

Global Aging And Financial Markets

Demographics and Capital Flows

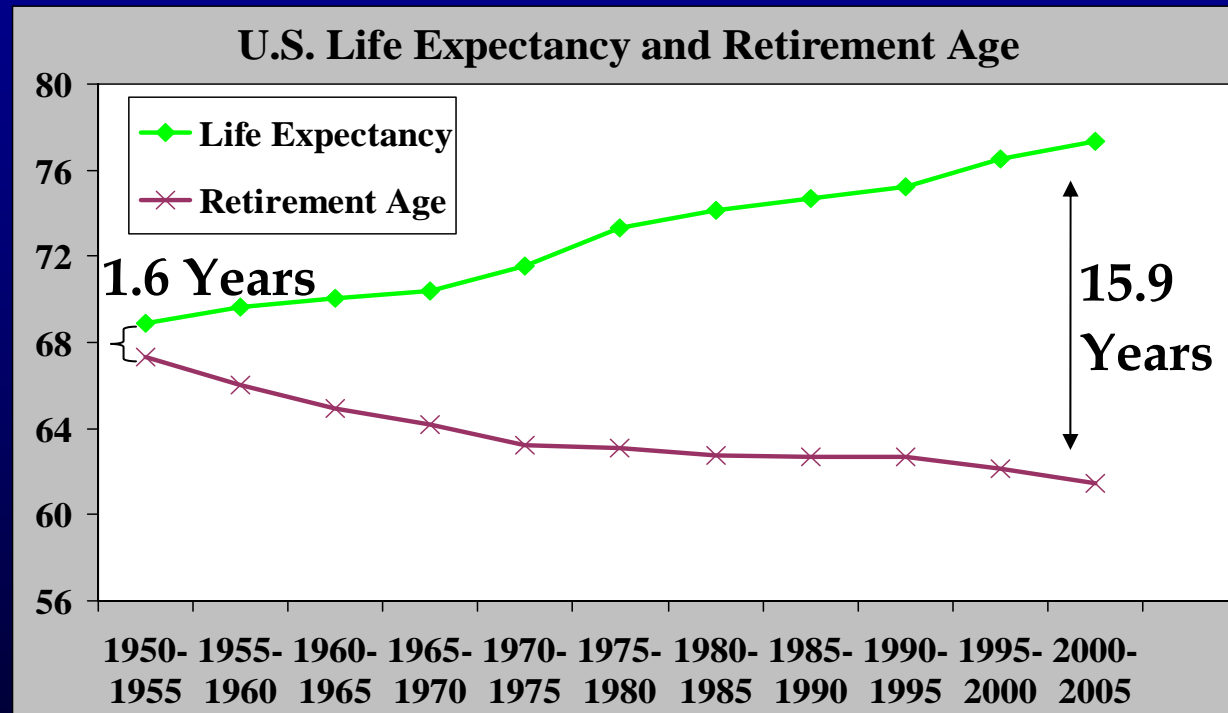
Prof. Jeremy J. Siegel

The Wharton School

September 7, 2006

Long Term Demographic Trends

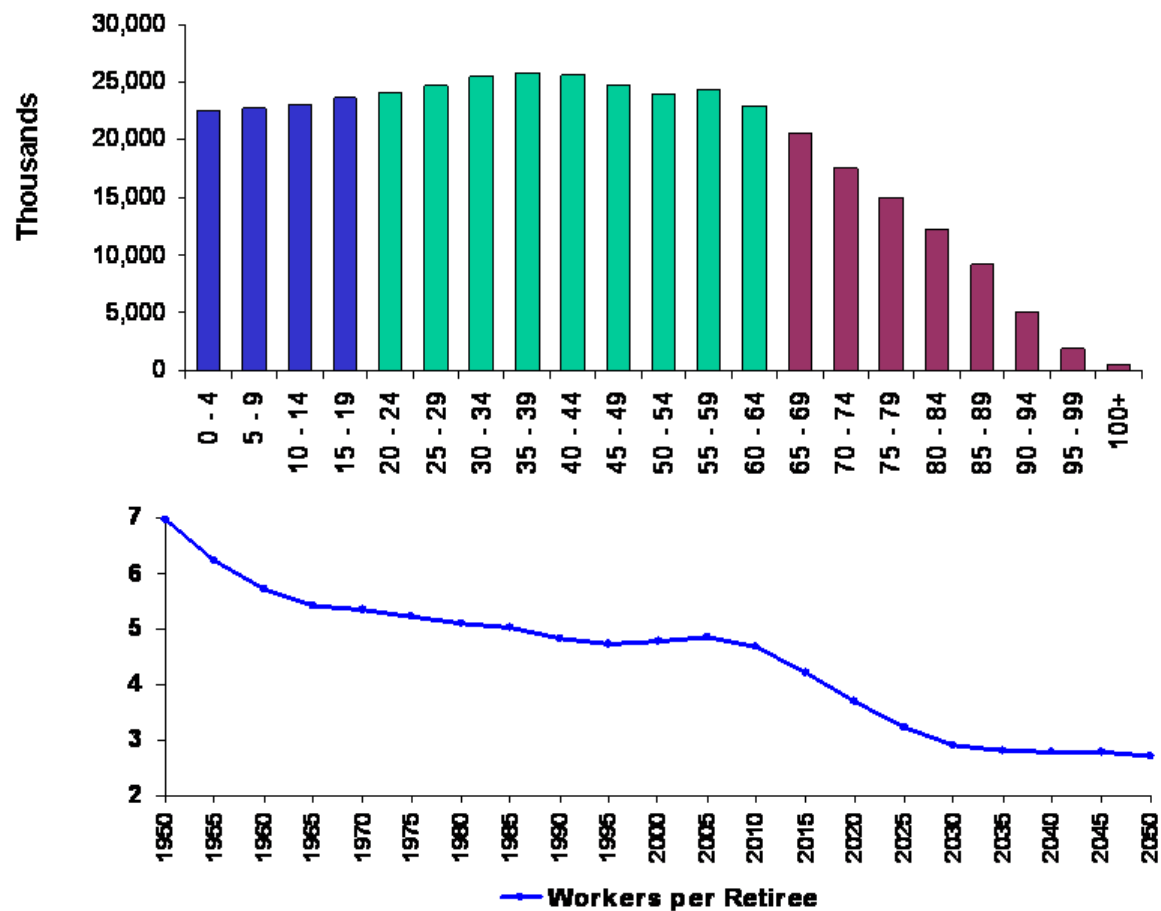
Past marked by (1) rising life expectancy
and (2) falling Retirement Age



