



FUND LAUNCHED

2005

FUNDS UNDER
MANAGEMENT

£521.8
MILLION

NET ASSET VALUE
PER SHARE

358.7%
SINCE INCEPTION*



The Rising Middle Class

October 2022

The Tipping Point

In 2018, a key global threshold was crossed: over half of the world's population was now considered 'middle class'. This represented a paradigm shift in human history, as up until that point these living standards had always been out of reach to the majority of the world's population. That year an estimated 3.8 billion people fell into the global middle class, but the world's class dynamics are shifting at a dizzying rate – by only 2030, it's forecast that the middle class should have grown to encompass 5.3 billion people⁽¹⁾.

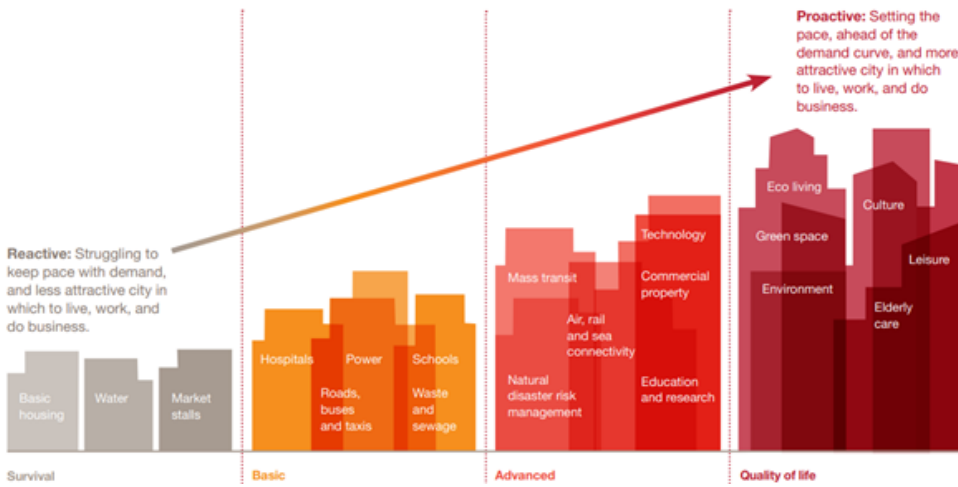
It cannot be overstated that the expansion of the global middle class is fundamentally transforming patterns of trade, consumption and investment around the world. As wages grow, tax revenues rise and more money can be invested in infrastructure. However, this process is not a linear one – living standards in different parts of the world are rising at different rates, and from different levels.

In areas of the world with lower average incomes, infrastructure investment is channelled into essential amenities such as supplies of clean water. However, as incomes grow and economies become more complex, so do infrastructure needs. Sanitation, schools, hospitals and transport systems are all required to build the comfortably 'middle class' standard of life that citizens demand as their salaries rise. Continuing wage growth results in yet more advanced infrastructure needs: mass transit systems, more complex transportation connectivity and better education and technology services, to name a few.

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Infrastructure spending evolves with a region's economic growth⁽²⁾

