worth examining the fundamental reasons behind Verizon's about-face, which stands as one of the most costly in modern telecommunications history. Let's dive in!

Why Now?
Technological Evolution: The internet's continuous evolution has fueled an exponential increase in data consumption. This growing thirst for data has been transmitted via a dense network of lines. In less than one generation, we've transitioned from dial-up to digital subscriber line (DSL), then to cable internet (Coax), and finally fiber optic internet (Fiber). Each advancement significantly increased efficiency and throughput, but it's the shift to fiber optic internet that's primarily noteworthy.

Frontier Communications, despite ironically having a large DSL footprint even today, has given many industry players headaches by rolling out the most advanced broadband technology across diverse parts of the US market. This has posed a real competitive threat to local incumbents, who, until the advent of fiber competition, enjoyed a quasi monopoly in local regions. They were left in a classic innovator's dilemma: do they "overbuild" next-gen fiber technology on their existing coax footprint or continue to enjoy their regional monopolies? For most, the answer was clear: milk the cash cow. This approach allowed Frontier to gain momentum by technologically leapfrogging any local monopoly or duopoly.

Part Defense, Part Offense: With this acquisition, Verizon accrues multiple benefits, one of which is advancing the convergence narrative—a driving force in the US market for years. As Canadians, we might not be as abreast to this concept, being accustomed to receiving TV, internet, and cell phone services from the same provider. Conversely, in the US, they're playing catch-up. Through the Frontier acquisition, Verizon can expand or defend its mobile network to a broader customer base with whom they may not currently have ties, or secure with a triple bundle (internet, TV, mobile). In the fiercely competitive industry, this serves to maintain market presence as much as it provides a growth opportunity. It isn't plainly about growth; retention is equally pivotal.

We don't invest in Verizon or Frontier, it's always insightful to analyze significant market transactions to understand the downstream effects. I envision a value chain here that will emerge more competitive than it already is. In this case, we're happy to watch this capital intensive slugfest from a distance.

Have a great weekend!

Energy Efficiency: The Power of Compounding

Dan Rohinton, Vice-President, Portfolio Manager, Global Dividend

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Being an avid history buff, I always find it fascinating to analyze the long-term consequences of decisions made generations ago. In certain areas such as oil, the infinite game that is history overlaps with the infinite game that is global markets.

The “1973 Arab Oil Embargo" or "1973 Oil Crisis” as its known was driven by the decision of Saudi Arabia, Iraq and Kuwait to halt shipments in unison to the United States. This let to a quadrupling of oil prices in a few months. To put this into perspective imagine if oil prices went from $68/barrel right now to $272/barrel in between now and December. A shock of this magnitude and the waves of stagflation in the mid-late 1970s fundamentally changed the psychology of many nations but none more so than the United States.