But this trend **Cannot Continue**

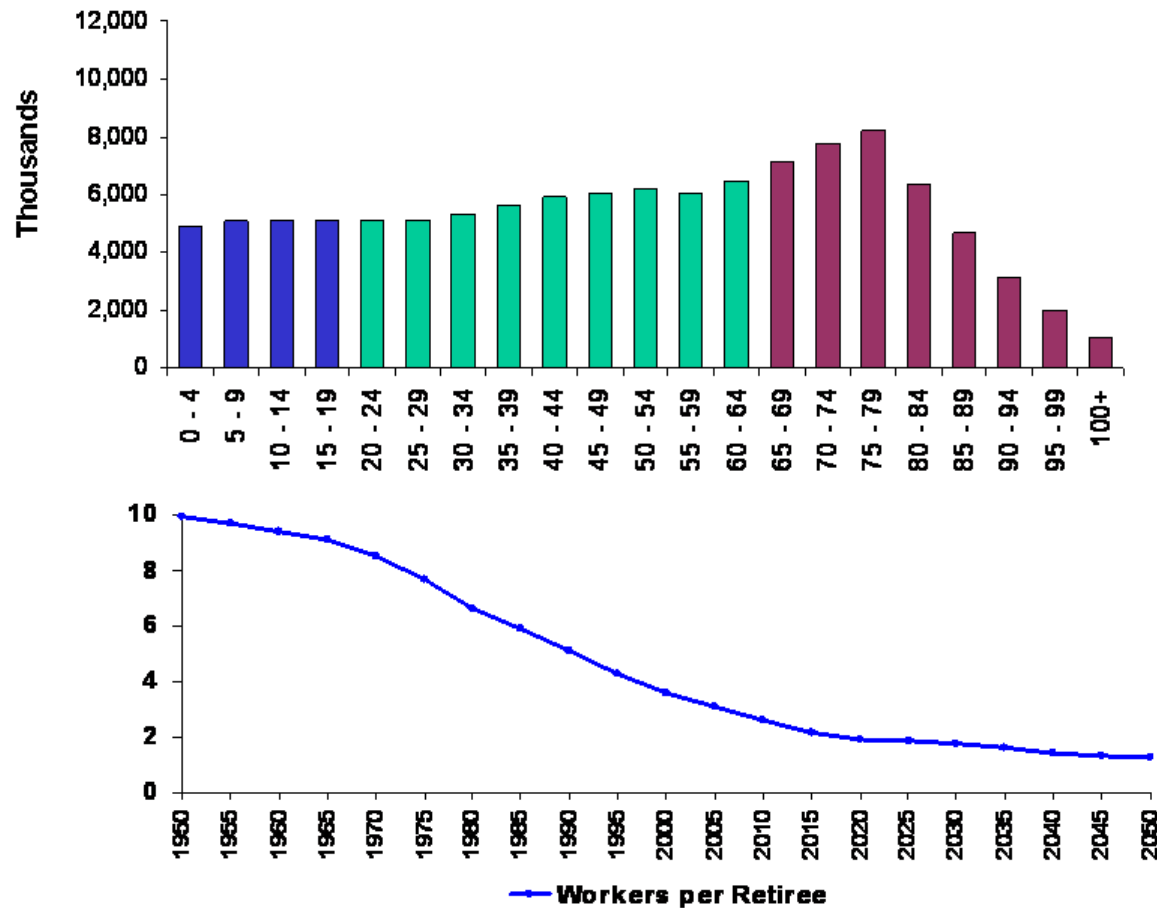
Age Wave -- US

U.S. Population By Age Group, 2050



Age Wave – Japan

Japan Population By Age Group, 2050



