WDA FORUM World Demographic & Ageing Forum

WDA Forum
Kornhausstrasse 18,
9001 St. Gallen
Switzerland

www.wdaforum.org
info@wdaforum.org
+41 71 222 79 79

Financial Demography

How Population Ageing Affects Financial Markets

Manuel Buchmann[1], Hendrik Budliger[2], Martin Dahinden[3], Reto Francioni[4], Hans Groth[5], Carlos Lenz[6], Heinz Zimmermann[7]

Abstract

Financial demography analyzes effects of demographic change in general, and population ageing in particular, on financial markets. The effects are multiple and complex. Our paper reviews the academic literature on three key effects:

- long-term real interest rates
- equity markets
- pension systems

The impact of an ageing population on long-term real interest rates is ambiguous. While the reduction in savings due to the retirement of baby boomers leads to upward pressure on interest rates, increasing scarcity of labor leads to downward pressure on real interest rates. Population ageing affects equity markets in four major ways: 1) stock market participation, 2) relative demand for shares of companies active in particular industries, 3) risk aversion and risk premia, and 4) the demand for dividend yielding stocks. Both main types of pension systems – pay-as-you-go and fully funded systems – are negatively affected by population ageing. Pay-as-you-go systems become unsustainable due to a decrease in the number of contributors and an increase in the number of recipients. Fully funded systems rely on asset market returns. If asset market returns in an aged society are lower due to baby boomers selling off their stocks and real estate, the sustainability of “fully funded” systems is at stake as well. These observations highlight the importance of international capital mobility: the capital stock of ageing societies should be invested where the return on capital remains high, i.e., in countries with younger populations. To conclude, sustainable financial markets cannot afford to ignore demography.

Therefore: Understanding Financial Demography is a new chance for savvy investors and financial market strategists to beat the market!

[1] Corresponding author. WDA Forum, mbuchmann@wdaforum.org
[2] Demografik
[3] University of Zurich
[4] University of Basel
[5] WDA Forum
[6] Swiss National Bank
[7] University of Basel