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Think Tank Podcast: Healthy Living - The path to a better life

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TRANSCRIPT

Nisha Pillai [NP]: Welcome to the Julius Baer Think Tank Podcast. In this series we'll be walking you through the mega trends of the future and bringing you closer to our network of thought experts who are capturing the world's major changes and putting them into context for us.

I am Nisha Pillai, former BBC World News presenter and your moderator today.

Our personal well-being is deeply connected with our overall state of health. That's why, ancient teachings from many cultures have promoted the art of living a physical and spiritual balance, supporting healthy lifestyles with emotional well-being. Those wisdoms are needed now more than ever. Due to our increasingly pressured twenty first century lives, chronic diseases have escalated. You need only consider our increasingly use of smartphones and computers, our increasingly sedentary lifestyles, and the easy availability of processed foods rich in sugar, salt, and saturated fats. Meanwhile the frantic rush of social media and being always connected, takes its toll on our mental well-being. And that's before we even begin to address the Covid-19 pandemic.

Today, we'll be talking to Dr. Damien Ng, Next Generation Research Analyst at Julius Baer, and Esteban Polidura, Head of Advisory and Products for the Americas. Do they think that Covid has accelerated the trends towards greater health awareness? Or, is it too soon to say?

[NP]: Damien, welcome. Good to have you back with us on Think Tank.

Damien Ng [DN]: Thank you very much Nisha for the invite to this podcast today.

[NP]: So, have you noticed significant changes regarding attitudes, not just to health of course, but to healthier lifestyles over the last year or so?

[DN]: Yes, Covid-19 has indeed prompted a growing number of people to turn to healthier lifestyle habits to keep their immune systems strong while boosting their psychological morale during these extraordinary times. According to a survey conducted by US-based Parade/Cleveland Clinic revealed, 62 per cent of the respondents have adopted some form of healthy lifestyle changes since the

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emergence of the global health crisis in the year 2020, with 34 per cent of them consuming more healthy foods. But health awareness is not something new. Even prior to the outbreak of the Covid-19 health crisis in 2020, the rising incidence of chronic diseases and other health conditions had already prompted an increasing number of people to adopt healthier lifestyle habits. After all, as you said Nisha just now at the beginning, we are spending more time in office work environments, and we are using our smartphones and computers more frequently. The growing prevalence of sedentary activities is also not helped by the easy availability of processed foods rich in sugar, salt, saturated fats, and calories, as you said earlier, along with more stress and anxiety arising from the frantic rush of everyday life, ultimately taking its toll on our mental well-being.

[NP]: Changing habits, especially eating habits and behaviour, is very difficult, isn't it Damien? So, what do you make of the recent data from the WHO (World Health Organization) which is indicating that the daily consumption of sugar, salt and calories overall continues to rise across the world?

[DN]: Indeed, there has been increasing consumption of sugar, salt, and calories worldwide. For instance, an average inhabitant of Bahrain consumes around 250 grams of sugar on a daily basis. This is significantly more than the recommended level of say 36 grams per day for men and 25 grams for women recommended by the WHO. This is in other countries, e.g., around 130 grams in Brazil and the US, around 100 grams in Germany, and 30 grams in China. The thing is that, the excessive intake of sugar is associated with the heightened risk of diabetes, obesity, and non-alcoholic fatty liver diseases. Turning to salt, contrary to commonly held beliefs that East Asian societies consume most salt due to soya sauce, it has in fact been observed that sodium intake is the highest amongst inhabitants in Central Asia and Central Europe, followed by East Asia, Western Europe, and North America. The excessive intake of the mineral over a prolonged period of time increases the risk of developing cardiovascular diseases like hypertension, stroke, and heart failure, as well as certain types of cancer relating to the stomach. From these observations, we can see that health conditions, such as diabetes, hypertension, cardiovascular diseases, and obesity, can be influenced by certain cultural dietary and lifestyle habits, in addition to the genes of the individuals.

[NP]: We are living in the Covid era, there is been a lot of research done trying to study the link between Covid and obesity, Covid and mental health and well-being. How good is the evidence, how solid can we say the patterns are now?

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[DN]: According to a recent report published by the World Obesity Federation, the majority of Covid-19 cases have occurred in countries with a greater share of overweight citizens. Given that 90 per cent of the over three million coronavirus-related deaths worldwide took place in countries with high levels of obesity, it may be unavoidable for many to deduce that there is a strong correlation between Covid-19 mortality and obesity rates. But, it is to be noted that Australia, New Zealand, Saudi Arabia, and the United Arab Emirates (UAE) have comparatively low levels of Covid-19 mortality rates. This is despite the fact that nearly one-third of the population in these countries is obese. For this reason, more studies are required to shed light on the link between Covid-19 and obesity. Meanwhile, protecting patients with weight issues remains crucial during the Covid-19 pandemic, since this will help reduce the risk of them developing devastating complications arising from the disease.

As far as the link between Covid-19 and mental well-being is concerned, the plight of a growing number of people suffering from emotional stress during the Covid-19 pandemic has increasingly drawn the attention of healthcare professionals and institutions around the world to the need of tackling mental well-being. In particular, the lockdown measures and the resulting economic slowdown have adversely affected many people's mental health. For those people who have been infected with Covid-19, it is another story, because there may be implications for their mental health over the longer term. As a scientific study published by 'The Lancet' revealed, as many as one in three people infected with severe Covid-19 may have prolonged mental health or neurological symptoms. The most common diagnosis was anxiety, found in 17 per cent of those treated for Covid-19, followed by mood disorders, found in 14 per cent of patients. For this reason, health authorities need to remain vigilant and stand ready to respond if the situation changes as the protracted mental health and economic effects of the pandemic unfold as time goes by.