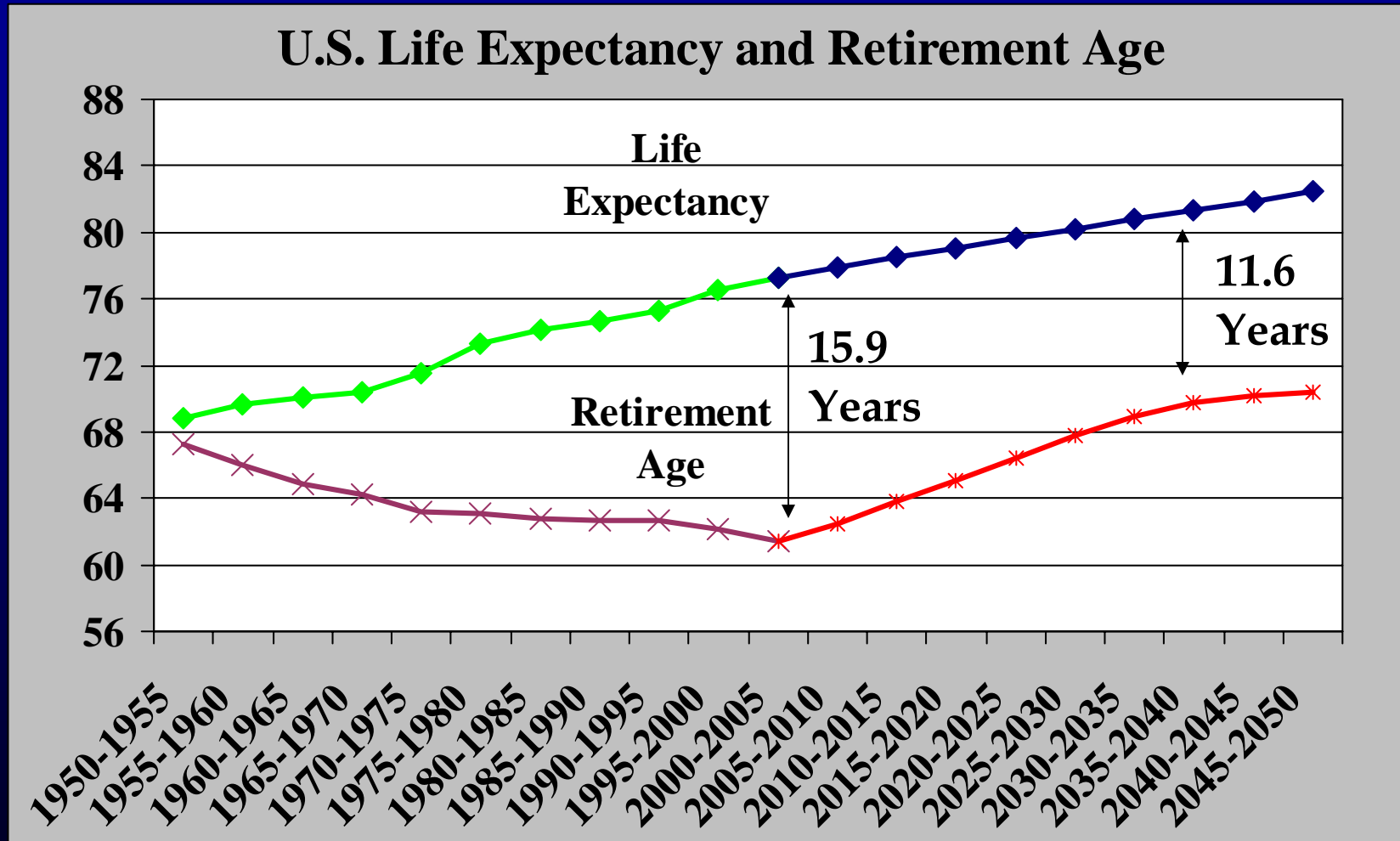
Big Questions

The Biggest Questions Facing the Developed World

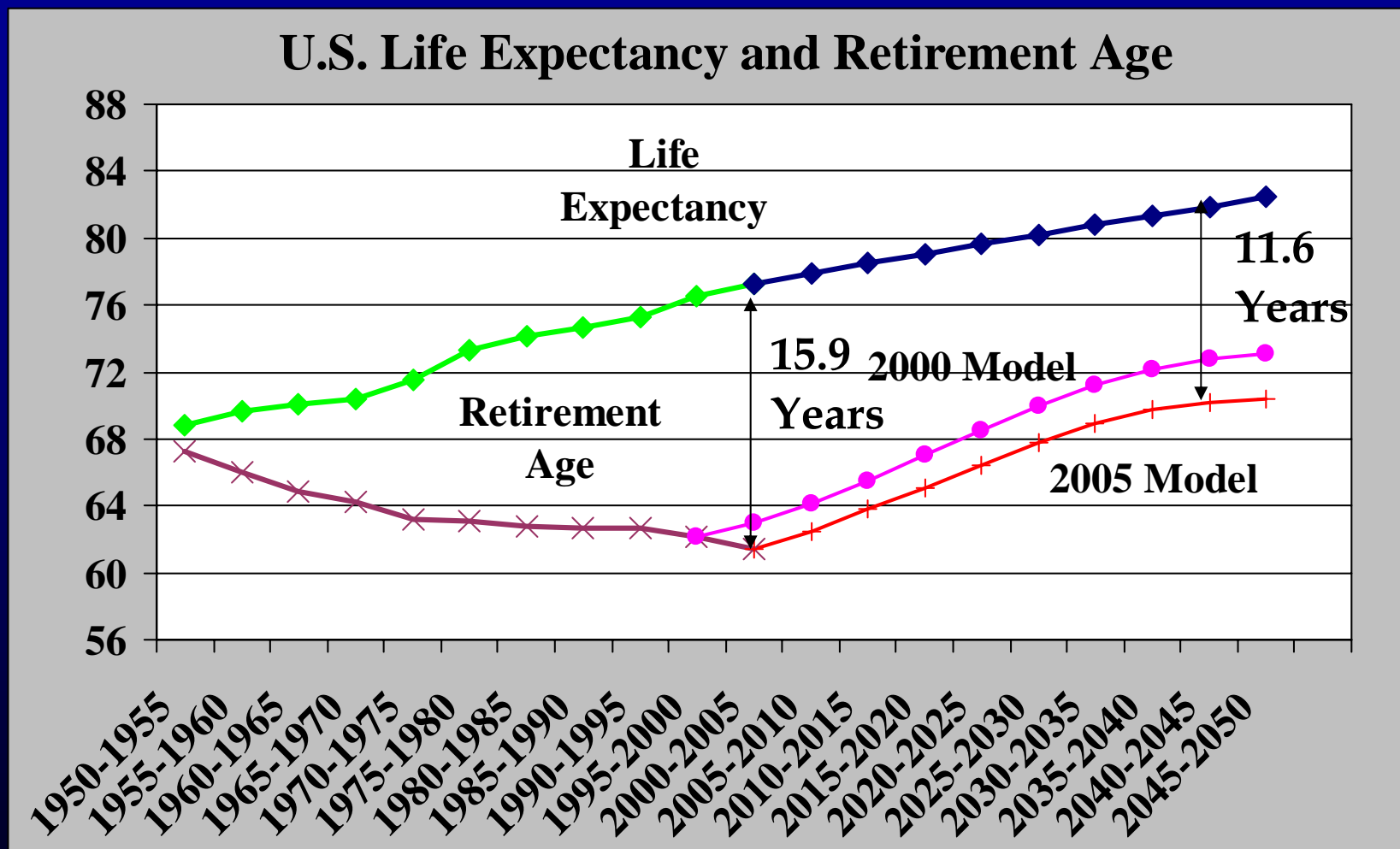
Who Will Produce the Goods?

