Africa could present strong investment opportunities over the long term. This audiocast highlights three reasons you should invest in Africa now.

Click here for the related report: Global Insights: Africa's Multibillion-Dollar Opportunity
Hello and welcome to another edition of Wealth Management Insights. I’m Chris Baxter, Investment Strategist for Morgan Stanley Wealth Management. Today is Wednesday, April 20th, and I’m recording this in Manhattan, New York.

Despite the effects of the global pandemic and Russia-Ukraine conflict, the African continent offers compelling investment opportunities for long-term investors. We should emphasize that investment risk in Africa is significant, but we still see three compelling reasons to allocate to the continent.

First, Africa is poised to benefit from demographic tailwinds. It is the second most populous continent, with around 17% of the world’s inhabitants. According to the International Monetary Fund, it will account for 80% of the projected 4 billion increase in the global population by 2100. And, according to the World Economic Forum, Africa is expected to have the world’s largest working-age population by 2034.

Expansion of the working-age population is a powerful engine of the global economy and is often the most important competitive advantage in emerging economies. In fact, Africa’s median age of 19.7 is considerably lower than those of Asia and South America, at 32.0 and 32.1, respectively. The expected increase in the working-age population will likely promote middle-class growth.

Demographic tailwinds provide a setup for strong consumption, which should make the continent more appealing to investors. According to the Brookings Institution, by 2030, household consumption is expected to reach $2.5 trillion, up from $1.1 trillion in 2015. This plays favorably into investments in metals, mining, minerals, food and beverage, transportation, and housing.

Second, Africa’s demand for key infrastructure has not yet been met. Although Africa is home to nearly 20% of the world’s population, it accounts for only 4% of global power supply investment. Furthermore, as a share of GDP, infrastructure investment has remained at around 3.5% since 2000 and compares to 7.7% for China and 5.2% for India, according to the McKinsey Global Institute.

The Africa Development Bank estimates that Africa’s infrastructure will need at least $170 billion in annual investment. Therefore, the setup for infrastructure investment represents a significant opportunity for investors, particularly through the private markets.

On that note, according to the private market data provider Preqin, 72% of investors surveyed do not currently have allocations to the continent, while 26% of fund managers say that the continent presents a favorable regional investment opportunity.

Finally, the developed markets’ policy stance toward Africa could unlock new opportunities. A US government initiative called “Prosper Africa” intends to increase trade and investment between African nations and the US. According to the organization coordinating its activities, the initiative has already led to over 800 investments and $50 billion in exports and investment in 45 of the continent’s 54 countries.

The European Union has also launched its own development initiative, called “Global Gateway.” Global Gateway aims to raise €300 billion of investment in digital, climate and energy, transportation, health care, education and research by 2027.

In closing, while we are mindful that African nations account for nearly 60% of the bottom-quartile names in the World Bank’s “Ease of Doing Business” ranking, the continent has already started on the road to recovery, as several of the lowest-ranked African economies pursue ambitious reform programs to improve the overall business climate in the region. We believe demographic tailwinds, unmet infrastructure needs, and policies aimed at building economic ties will shape investment opportunities in the region for qualified investors over the long term.

Thanks for listening. For more information on portfolio strategies in the current economic environment, please reach out to your Morgan Stanley Financial Advisor.
Investing in the market entails the risk of market volatility. The value of all types of securities may increase or decrease over varying time periods.

This analysis does not purport to recommend or implement an investment strategy. Financial forecasts, rates of return, risk, inflation, and other assumptions may be used as the basis for illustrations in this analysis. They should not be considered a guarantee of future performance or a guarantee of achieving overall financial objectives. Hypothetical performance results have inherent limitations. The performance shown here is simulated performance not investment results from an actual portfolio or actual trading. There can be large differences between hypothetical and actual performance results.

Despite the limitations of hypothetical performance, these hypothetical performance results may allow clients and Financial Advisors to obtain a sense of the risk/return trade-off of different asset allocation constructs.

Investing in commodities

Investing in foreign markets

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments from a given investment may be incurred by investing in specific products. The actual returns of a specific investment may be more or less than the returns used in this analysis. The return assumptions are based on hypothetical rates of return of securities indices, which serve as proxies for the asset classes. Moreover, different forecasts may choose different indices as a proxy for the same asset class, thus influencing the return of the asset class.

Asset Class Risk Considerations

Investing in foreign markets entails greater risks than those normally associated with domestic markets, such as political, currency, economic and market risks. Investing in currency involves additional special risks such as credit, interest rate fluctuations, derivative investment risk, and domestic and foreign inflation rates, which can be volatile and may be less liquid than other securities and more sensitive to the effect of varied economic conditions. In addition, international investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economies.

Bonds may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.
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Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies. Technology stocks may be especially volatile. Risks applicable to companies in the energy and natural resources sectors include commodity pricing risk, supply and demand risk, depletion risk and exploration risk. Health care sector stocks are subject to government regulation, as well as government approval of products and services, which can significantly impact price and availability, and which can also be significantly affected by rapid obsolescence and patent expirations.

The returns on a portfolio consisting primarily of environmental, social, and governance-aware investments (ESG) may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because ESG criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. The companies identified and investment examples are for illustrative purposes only and should not be deemed a recommendation to purchase, hold or sell any securities or investment products. They are intended to demonstrate the approaches taken by managers who focus on ESG criteria in their investment strategy. There can be no guarantee that a client's account will be managed as described herein.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

Any type of continuous or periodic investment plan does not assure a profit and does not protect against loss in declining markets. Since such a plan involves continuous investment in securities regardless of fluctuating price levels of such securities, the investor should consider his financial ability to continue his purchases through periods of low price levels.

Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Investors should consult with their tax advisor before implementing such a strategy.

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