[NP]: Is there a link between feeling happier, being more mentally at peace and living longer?

[DN]: Life expectancy is a yardstick that is often used to measure health and social progress. According to the WHO, the three countries with the oldest inhabitants are Japan, Switzerland, and South Korea. But when we look at findings from the 2021 World Happiness Report, the world's three happiest countries are Finland, Denmark, and Switzerland. These findings appear to suggest that happiness may not necessarily be dependent on life expectancy. Furthermore, a longer lifespan does not automatically translate into greater levels of happiness since several other factors may affect an individual's perceived sense of self-satisfaction. As some studies have shown, one of the main determinants of happiness is the health span that individuals enjoy during the course of their life. Being healthy and free from severe

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diseases will not only allow individuals to lead more satisfied lives, but also enable them to build more meaningful, fulfilling relationships with their family, friends, colleagues, and pets.

[NP]: What an interesting conversation, thank you for giving us so much to chew on Damien. Thank you for joining us on Think Tank.

[DN]: Thank you, Nisha, it was a pleasure.

[NP]: Let's now bring in Esteban Polidura for his investment views. Esteban, Damien just mentioned the five key areas in which companies are set to benefit from individuals moving towards taking better care of themselves. Where in particular do you think investors might find attractive investment opportunities?

Esteban Polidura [EP]: Sure Nisha, let's start with nutrition. In this social media age, the growing awareness of the importance of good nutrition is inescapable. The long-term prospects for this segment are bright, especially for those companies focused on fresh fruit and vegetables, organic food and drinks, and health supplements.

As for physical activity, people are increasingly aware that it is not enough to just eat and drink well. We need to live well too and that means moving. Companies producing athletic footwear, sports clothing, and wearable technology are all well-placed to benefit.

With respect to beauty and personal care, looking good has such a psychological impact on our well-being that we cannot ignore its significance. Our team believes that the beauty market is set for greater future growth, especially with the current generation's enormous emphasis on image and self-confidence.

Let's go now into healthcare. To avoid poor health, the focus for many medicare companies is preventing health issues developing in the first place, and if they cannot, then at least providing rapid diagnoses/treatments where possible. We see the healthcare segment associated with disease prevention as being well positioned for growth now.

Finally, let's speak about mental wellbeing. An increase in levels of emotional stress during the pandemic, not to mention the fact that many people worldwide were forced to work from home, saw pet ownership really took off. Pets offer valuable companionship to the entire family, helping to boost mental health and relieve depression. And where there are pets, there are products to cater for their

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needs – food, treats, grooming, insurance and veterinary care are all areas set to benefit from this rising trend.

[NP]: Does it make sense to invest in healthcare even after the strong performance that equity markets have had?

[EP]: Yes, it does. As you correctly point out, US shares have rallied to all-time highs on resilient economic growth poised to reach 7% by year-end and by surprisingly strong corporate earnings. Actually, close to 90% of the S&P 500 firms beat estimates. In turn, second-quarter earnings jumped about 80% from a year ago, up from an expectation of 65% at the start of the season.

Notwithstanding the strong economic momentum in the US and corporate earnings exceeding expectations, our team sees risks for an extended consolidation of US equity markets. Concerns about inflation and the delta strain still linger. In addition, economists expect the Fed to begin tapering asset purchases next year and hike interest rates faster than previously expected through 2024.

With this in mind, our research team reduced some weeks ago the risk load of its top-down strategy and downgraded cyclical stocks to neutral. It expects not only cyclical but also value stocks to remain weak over the coming months until there is more clarity on growth and inflation. Instead, it suggests keeping a prudent approach to equity markets via healthcare, our most preferred defensive sector.

[NP]: Are there other reasons, apart from the attractive outlook that Damien presented, that support Julius Baer's bullish stance on healthcare?

[EP]: Definitely, the solid growth perspectives are a key ingredient of why global healthcare is our most preferred defensive sector, but so are the undemanding valuations. The global healthcare sector should generate better organic earnings growth than almost all other defensive sectors, both this year and next one. Growth related to demographic changes primarily results from the sharp rise in the number of people over the age of 65 (a group that grows +3.4% per year according to the United Nations). Not only that, but people over the age of 65 tend to spend three times more on healthcare than the rest of the population. Also the pipeline for new drugs looks attractive and should more than offset the wave of major patent expirations that started in mid-2020.

With regard to US politics, fears about price control and changes to the US healthcare system tend to be overestimated. Healthcare regulations are highly complex and take time to be implemented.

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Moreover, prescription drugs represent less than 10% of total US healthcare spending, thus price cuts can only deliver a small proportion of the total cost cuts needed.

Relative to the broad market, healthcare stocks trade at a double-digit discount and close to historical trough levels. In our team's view, healthcare should trade at a double-digit premium due to above-average quality, stronger balance sheets, and higher visibility in combination with better growth perspectives.

[NP]: Thank you, Esteban, for putting it into context for us.

[EP]: Thank you, Nisha, for having me today.

[NP]: So clearly, more and more people are turning to healthier lifestyles and habits to keep their immune systems strong. Beyond the purely physical aspect of health, the long-term mental well-being of individuals remains as important as ever too. We believe that these developments offer attractive investment opportunities and strategies.

If you have any more questions on healthy living, please don't hesitate to talk to your representative at Julius Baer.

Thank you for listening to this episode of Think Tank. Do subscribe to our podcast series on Spotify and Apple Podcasts.

From me, Nisha Pillai, goodbye for now.