Who Will Buy the Assets?

Retirement Age must rise dramatically



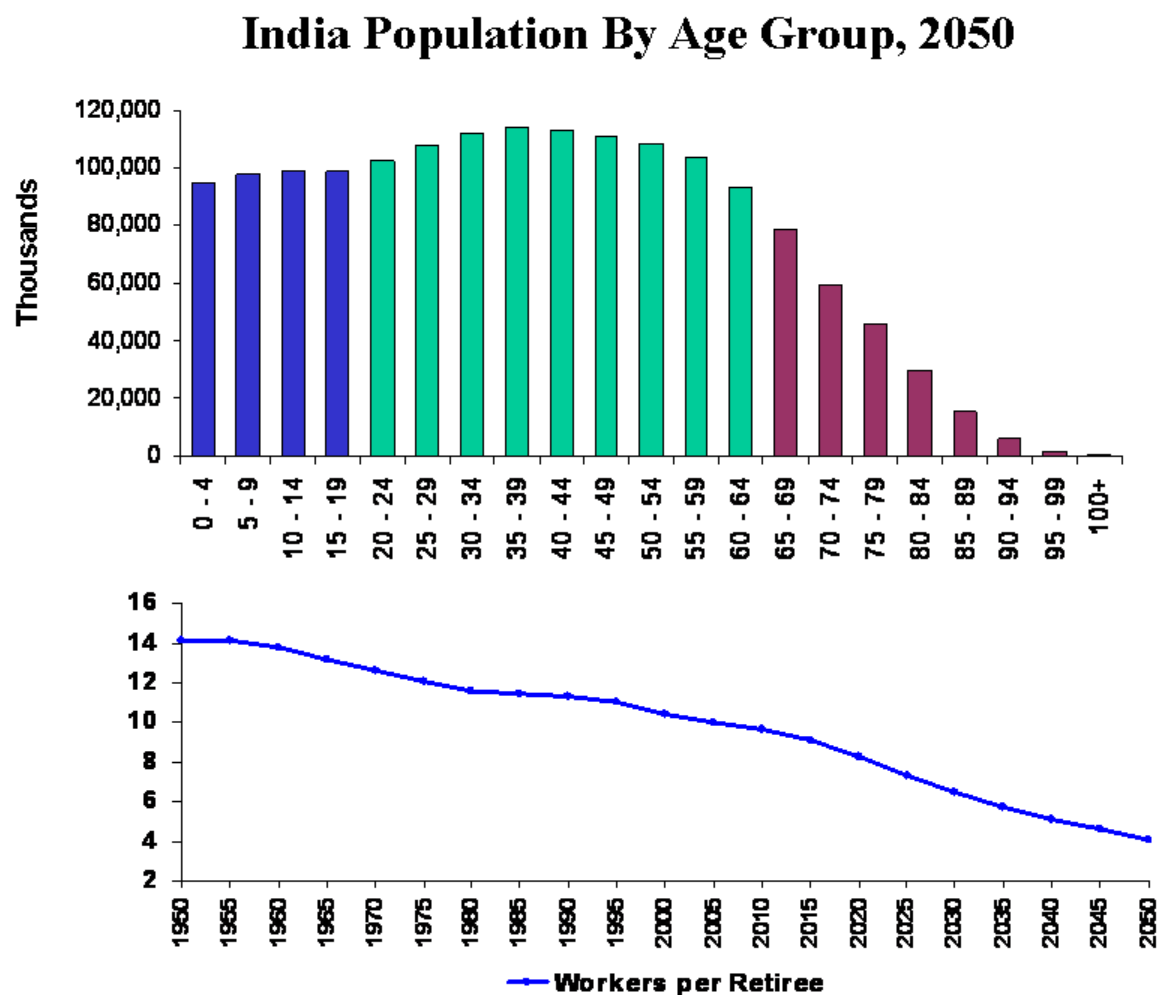
Improvement in 2004 UN Data



Population profile in Developing World

- Outside the developed countries, the population of the world is much younger.
- Let's look at India.