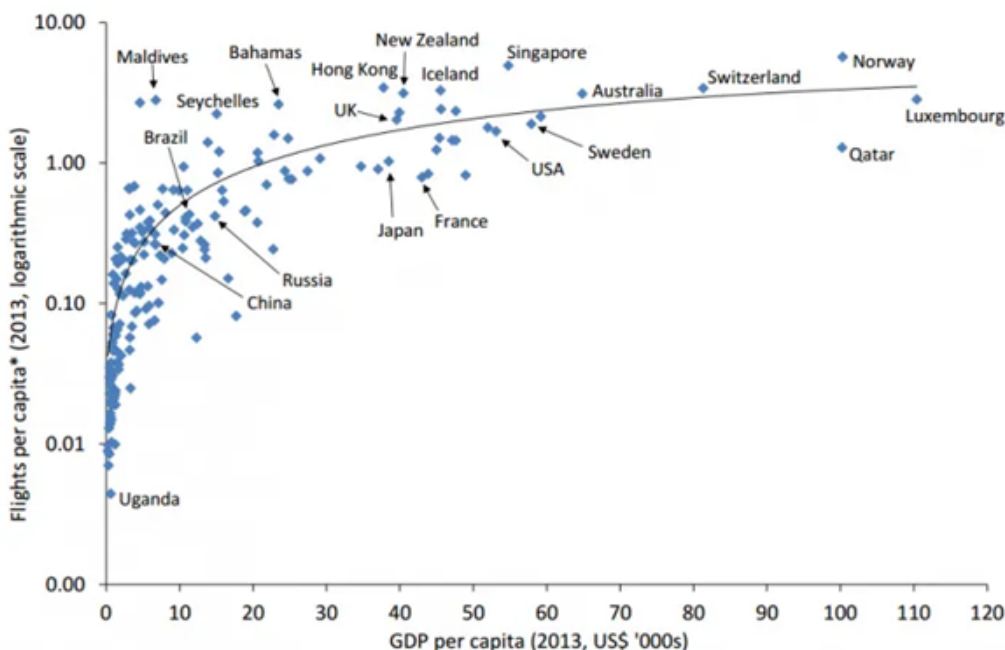


Soaring Demand

One sector that the ballooning global middle class is transforming is air travel. Although the sector is still recovering from the havoc wrought on it by the Covid-19 pandemic, long-term structural trends in the field cannot be denied. Economic growth is a key contributor to the demand for air travel⁽³⁾, given that it generally results in more disposable income in the pockets of consumers. In turn, this demand drives investment in infrastructure – an airport doesn't merely require a plane and a runway, but a surrounding transit network, car parking facilities, supplies of food and drink for travellers from businesses in the area, and much more besides.

For example, Mexico is a nation with a growing middle class, which is expected to include another 3.8 million households by 2030⁽⁴⁾. Increasing quantities of disposable income paired with the entrance into the market of more affordable airlines resulted in the number of flights leaving Mexico steadily rising over the course of the 2010s⁽⁵⁾, while the contribution of the aviation industry to Mexico's economic growth also grew as the decade wore on⁽⁶⁾. This reflects the fact that an increase in air travel can drive growth, and vice versa.

Who can afford much higher interest rates⁽⁷⁾



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The 'Squeezed Middle'?

Despite the growth of the global middle class over recent decades, this growth is not always stable, consistent or evenly-spread. In particular, the Covid-19 pandemic pushed 4.7 million people out of the middle class and into vulnerability or poverty in Latin America and the Caribbean in 2020⁽⁸⁾. In Brazil, in order to try and stop this “squeeze”, financial aid packages were introduced (and are still currently paid) to try and help boost incomes, especially when inflationary pressures have been rising.

Understanding each individual market and its specific characteristics therefore is key as growth of the middle class across countries varies, as can be seen in the chart below (noting China has been excluded).

Vietnam at present clearly remains one country where GDP per capita has been strong and is expected to remain at an elevated level. The shift up the GDP per capita curve will mean that demand for more complex infrastructure will arise, hence pushing infra spend harder into airports, ports and toll roads, helping to improve the quality of lives of individuals.

Jacqueline Broers

14 October, 2022

* Total return is calculated based on undiluted Net Asset Value plus dividends reinvested and adjusted for the exercise of warrants and subscription shares

Source Data: ICM Limited.

[1] <https://www.brookings.edu/blog/future-development/2018/09/27/a-global-tipping-point-half-the-world-is-now-middle-class-or-wealthier/>

[2] [cpi-outlook-to-2025.pdf \(pwc.com\)](https://www.pwc.com/cpi-outlook-to-2025.pdf)

[3] <https://simpleflying.com/gdp-driver-air-travel-demand/>

[4] <https://mexiconewsdaily.com/news/mexicos-middle-class-47-of-households/>

[5] <https://www.statista.com/statistics/1189594/mexico-air-traffic/>

[6] <https://www.statista.com/statistics/1045120/mexico-air-transport-contribution-to-gross-domestic-product/>

[7] <https://simpleflying.com/gdp-driver-air-travel-demand/>

[8] <https://moderndiplomacy.eu/2021/06/28/pandemic-crisis-fuels-decline-of-middle-class-in-latin-america-and-the-caribbean/>

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