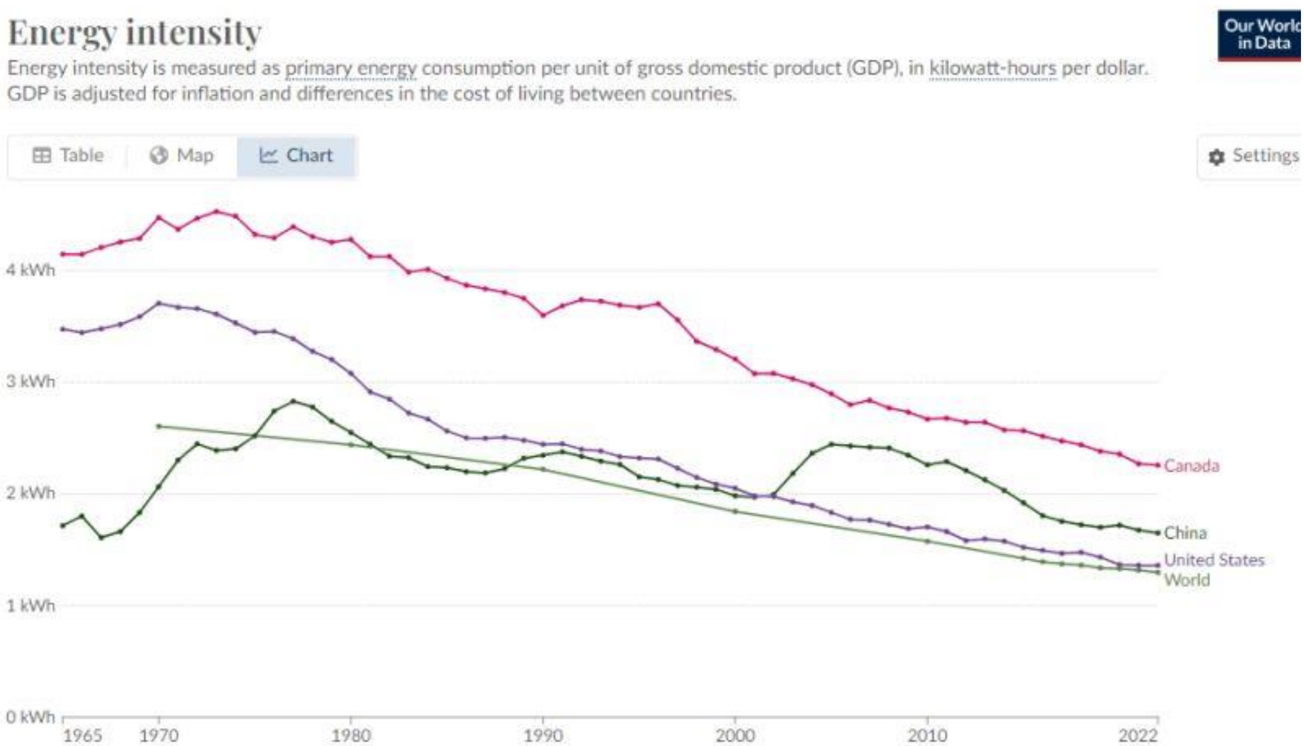
From that era emerged a heighted effort to become energy efficient and put a greater emphasis on productivity. By recognizing that the flow of oil and other critical commodities comes with risks and uncertainties US corporates especially have made world leading strides in improving their energy efficiency. There is no single breakthrough technology or capability, but millions of smaller decisions made by brilliant engineer’s time and time again building upon their prior success.

The results are impossible to ignore and impressive by any stretch. The US economy in the last 54 years is able to generate 272% more GDP/kilowatt hour (kwh) of energy dropping from 3.71/kwh in 1970 to 1.36/kwh in 2022. Even China through a full industrialization cycle has seen its energy efficiency improve 124% as their GDP/kwh dropped from 2.07/kwh to 1.65/kwh.

We should celebrate the progress in major industrialized economies such as the US and China have made in their ability to grow GDP efficiently and increasingly with lower carbon intensity along with energy intensity. Its not a coincidence that today despite intense conflicts around oil producing regions oil remains 36% lower than its 2014 peak and hovering its 2006 price. Dare I say we are also seeing the first signs that OPEC as a cartel being threatened, and we will look back at 1973 as the absolute peak of OPEC power.

At the end of the day as the saying goes through the fullness of time “If you’re long commodities, you’re short human ingenuity”.

Have a great weekend!


Energy intensity
Energy intensity is measured as primary energy consumption per unit of gross domestic product (GDP), in kilowatt-hours per dollar. GDP is adjusted for inflation and differences in the cost of living between countries.
Our World in Data
Table
Map
Chart
Settings
4 kWh
3 kWh
2 kWh
1 kWh
0 kWh
1965
1970
1980
1990
2000
2010
2022
Canada
China
United States
World

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About iA Global Asset Management (iAGAM)

ROOTED IN HISTORY, INNOVATING FOR THE FUTURE.

A magnet for top investment talent, iA Global Asset Management is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths, and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAGAM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.