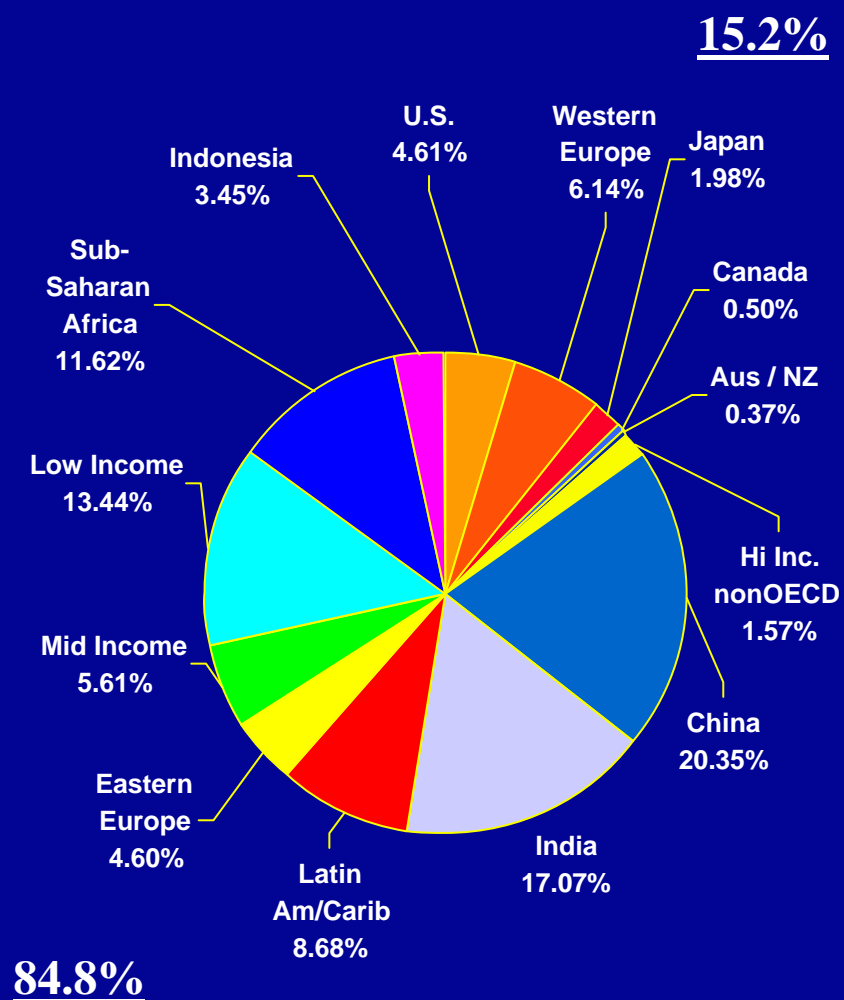
Age Wave -- India



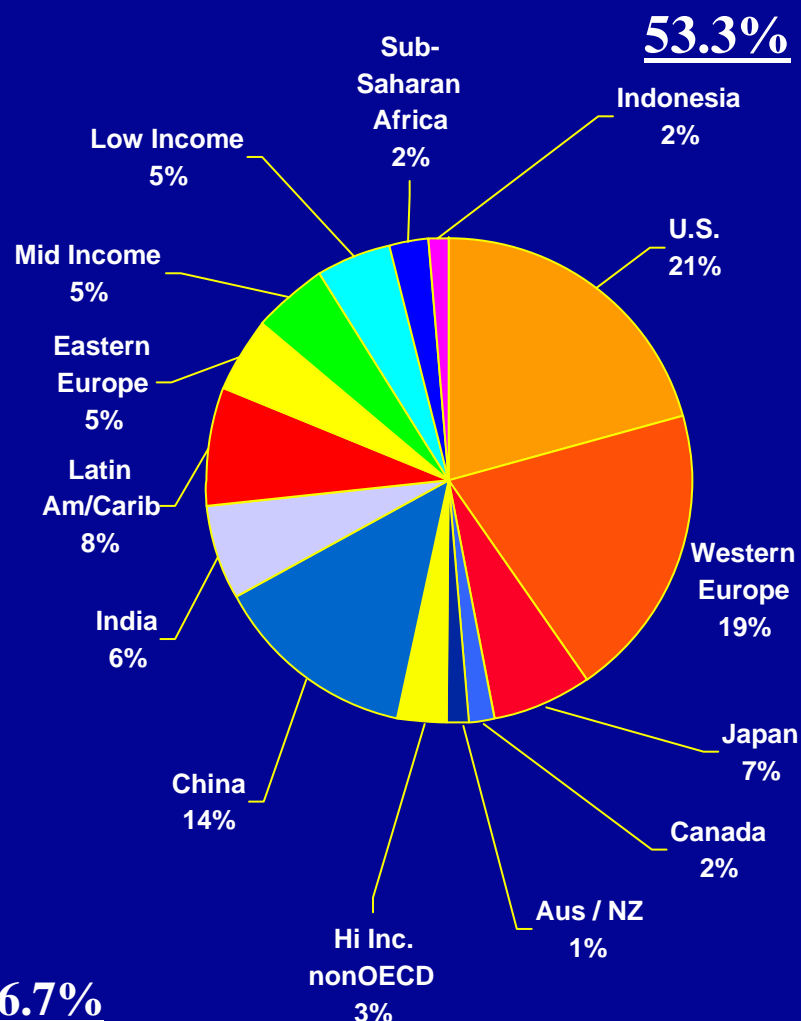
Exchange of goods for assests

- Throughout history, the “old” have sold assets to the young in exchange for goods.
- Today in US, Florida’s retirees sell assets to and import goods from other 49 states.
- In the future the US will sell its assets to the rest of the world.
- Success depends on rapid growth in the developing world.

Population 2005

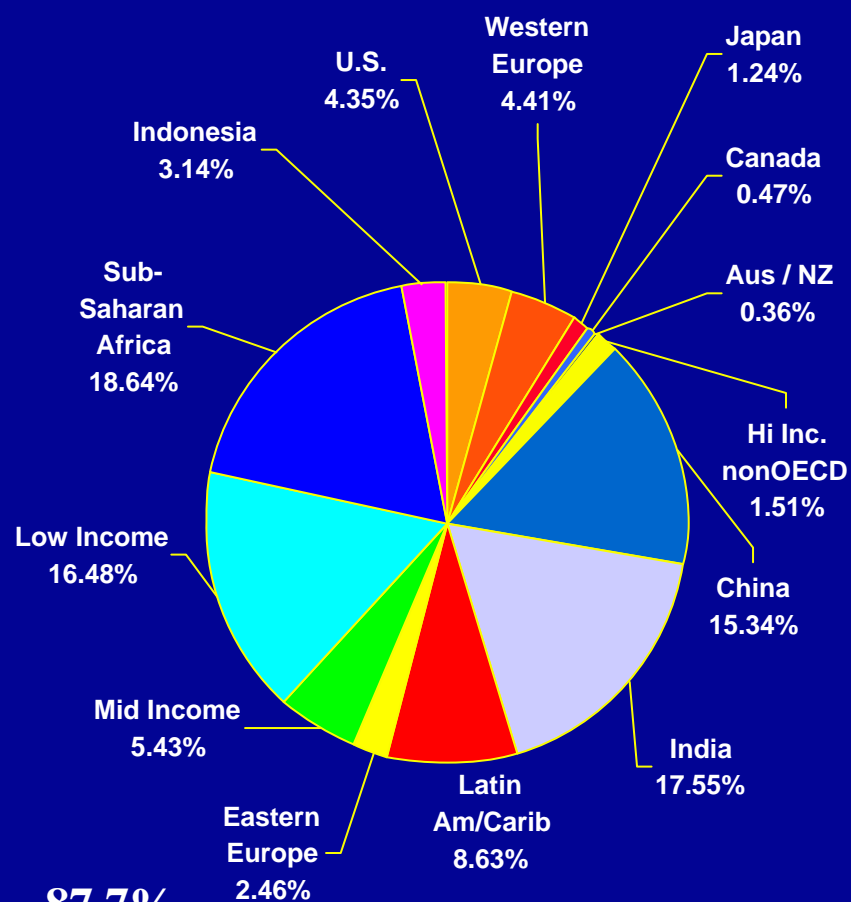


World GDP 2005



Population 2050

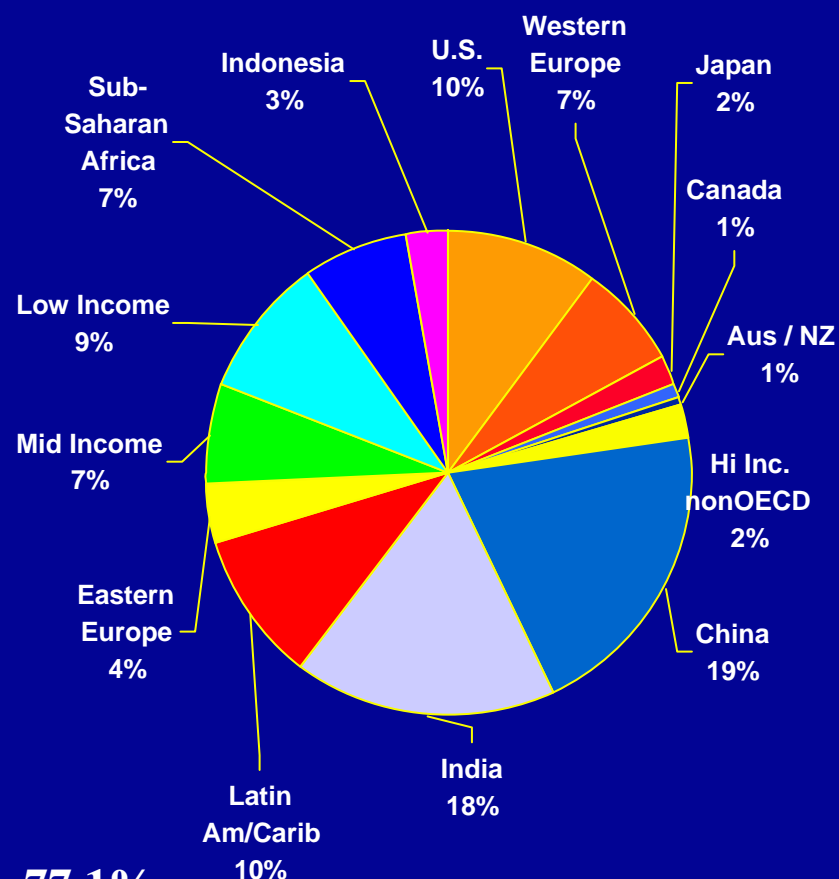
12.3%



87.7%

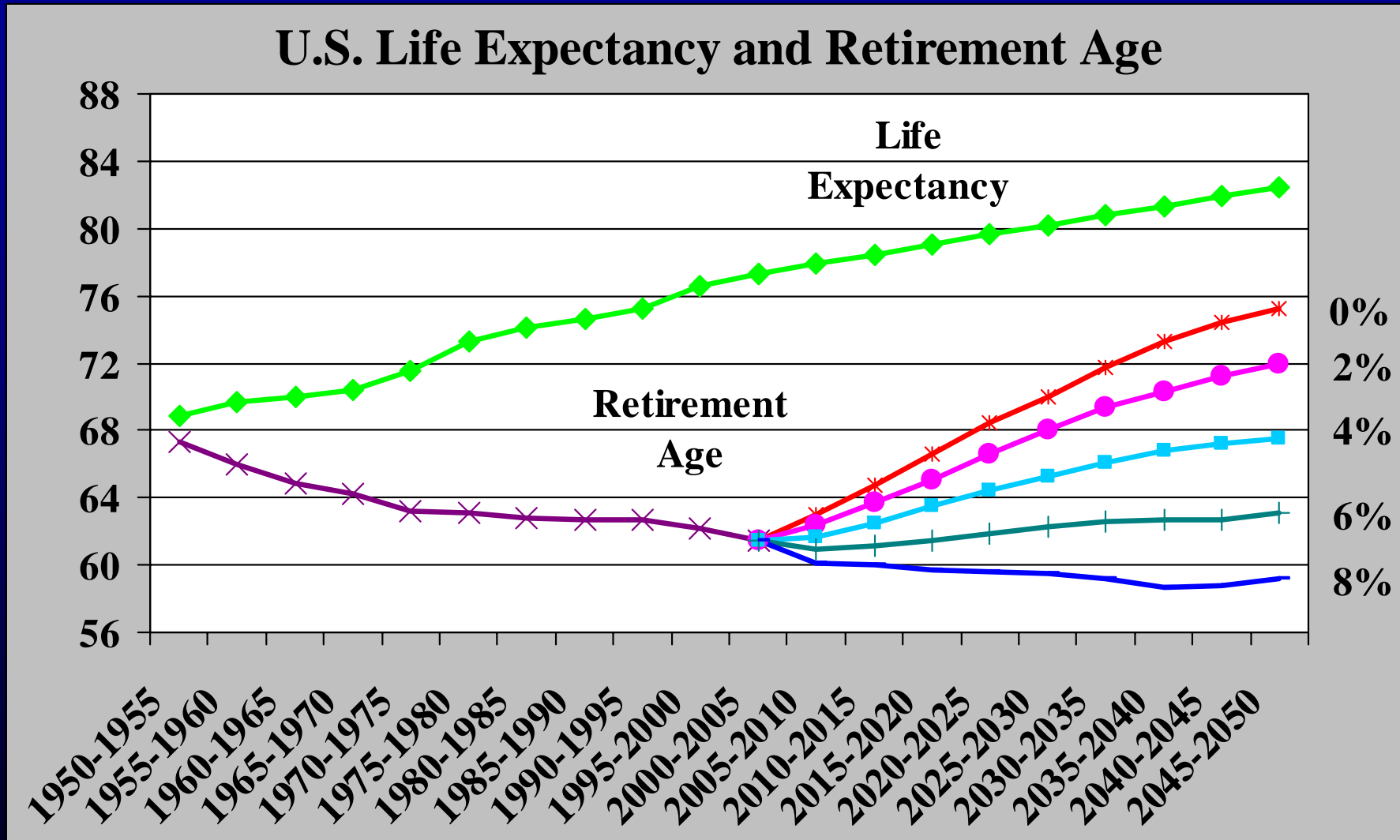
World GDP 2050

22.9%



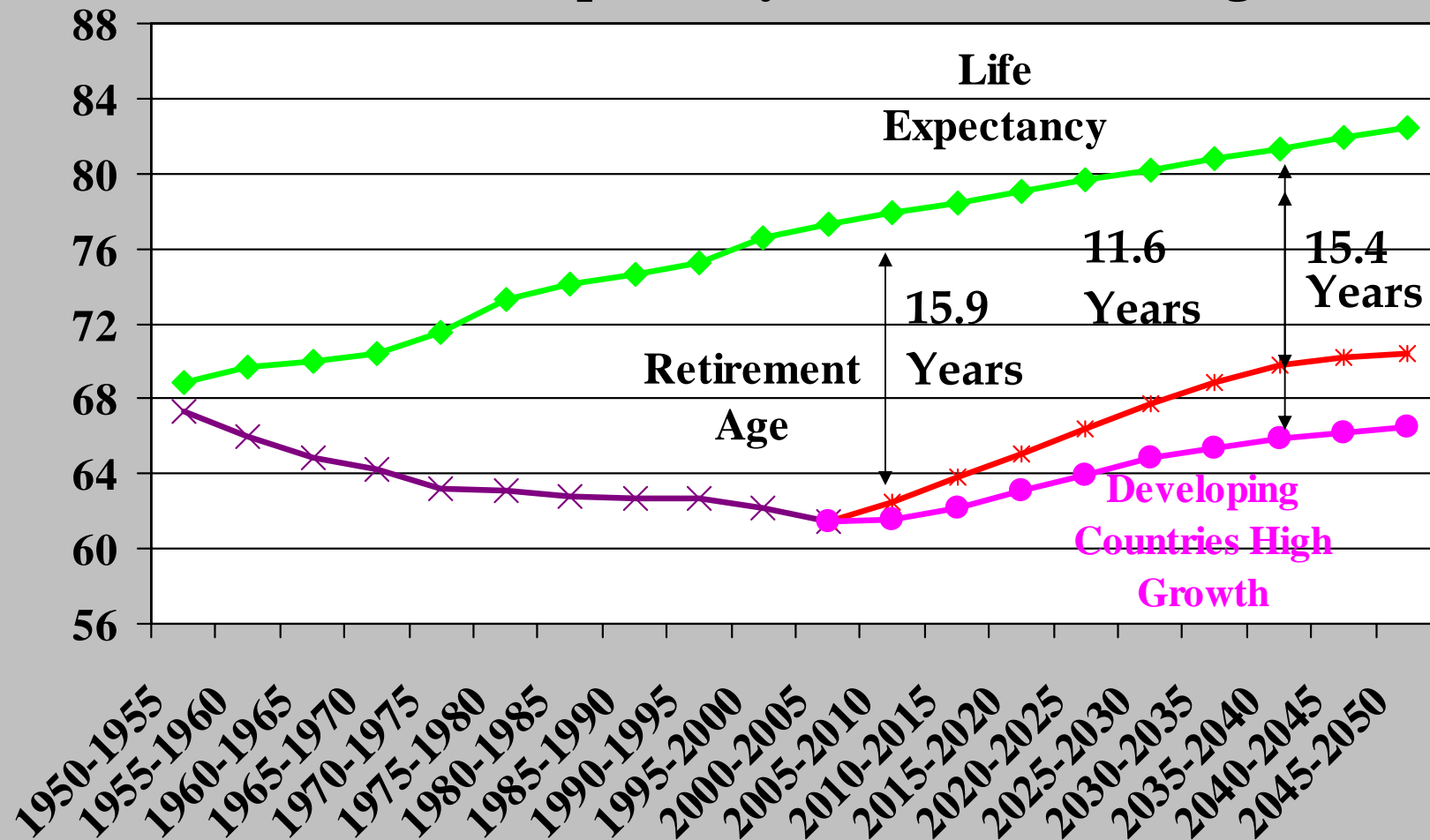
77.1%

Retirement Age with high growth in LDCs



Retirement Age with high growth in LDCs

U.S. Life Expectancy and Retirement Age



The Global Solution

The answer to our question:

Who will produce our goods?

Who will buy our assets?

Is the same:

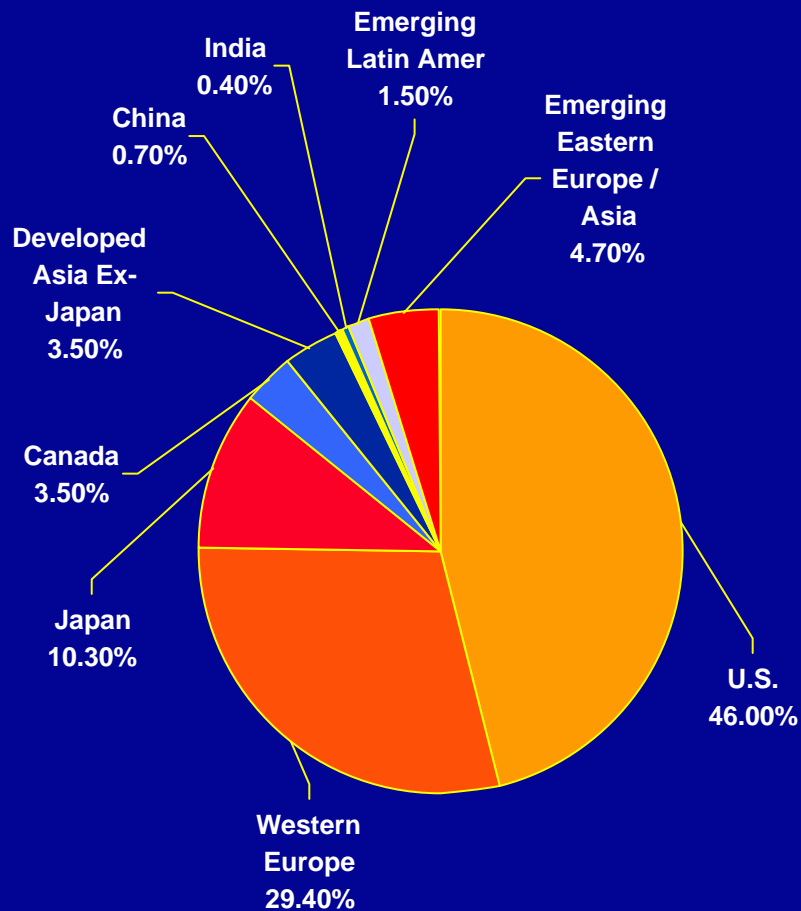
The Developing Countries

By the middle of this century Developing
Countries will
own most of world's capital.

Stock Market Capitalization 2006

7.3%

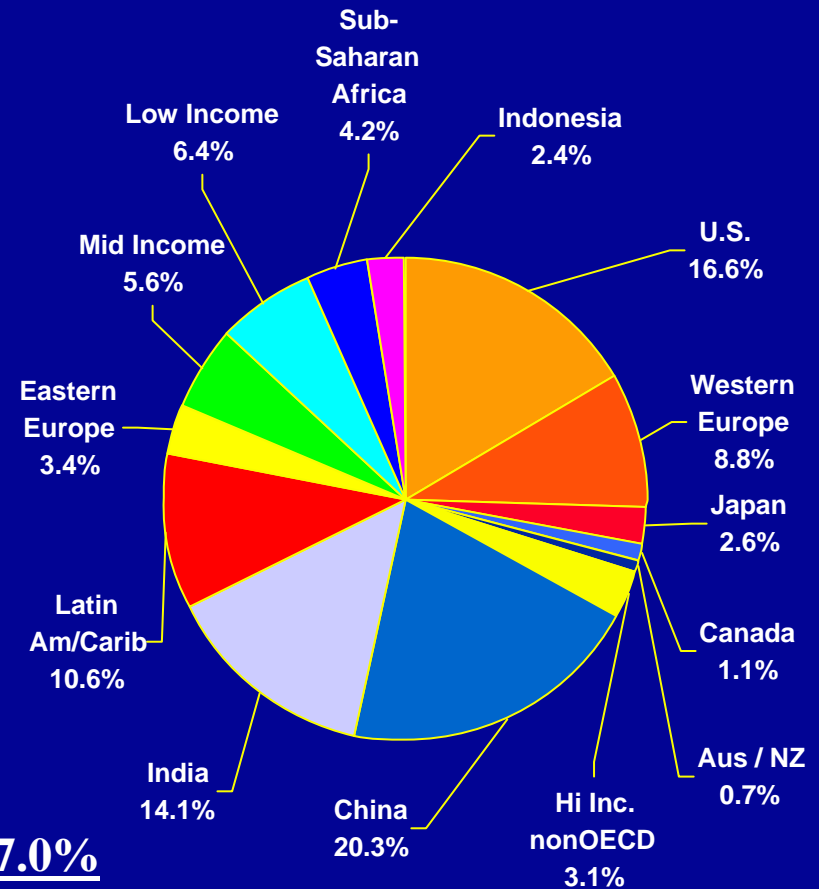
92.7%



Stock Market Capitalization 2050

33.0%

67.0%



Conclusions

- Developed economies by themselves will suffer lack of asset demand
- Studies of asset holdings in 1980s and 1990s distorted by high returns. There will be much more net selling in 2010s through 2030s.
- I believe that growth in developing world will offset slowing in aging economies and support future equity prices. But that support is essential.
- Asset prices will be the signal to boomers how much longer they will have to work.